Financial Review

Group Summary

The Group has delivered another strong performance in the year ended 31 December 2006. Profit before taxation of $3,178 million was up 19 per cent compared to 2005, with income up 26 per cent and a normalised cost income ratio of 55.2 per cent compared to 54.5 per cent in 2005. Normalised earnings per share has increased by 11 per cent to 170.7 cents. (Refer to note 12 on page 94 for the details of basic and diluted earnings per share).

Operating Income and Profit

	2006 $million	2005 $million	Increase/ (decrease) %
Net interest income	**5,328**	4,335	23
Fees and commissions income, net	**1,881**	1,495	26
Net trading income	**920**	769	20
Other operating income	**491**	262	87
	3,292	2,526	30
Operating income	**8,620**	6,861	26
Operating expenses	**(4,796)**	(3,811)	26
Operating profit before impairment losses and taxation	**3,824**	3,050	25
Impairment losses on loans and advances and other credit risk provisions	**(629)**	(319)	97
Other impairment	**(15)**	(50)	(70)
Loss from associates	**(2)**	–	–
Profit before taxation	**3,178**	2,681	19

See Group Structure on page 27 for analysis of result with Acquisitions, Korea and Underlying business shown separately.

Operating income grew $1,759 million, or 26 per cent, to $8,620 million. Korea and other acquisitions contributed $712 million or 10 per cent. As in 2005, there was double-digit income growth in both Consumer Banking and Wholesale Banking with Consumer Banking increasing 23 per cent and Wholesale Banking 28 per cent. In both businesses income growth was across a broad range of geographies, products and segments.

Net interest income grew $993 million, or 23 per cent to $5,328 million. Korea and other acquisitions contributed $416 million or 10 per cent. There was a strong increase in deposit balances in most geographies. Net interest margins remained flat compared to 2005 with increases in deposit spreads offset by reduced margins in the main mortgage markets.

Net fees and commissions income grew $386 million, or 26 per cent, to $1,881 million. Korea and other acquisitions contributed $148 million or 10 per cent. The growth was driven by higher volumes in wealth management, cash management and global markets products across all markets.

Net trading income grew $151 million, or 20 per cent, to $920 million. Korea and other acquisitions contributed $7 million or one per cent. Income was driven higher by increased foreign exchange dealing by both Consumer and Wholesale Banking customers. Good positioning, increased customer flows and enhanced product capabilities further supported income growth.

Other operating income grew $229 million, or 87 per cent, to $491 million. Korea and other acquisitions contributed $141 million or 54 per cent. This increase primarily reflects realised gains in the Group's private equity business, and better than expected performance of SME assets in Korea that were fair valued at acquisition.

Operating expenses grew $985 million, or 26 per cent, to $4,796 million. Korea and other acquisitions contributed $431 million or 11 per cent. Overall expense growth was broadly in line with income growth. Both businesses continued to invest in infrastructure and technology to expand in fast growing markets and to support future income growth. Consumer Banking also invested in its distribution capability whilst Wholesale Banking continued to invest in product and staff capabilities.

Operating profit before impairment losses and taxation increased by $774 million, or 25 per cent, to $3,824 million. Korea and other acquisitions contributed $281 million or nine per cent.

Impairment losses on loans and advances and other credit risk provisions ("loan impairment") grew $310 million, or 97 per cent, to $629 million. Korea and other acquisitions contributed $53 million or 17 per cent. The credit environment has generally remained benign through 2006 with the increase in impairment almost wholly attributable to Consumer Banking, where impairment rose $296 million, or 70 per cent, to $721 million. This was primarily due to the unsecured lending charge in Taiwan which largely arose during the first half of the year. Wholesale Banking was again in a net recovery position, driven by a significant decline in new provisions offset by a reduction in recoveries, although this was at a slightly reduced level to 2005, down $14 million, or 13 per cent, to $92 million.

Profit before taxation increased $497 million, or 19 per cent to $3,178 million. Korea contributed $190 million or seven per cent and other acquisitions contributed $38 million, or one per cent, of this increase.

Group Structure

There have been a number of changes to the Group's structure which impact the presentation of the financial results during 2006 and 2005.

On 5 September 2006 the Group acquired 95.4 per cent of Union Bank Limited ("Union"), a provider of Wholesale and Retail Banking products in Pakistan. On 30 December 2006 the assets and business of Union and the Standard Chartered Bank branch in Pakistan were amalgamated into Standard Chartered Bank (Pakistan) Limited. The Group owned 99.0 per cent of the combined entity at 31 December 2006.

On 19 October 2006 the Group acquired a controlling interest in Hsinchu International Bank ("HIB"), a provider of Wholesale and Retail Banking products in Taiwan. The acquisition was achieved through a successful tender offer. The Group owned 96.2 per cent of HIB at 31 December 2006.

On 5 September 2006 the Group acquired a further 12.96 per cent in PT Permata Bank Tbk ("Permata"), a provider of Wholesale and Retail Banking products in Indonesia. The Group owned 44.51 per cent of Permata at 31 December 2006. The results of Union, HIB and the incremental stake in Permata are shown together as "Acquisitions" and referred to in the discussion of results as "other acquisitions". The Group's stake in Permata is accounted for as a joint venture and therefore proportionately consolidated.

The Group has owned Standard Chartered First Bank Korea Limited ("SCFB") since 15 April 2005, and on 28 November 2005 the assets and businesses of the Standard Chartered Bank branch in Korea were transferred to SCFB. The impact of the post acquisition results of SCFB in the 2005 results, together with the transfer of the branch, affect the comparability of the results for 2006 compared to 2005. The 2005 results for "Korea" reflect a full year of the Standard Chartered Bank branch together with the post acquisition results of SCFB.

To facilitate a meaningful review of the Group's results, the table below segments the Group's results into "Acquisitions", "Korea" and the rest of the Group, which are shown as "Underlying".

	2006				2005		
	Acquisitions $million	Korea* $million	Underlying (excluding Korea and acquisitions) $million	As reported $million	Korea* $million	Underlying (excluding Korea) $million	As reported $million
Net interest income	94	1,147	4,087	5,328	825	3,510	4,335
Fees and commissions income, net	41	152	1,688	1,881	45	1,450	1,495
Net trading income	6	64	850	920	63	706	769
Other operating income	6	159	326	491	24	238	262
	53	375	2,864	3,292	132	2,394	2,526
Operating income	147	1,522	6,951	8,620	957	5,904	6,861
Operating expenses	(91)	(972)	(3,733)	(4,796)	(632)	(3,179)	(3,811)
Operating profit before impairment losses and taxation	56	550	3,218	3,824	325	2,725	3,050
Impairment losses on loans and advances and other credit risk provisions	(18)	(96)	(515)	(629)	(61)	(258)	(319)
Other impairment	–	–	(15)	(15)	–	(50)	(50)
Loss from associates	–	–	(2)	(2)	–	–	–
Profit before taxation	38	454	2,686	3,178	264	2,417	2,681

* Reported on a segmental basis.

Consumer Banking

The following tables provide an analysis of operating profit by geographic segment for Consumer Banking:

	2006										
	Asia Pacific										
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Underlying $million	Consumer Banking Total $million
Operating Income	**1,019**	**367**	**221**	**1,146**	**729**	**323**	**545**	**257**	**77**	**3,415**	**4,684**
Expenses	**(428)**	**(142)**	**(101)**	**(799)**	**(445)**	**(201)**	**(280)**	**(194)**	**(51)**	**(1,760)**	**(2,641)**
Loan impairment	**(53)**	**(36)**	**(36)**	**(88)**	**(390)**	**(46)**	**(61)**	**(12)**	**1**	**(616)**	**(721)**
Operating profit/(loss)	**538**	**189**	**84**	**259**	**(106)**	**76**	**204**	**51**	**27**	**1,039**	**1,322**

	2005										
	Asia Pacific										
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Underlying $million	Consumer Banking Total $million
Operating Income*	976	324	210	697	611	286	379	258	61	3,105	3,802
Expenses	(415)	(126)	(95)	(505)	(342)	(179)	(182)	(205)	(52)	(1,596)	(2,101)
Loan impairment	(34)	(30)	(37)	(56)	(166)	(56)	(33)	(13)	–	(369)	(425)
Other impairment	–	–	–	–	–	–	–	(3)	–	(3)	(3)
Operating profit	527	168	78	136	103	51	164	37	9	1,137	1,273

* Restated. See note 2 on page 87.

An analysis of Consumer Banking income by product is set out below:

Operating Income by product	2006 Total $million	2005* Total $million
Cards, Personal Loans and Unsecured Lending	**1,799**	1,528
Wealth Management and Deposits	**1,938**	1,442
Mortgages and Auto Finance	**780**	758
Other	**167**	74
Total operating income	**4,684**	3,802

* Restated. See note 2 on page 87.

Consumer Banking income grew $882 million, or 23 per cent, to $4,684 million. Korea and other acquisitions contributed $572 million, or 15 per cent. Organic income growth in the second half of 2006 over the same period last year was 14 per cent. The increased focus of the business on Wealth Management products and the SME segment has delivered business growth in most markets. Over 230 products were rolled out by Wealth Management across the network in 2006 compared to 120 in 2005. There was good income growth across most geographies, with over ten countries now contributing more than $100 million of income. The markets of Singapore and India have both grown revenues at 13 per cent. MESA continued to increase its rate of income growth, with income growing at 44 per cent in 2006, compared to 28 per cent in 2005.

Expenses grew $540 million, or 26 per cent, to $2,641 million. Korea and other acquisitions contributed $376 million, or 18 per cent. The business slowed cost growth in the first half of the year to mitigate the impact of the Taiwan credit issue. As management action contained the Taiwan issue, so investment spend was almost doubled in the second half of 2006. Expenditure was targeted at customer facing areas such as branches and the sales force. 25 new branches were added together with 40 new consumer finance branches, and 107 ATMs were installed. 2006 also saw significant expenditure on the new private banking offering with a new brand, premises in Singapore and the acquisition of key staff.

Impairment increased $296 million, or 70 per cent, to $721 million. Korea and other acquisitions contributed $49 million, or 11 per cent. Excluding Taiwan, the increase was $146 million, or 45 per cent, to $473 million. The first half charge for the unsecured portfolio in Taiwan was $203 million, up from $75 million in the second half of 2005. In the second half of 2006 Taiwan impairment charge of $45 million was down sharply from the first half, as the credit situation trended towards more normal levels. The increase in impairment outside Taiwan reflects the recent business emphasis on unsecured lending and is commensurate with the higher risk and reward levels. The credit environment in Thailand still warrants caution, although the environment in Indonesia has improved from the first half.

Operating profit grew $49 million, or four per cent, to $1,322 million.

Hong Kong delivered income growth of $43 million, or four per cent over 2005. Wealth Management income increased 18 per cent with innovative product launches, such as Marathon Savings and My Dream account, driving growth. The SME segment grew income by 41 per cent as new product launches and a 36 per cent increase in the sales force helped grow the business. Other products, such as the new HIBOR based mortgage offering, helped bolster income. Expense growth of $13 million, or three per cent, was in line with income growth and reflected investment in the sales and distribution capability, as well as enhancements to ATMs and call centres. Impairment increased by $19 million, or 56 per cent, to $53 million. The increase was due to lower recoveries and increased impairment in line with business volume growth. Operating profit was up two per cent to $538 million. Customer liabilities grew over 13 per cent, whilst assets reduced four per cent as mortgage balances reduced in a strongly competitive market.

Singapore grew income by $43 million, or 13 per cent, to $367 million, a much improved performance compared to 2005. Wealth Management grew strongly with new products such as Xtrasaver and Family Link supporting the increase in customer liabilities by 30 per cent. Unit trust sales increased over 40 per cent driving up fee income. Within SME new product launches, such as SME Express, helped deliver strong growth in income. Mortgage income fell 13 per cent, as improved margins were more than offset by a competitive environment and repricing actions by competitors, which increased attrition and reduced customer assets by 11 per cent. Expenses grew $16 million, or 13 per cent, to $142 million reflecting significant investment in new products and the forthcoming Private Bank launch. Impairment was up $6 million, or 20 per cent, to $36 million, reflecting lower releases albeit the credit environment remained benign. The gains in income drove operating profit up $21 million, or 13 per cent, to $189 million.

Malaysia grew income by $11 million, or five per cent, to $221 million. Wealth Management grew strongly, with growth in customer liabilities of 22 per cent and product launches, such as Premium Currency Investment and FlexiFD, driving income growth. Unsecured lending also grew as enhanced service and new products attracted customers. Expenses increased by $6 million, or six per cent, to $101 million as the business invested in its distribution channels with five new branches launched in the second half of the year and a further three branches upgraded. There was also investment in customer service initiatives, such as E-statements. Impairment remained flat year on year at $36 million, as the credit environment remained benign. Operating profit increased $6 million, or eight per cent.

Korea includes SCFB which was acquired on 15 April 2005. As a result the comparatives reflect in large part the comparison of 12 months ownership in 2006 versus eight and a half months in 2005. Korea income has grown $449 million, or 64 per cent, to $1,146 million. This includes $106 million of recoveries in respect of assets that had been fair valued on acquisition. Growth has been driven by Wealth Management products and the SME segment. During 2006 over 100 new Wealth Management products were introduced to the market place and over 400,000 new customer accounts added. SME growth was driven by record Business Instalment Loan sales and new products such as Business Plus. Expenses increased $294 million, or 58 per cent, to $799 million. This reflects investment in business infrastructure, with investment in four new consumer finance centres and three priority banking centres and in ATM upgrades. Impairment increased $32 million, or 57 per cent. This increase was in line with the business' focus and growth in unsecured lending and a rise in personal bankruptcy. The increase was mitigated by tighter credit control measures and dedicated collection teams to address the impact of rising personal bankruptcy. Operating profit was up 90 per cent to $259 million.

Other Asia Pacific grew income by $118 million, or 19 per cent, to $729 million. This growth was constrained by Taiwan where contraction in the unsecured lending business reduced income by 27 per cent. Growth was particularly strong in China, where income more than doubled as mortgage balances increased 66 per cent and the SME segment doubled revenue on the back of strong cash sales. Expenses grew $103 million, or 30 per cent, to $445 million. Around half of the increase in expenses came in China as investment in 12 new branches and 20 ATMs drove up costs. As a result of the reduced income in Taiwan, operating profit before impairment only increased by $15 million, or six per cent, to $284 million. Impairment increased by $224 million, or 135 per cent, to $390 million mainly due to the unsecured impairment charge in Taiwan. The operating profit reported in 2005 of $103 million deteriorated to an operating loss of $106 million in 2006. Acquisitions contributed an operating profit of $20 million.

India grew income by $37 million, or 13 per cent, to $323 million. Income from the SME segment grew strongly, driven by Business Instalment Loans, new products such as SME Trade, and the addition of six distribution locations focused on SME business during the year. Wealth management grew strongly with good growth in investment services and insurance sales, and customer liabilities growing 16 per cent. Mortgage and auto income reduced eight per cent as assets declined in a competitive market although there were some benefits as the bank took the opportunity to exit unprofitable business. Personal loans grew strongly with unsecured lending balances increasing 30 per cent, with products such as Smart Credit driving growth. Expenses increased $22 million, or 12 per cent, as the business invested in distribution capabilities opening 30 new consumer finance centres, 18 ATMs and a new branch in Mumbai. Impairment reduced by $10 million or 18 per cent, reflecting the impact of a significant one time legal recovery in the first half of 2006. Operating profit increased $25 million, or 49 per cent, to $76 million.

MESA grew income by $166 million, or 44 per cent, to $545 million. Political difficulties in Lebanon, Sri Lanka and Bangladesh made trading conditions difficult in these countries, although this was offset by the booming economies of the Gulf states. Growth came from SME, Wealth Management and unsecured lending. The SME segment progressed with strong asset growth led by the Business Instalment Loan, and customer liability accounts which more than tripled in volume as the business targeted growth in current and savings accounts. Wealth Management income increased sales of bancassurance products and foreign exchange activities grew. Customer liabilities increased by 13 per cent as new savings products, such as Islamic savings were launched. The unsecured business grew with the launch of new products such as Personal Instalment loans which helped build customer assets. In MESA overall, assets increased 20 per cent and customer liabilities rose by 21 per cent. Expenses increased $98 million, or 54 per cent, to $280 million, as the business invested to support the strong income growth. Investment was primarily in the areas of sales and distribution, with 22 new ATMs in UAE and an expanded sales force. Impairment increased $28 million, or 85 per cent, in line with business volume growth. Operating profit increased $40 million, or 24 per cent, to $204 million. Acquisitions contributed $4 million to operating profit.

Africa income was broadly flat year on year at $257 million although excluding Zimbabwe, income grew nine per cent. Income increased across a broad range of geographies particularly in Nigeria 62 per cent, Zambia 59 per cent and Uganda 11 per cent, and there was double-digit asset growth in both unsecured lending and the SME segment with a sustained sales drive and new products such as Express Trade. Wealth Management introduced further new products, such as the Safari Account and the Junior Savings account, which helped to grow customer liabilities 14 per cent. Expenses decreased by $11 million, or five per cent, to $194 million although excluding Zimbabwe there was a five per cent increase. The business continued to invest, with a new branch in both Nigeria and Uganda and new core banking systems in South Africa and Nigeria. The South African business was restructured which delivered significant cost improvements. Impairment remained flat at $12 million with little change seen to the credit environment. Operating profit increased $14 million, or 38 per cent, to $51 million.

The Americas, UK and Group Head Office income grew by $16 million or 26 per cent, to $77 million. This was due primarily to improvements in the Jersey business where deposit volumes were up five per cent and widening margins drove revenue higher. Expenses and impairment remained flat at 2005 levels. Operating profit tripled from $9 million to $27 million.

Consumer Banking product performance

Cards and Personal Loans delivered a $271 million, or 18 per cent, increase in income to $1,799 million. The contraction in Taiwan held back growth in this product area. In other geographies new product launches, such as CashOne, Business Platinum Card and Titanium Card helped grow the business, particularly in MESA. Personal loans also grew strongly in 2006.

In Wealth Management, product innovation and an aggressive drive to capture customer deposits has helped to increase income by $496 million, or 34 per cent, to $1,938 million. Product development and deployment has accelerated in 2006 bringing nearly double the number of new products to market than in previous years. Product sophistication continues to grow strongly, particularly in the area of investment and unit trust products. Strong geographic contributors include MESA, Singapore, Malaysia, India and Hong Kong. Liabilities growth has been double-digit in 2006.

Mortgage income continued to be under pressure in 2006. Rising interest rates and intense competition have served to keep margins under pressure in some markets, particularly Hong Kong, Singapore and India. Income increased by $22 million or three per cent, to $780 million. Product development has helped to stem the decrease in some markets such as Hong Kong, where the ground breaking HIBOR mortgage now forms a significant part of new sales and has been widely imitated in the market place. In other markets, such as Singapore, repricing has helped improve margins and unprofitable business has been exited.

Wholesale Banking

The following tables provide an analysis of operating profit by geographic segment for Wholesale Banking:

	2006										
	Asia Pacific										
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Underlying $million	Wholesale Banking Total $million
Operating Income	596	255	150	380	655	494	525	383	485	3,519	3,923
Expenses	(292)	(152)	(63)	(173)	(336)	(174)	(234)	(219)	(508)	(1,969)	(2,151)
Loan impairment	46	(3)	7	(8)	6	7	8	(14)	43	101	92
Other impairment	–	–	–	–	(3)	–	–	(9)	(3)	(15)	(15)
Operating profit	350	100	94	199	322	327	299	141	17	1,636	1,849

	2005										
	Asia Pacific										
	Hong Kong $million	Singapore $million	Malaysia $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Group Head Office $million	Underlying $million	Wholesale Banking Total $million
Operating Income*	508	190	125	260	446	307	433	295	495	2,799	3,059
Expenses	(234)	(120)	(55)	(127)	(268)	(127)	(157)	(194)	(428)	(1,583)	(1,710)
Loan impairment	(83)	(13)	7	(5)	117	6	42	(30)	65	111	106
Other impairment	(1)	–	–	–	–	1	–	(8)	(3)	(11)	(11)
Operating profit	190	57	77	128	295	187	318	63	129	1,316	1,444

* Restated. See note 2 on page 87.

An analysis of Wholesale Banking income by product is set out below:

Operating Income by product	2006 Total $million	*2005 Total $million
Trade and Lending	1,006	880
Global Markets**	1,895	1,437
Cash Management and Custody	1,022	742
Total operating income	3,923	3,059

* Restated. See note 2 on page 87.

** Global Markets comprises the following businesses: foreign exchange and derivatives, private equity, debt capital markets, corporate finance and asset and liability management "ALM".

Wholesale Banking income grew $864 million, or 28 per cent, to $3,923 million. Korea and other acquisitions contributed $144 million or five per cent. Organic income growth in the second half of 2006 was 28 per cent over the same period last year. Growth was across a broad range of products and geographies as the client-led strategy continued to deliver sustained growth. Double-digit income growth was delivered in nearly all markets with India, Hong Kong and Singapore advancing strongly. Client income continues to comprise the most significant part of the business' income. Other trading income has benefited from the absence of the Zimbabwe hyperinflation charge taken in 2005 and a strong performance in the private equity business.

Expenses increased $441 million or 26 per cent to $2,151 million. Korea and other acquisitions contributed $55 million or three per cent. Investment has been directed towards expanding client coverage, extending product reach, developing the franchise, upgrading system architecture and in regulatory compliance and control. Staff costs are increasingly directed at variable compensation with fixed remuneration forming a decreasing proportion of personnel costs. On a geographic basis expenditure has been targeted at strategically important markets such as China and India.

Loan recoveries decreased from $106 million in 2005 to $92 million in 2006, although impairment charges from Korea and other acquisitions increased $4 million. The impairment charge before recoveries reduced year on year reflecting a continuing benign credit environment and the Group's traditional strong credit discipline. Operating profit increased $405 million, or 28 per cent, to $1,849 million.

Growth in Risk Weighted Assets and Contingents ("RIWAC") was 26 per cent, at the same overall pace as income growth and has been focused on strategically important markets. Distribution activity has doubled in 2006 with innovative products, such as collateralised loan obligations, helping to further manage RIWAC.

When looking at the performance of Wholesale Banking on a geographic basis it is important to note that it is essentially a network business primarily managed on a product and customer segment basis.

Hong Kong income grew $88 million, or 17 per cent, to $596 million. Income growth was strong in Cash Management products that benefited from increased balances and improved margins in a rising interest rate environment. Global Markets income grew strongly with increased customer deal volumes, particularly in derivatives and foreign exchange reflecting increased product capabilities in these areas. Expenses increased $58 million, or 25 per cent, to $292 million. The business invested in sales and product capabilities to support the fast growing Global Markets business and specialised client services. Impairment decreased from a charge of $83 million in 2005 to a net recovery of $46 million in 2006 as a result of significant recoveries and effective credit control with no significant new provisions. Operating profit increased $160 million, or 84 per cent, to $350 million.

Singapore income grew $65 million, or 34 per cent, to $255 million. Income grew predominantly from the client based business driven by product innovation and specialisation, with particularly strong growth in foreign exchange and derivatives. Cash Management performed well, benefiting from an enhanced product range, together with excess market liquidity and higher interest rates. There was good growth across all customer segments especially financial institutions and local corporates. Expenses increased $32 million, or 27 per cent, to $152 million as the business invested in new products and sales capabilities. Impairment decreased from $13 million in 2005 to $3 million in 2006. This was due to a continuing benign credit environment, although recoveries slowed as the stock of distressed assets continued to fall. Operating profit increased $43 million, or 75 per cent, to $100 million.

Malaysia income grew $25 million, or 20 per cent, to $150 million. There was broad based growth across all products with foreign exchange and derivatives, corporate finance and Cash Management all growing strongly. Expenses increased $8 million or 15 per cent to $63 million driven higher by investment in business infrastructure, and in compliance and governance capabilities. Loan recoveries remained flat at $7 million, and the benign credit environment together with sound risk practices resulted in no new provisions from the performing portfolio. Operating profit increased $17 million, or 22 per cent, to $94 million.

Korea includes SCFB which was acquired on 15 April 2005. As a result the comparatives reflect in large part the comparison of 12 months ownership in 2006 versus eight and half months in 2005. Korea income increased by $120 million, or 46 per cent, to $380 million. Growth has been led by client revenues, with double-digit income growth driven by rates and foreign exchange and derivatives. There was steady growth in transaction banking products such as Sweep2Bank and supply chain finance driving growth. Expenses increased by $46 million, or 36 per cent, to $173 million. The increase in expenses primarily reflects investment in staff and product capabilities, partially offset by lower integration costs. Impairment was broadly flat year on year.

Other Asia Pacific income grew $209 million, or 47 per cent, to $655 million. Thailand recorded double-digit income growth as client related revenues grew strongly mainly in foreign exchange and derivatives. Expenses increased $68 million, or 25 per cent, to $336 million reflecting investment in the business. Net recoveries reduced from $117 million in 2005 to $6 million in 2006, the former largely reflecting recoveries in Thailand. Operating profit increased $27 million, or nine per cent, to $322 million. Acquisitions contributed $11 million to operating profit.

India income grew $187 million, or 61 per cent, to $494 million. This was driven primarily from increased client activity, notably in transaction banking where volumes rose sharply and margins rose in line with higher interest rates. The foreign exchange and derivatives business has also grown strongly from the middle market segment. Corporate finance performed strongly with several significant cross border deals, and there has been strong income from private equity, as the Group has taken the opportunity to exit a number of successful investments. Expenses increased $47 million, or 37 per cent, to $174 million, the growth being primarily due to investment in people and in performance related compensation. There has also been investment in systems capabilities. Loan recoveries were broadly flat compared to 2005, a reflection of a continuing benign credit environment together with strong risk management. Operating profit increased $140 million, or 75 per cent, to $327 million.

MESA income grew $92 million, or 21 per cent, to $525 million. Client revenues continued to grow strongly with Cash Management, corporate finance and capital market products being the main contributors. Within this the Wholesale Banking business in the UAE grew income by 25 per cent. Expenses increased $77 million, or 49 per cent, to $234 million, as investment in people and infrastructure continued to support the rapid growth in income. The business also invested in establishing its presence in the Dubai International Financial Centre. Loan recoveries decreased by $34 million, or 81 per cent, to $8 million. As a result of the decline in recoveries operating profit decreased $19 million, or six per cent, to $299 million. Acquisitions contributed $3 million to operating profit.

Africa income grew $88 million, or 30 per cent, to $383 million as the hyperinflation charge taken in Zimbabwe in 2005 was not repeated. This increase in income was driven by sales in core products such as lending, cash and sales. There was strong progress in corporate finance and corporate advisory services driven in part by the investment in First Africa and a new agribusiness finance team. Expenses increased $25 million, or 13 per cent, to $219 million partly due to the acquisition of new sales capabilities, the set up of the structured finance team in South Africa, and investment in infrastructure. Impairment decreased from $30 million in 2005 to $14 million in 2006, reflecting disciplined credit processes. Operating profit more than doubled increasing $78 million to $141 million.

Americas, UK and Group Head Office income was down $10 million, or two per cent, to $485 million. Income was lower primarily due to private equity where the gains of 2005 were not repeated. Cash Management was up 19 per cent across the region as a result of volume growth and interest rate increases. Trade was up 10 per cent, benefiting from strong flows in commodity markets. Expansion of the foreign exchange and derivatives business resulted in double-digit growth. The key focus in UK and Americas remains on growing customer relationships that benefit the Group's international network. Expenses increased $80 million, or 19 per cent, to $508 million as the business invested in its infrastructure. Loan recoveries decreased by $22 million, or 34 per cent, to $43 million. Operating profit decreased $112 million, to $17 million.

Product Performance

Trade and Lending operating income increased by $126 million, or 14 per cent, to $1,006 million. Trade income grew as a 35 per cent increase in average balances more than offset pricing pressures in a fiercely competitive market. In lending, income was flat as distribution capability was built and as margins remained under pressure in a highly liquid market.

Global Markets income had another very strong year with growth of $458 million, or 32 per cent, to $1,895 million as the Group benefited from the investment of recent years in product capability and direct relationship management. Rates and foreign exchange grew strongly in the core markets of Korea, India and MESA driven by foreign exchange and derivative products. Capital markets and corporate finance also posted double-digit income growth with profits from private equity investments driving up income. ALM revenues were up slightly on 2005 although conditions remained difficult in a flat yield curve environment.

Cash Management and Custody income grew strongly by $280 million, or 38 per cent, to $1,022 million. Income was driven higher by increased balances, up 27 per cent, and better margins as higher interest rates prevailed through the year.

Acquisitions Operating Income and Profit

The impact of acquisitions on the results of the Group is not material for 2006, Union, Permata and HIB together contributing $147 million of income. Expenses for the acquisitions were $91 million. These expenses include post acquisition integration costs. The cost income ratio for the acquisitions was 61.9 per cent.

Impairment losses on loans and advances was $18 million arising mainly in Union.

The post-acquisition profit of Union has been included in the Group results within the MESA segment, HIB and the increased share of Permata has been included in the Group results within the Other Asia Pacific segment.

The effect of the acquisitions on the geographic results is shown below:

MESA segment – Total

	2006			2005
	Total $million	Acquisitions $million	Underlying $million	Total $million
Operating Income	1,070	51	1,019	812
Expenses	(514)	(34)	(480)	(339)
Loan impairment	(53)	(10)	(43)	9
Profit before taxation	503	7	496	482

Other Asia Pacific segment – Total

	2006			2005
	Total $million	Acquisitions $million	Underlying $million	Total $million
Operating Income	1,384	96	1,288	1,057
Expenses	(785)	(57)	(728)	(610)
Loan impairment	(384)	(8)	(376)	(49)
Other impairment	(3)	–	(3)	–
Loss from associates	(4)	–	(4)	–
Profit before taxation	208	31	177	398

The effect of the acquisitions on the business results for 2006 is shown below:

	Consumer Banking $million	Wholesale Banking $million	Total as reported $million
Operating Income	123	24	147
Expenses	(82)	(9)	(91)
Loan impairment	(17)	(1)	(18)
Profit before taxation	24	14	38