

## Report of the Directors

The directors have pleasure in submitting their report and the accounts of the Company and its subsidiaries for the year ended 31 December 2006.

### Activities

The Company is a holding company co-ordinating the activities of its subsidiary undertakings which are principally engaged in the business of banking and the provision of other financial services.

The Chairman's Statement on pages 6 and 7, the Group Chief Executive's Review on pages 8 to 11 and the Business, Financial and Risk Reviews on pages 12 to 49 contain a review of the business of the Group during 2006, recent events and of likely future developments.

### Results

The results for the year are set out in the consolidated income statement on page 76.

### Share Capital

During the year 1,496,807 ordinary shares were issued under the Company's employee share plans at prices between nil and 987 pence.

On 12 May 2006, 9,960,348 ordinary shares were issued instead of the 2005 final cash dividend. On 11 October 2006, 4,912,941 ordinary shares were issued instead of the 2006 interim cash dividend.

On 12 January 2006, 3,401,290 new ordinary shares were issued as partial consideration for the Group's 20 per cent investment in Fleming Family & Partners Limited, at an average price of 1301 pence per share. On 4 October 2006, 48,500,000 new ordinary shares were issued as a result of an institutional placing, at a price of 1375 pence per share to fund the acquisition of Hsinchu International Bank.

Further details of these issues of ordinary shares and other matters relating to the Company's share capital can be found in note 37 to the accounts.

At the annual general meeting ("AGM") in May 2006 the shareholders granted authority for the Company to buy back up to 131,986,987 of the Company's ordinary shares. This was approximately 10 per cent of the Company's issued ordinary share capital as at 28 February 2006. In addition, at the AGM, the shareholders granted authority for the Company to buy back up to all of the Company's issued preference share capital. The Company did not purchase any of its own ordinary shares or sterling preference shares during 2006 and the directors would only use this authority if they considered that the purchase would benefit the Company and shareholders.

On 2 October 2006, the Company redeemed 328,388 8.9 per cent preference shares of \$5 each which represented all of the US dollar preference shares in issue at that time.

On 8 December 2006 the Company issued 7,500 6.409 per cent preference shares of \$5 each. These US dollar preference shares were issued in the form of American Depository shares and further details can be found in note 37 to the accounts.

### Dividends

The directors recommend the payment of a final dividend for 2006 of 50.21 cents per ordinary share to be paid on 11 May 2007 to shareholders on the register on 9 March 2007. The 2006 interim dividend of 20.83 cents per ordinary share was paid on 11 October 2006, making a total of 71.04 cents for the year.

The ordinary shareholders will again be offered the choice to receive their cash dividends in sterling, Hong Kong dollars or US dollars. It is also intended that the share dividend alternative to the cash dividend will be offered during 2007.

### Major Interests in Shares and Voting Rights

As far as the directors are aware as at 31 December 2006, Temasek Holdings (Private) Limited ("Temasek") was the only shareholder that had an interest of more than 10 per cent in the Company's issued ordinary share capital.

As at 27 February 2007, the Company had been notified of the following interests of three per cent or more in its issued ordinary share capital.

Shareholder	Number of ordinary shares	Percentage of issued ordinary share capital
Temasek Holdings (Private) Limited	153,365,936	11.0755
Fidelity Investments	68,506,087	4.9473

In addition to the above interests, the Company had been notified that Legal & General Group PLC had a direct interest in 47,526,644 shares in the Company and, as a result, held 3.43 per cent of the total voting rights in the Company.

### Loan Capital

Details of the loan capital of the Company and its subsidiaries are set out in note 36 to the accounts.

### Fixed Assets

Details of the fixed assets of the Company are set out in note 22 to the accounts. Details of the fixed assets of the Group are set out in notes 22, 24 and 25 to the accounts.

## Report of the Directors continued

### Directors

The directors of the Company at the date of this report are listed on page 51. All of the directors, except for Lord Turner, held office throughout the year.

Lord Turner was appointed as an independent non-executive director with effect from 1 August 2006 and will offer himself for election by the shareholders at this year's AGM.

Mr Ho KwonPing retired from the Board at the conclusion of the 2006 AGM, Mr B K Sanderson resigned as a director and Group Chairman on 19 November 2006 and Mr H E Norton retired from the Board on 31 December 2006. Mr E M Davies, who had been Group Chief Executive since November 2001, was appointed Group Chairman on 20 November 2006. Mr P A Sands was appointed as Group Chief Executive on 20 November 2006. Mr R H Meddings was appointed as Group Finance Director on 20 November 2006.

Mr J F T Dundas, Ms R Markland, Mr R H Meddings, Mr K S Nargolwala and Mr P D Skinner retire from office by rotation and will offer themselves for re-election at this year's AGM, in accordance with the Company's articles of association.

Sir CK Chow, having completed more than nine years' service on the Board, will offer himself for re-election at this year's AGM, in accordance with the recommendations of the Combined Code.

Mr Meddings and Mr Nargolwala have service contracts with a notice period of one year. Sir CK Chow, Mr Dundas, Ms Markland, Mr Skinner and Lord Turner are non-executive directors and do not have service contracts.

### Directors' Interests

The directors' beneficial interests in the ordinary shares of the Company as at 31 December 2006 are shown in the Directors' Remuneration Report on pages 61 to 73.

### Qualifying Third Party Indemnities

In February 2006, the Company granted qualifying third party indemnities to the directors of the Company and the directors of Standard Chartered Bank, subject to and on terms consistent with the Company's articles of association and the Companies Act 1985 (as amended by the Companies (Audit, Investigations and Community Enterprise) Act 2004). The indemnities remain in force at the time of this report.

### Risk Management

The risk management objectives and policies of the Group, including its policy for hedging risk are set out in the Risk Review on pages 34 to 48. The Group's exposure to credit risk is set out on pages 38 to 44, liquidity risk in note 48 to the accounts, and market risk in note 51 to the accounts. Company-only risks are managed as a part of overall Group risks.

### Significant Contracts

There were no contracts of significance during the year in which any of the directors were materially interested.

### Related Party Transactions

Details of transactions with directors and officers and other related parties are set out in note 53 to the accounts.

### Continuing Connected Transactions

On 20 July 2006, by virtue of its acquisition of a greater than 10 per cent shareholding in the Company, Temasek, together with its associates, became related parties and connected persons of the Company for the purposes of the UK Listing Rules and the Listing Rules of The Stock Exchange of Hong Kong Limited (the "HK Listing Rules") respectively (the "Rules"). Neither Temasek nor its associates are related parties for the purposes of IAS 24.

The Rules are intended to ensure that there is no favourable treatment to Temasek or its associates (as defined under the Rules) as a result of such shareholding to the detriment of other shareholders in the Company. Unless transactions which the Company and its subsidiaries undertake with Temasek or its associates are specifically exempt under the Rules or the subject of a specific waiver, they may require a combination of announcement, reporting, shareholder approval, and/or disclosure. To ensure transparency, the Rules also impose additional reporting and disclosure requirements on the Company in respect of certain non-exempt and other transactions with Temasek or its associates.

Since 20 July 2006 the Group has entered into certain continuing connected transactions with Temasek or its associates in the normal course of its business which are not exempt and are subject to the annual reporting and/or shareholders approval requirements of the HK Listing Rules. In accordance with the requirements of the HK Listing Rules details of such transactions as undertaken with Temasek associates and which are required to be reported are set out in the Supplementary Financial Information on page 146. Any such transactions and/or other matters which require shareholder approval will be proposed to the Company's shareholders at the AGM.

The independent non-executive directors of the Company confirm that the continuing connected transactions reported have been entered into by members of the Group with Temasek or its associates:

- in the ordinary and usual course of business of the Group;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

For the purposes of Rule 14A.38 of the HK Listing Rules, the Company's auditor, KPMG Audit Plc and its associated firms (together "KPMG"), has performed certain agreed-upon procedures on the aforementioned continuing connected transactions for the period 20 July 2006 to 31 December 2006, in accordance with International Federation of Accountants Related Services 4400 "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information".

## Employees

The Group employs almost 60,000 staff in 56 countries and territories. The average number of people employed by the Group in the United Kingdom during the year was 1,290 and their total remuneration for the year was \$176 million. Employees in all the countries and territories where the Group operates have the opportunity to participate in the Group's all-employee sharesave schemes. This encourages their contribution to the Group's performance. Further details of the sharesave schemes are given on page 64 and in note 40 to the accounts.

The employment policies of the Group are designed to meet the relevant social, statutory and market conditions and practices in each country where the Group operates. The Group communicates systematically with its employees on a wide range of issues. This is done by briefings to managers who are encouraged to hold subsequent meetings with staff and by circulars, publications and videos.

The Group recognises its social and statutory duty to employ disabled people and has followed a policy in the United Kingdom by providing, wherever possible, the same employment opportunities for disabled people as for others. If employees become disabled every effort is made to ensure their employment continues, with appropriate training where necessary. Further details of the Group's employees can be found in the Business Review on pages 18 to 21.

## Areas of Operation

The Group has over 1,400 branches and corporate offices, as shown on pages 150 and 151.

## Major Customers

Taken together, the five largest customers of the Group account for 1.36 per cent of the total interest income and other operating income of the Group in the year ended 31 December 2006.

## Creditor Payment Policy

Operating businesses are responsible for agreeing the terms and conditions with their suppliers in the economies where they conduct business. It is the Group's policy to pay creditors when the amounts fall due for payment.

Standard Chartered PLC is a holding company and does not trade. Therefore, it is not considered meaningful to give a number of days' purchases outstanding for the Company at 31 December 2006. For the Group's operations in the United Kingdom, there were 57 days' purchases outstanding at 31 December 2006.

## Community Investment

The Group recognises its responsibility to invest in the communities where it operates and to act as a good corporate citizen. In 2006, the Group gave \$14.2 million to fund the work of non-governmental organisations (of which \$0.3 million was given to United Kingdom registered charities, focusing on supporting their work outside the United Kingdom). Further details of community projects can be found in the Business Review on pages 22 to 25.

## HIV/AIDS Policy

The Group is committed to addressing social, health and human rights issues confronting its employees, their families and the communities in which it operates. The Group recognises that the principal competitive advantage of any business is gained through its employees, and this advantage is only sustainable if they are healthy, skilled and motivated.

HIV/AIDS directly and indirectly impacts the Group's staff and therefore its business. A policy on HIV/AIDS has been developed by the Group to be adopted across all the countries in which the Group operates and will apply to all staff and their families in a manner consistent with existing medical cover. A copy of the Group's HIV/AIDS policy is available to shareholders on the Company's website at:

[www.standardchartered.com/sustainability](http://www.standardchartered.com/sustainability)

## Environmental Policy

The Group recognises that it should minimise any adverse impact of the conduct of business on the environment. It therefore aims to manage its businesses according to best practice with regard to the use of energy and other resources and by disposing of waste responsibly, by encouraging its customers to ensure that their products, processes and businesses do not damage the environment unnecessarily and by taking environmental considerations into account in business decisions.

A copy of the Group's environmental report is available to shareholders on the Company's website at:

[www.standardchartered.com/sustainability](http://www.standardchartered.com/sustainability)

## Social, Ethical and Environmental (SEE) Responsibilities

A report on SEE responsibilities can be found on page 60 and further details of the Group's policies on SEE risk can be found on the Company's website:

[www.standardchartered.com/sustainability](http://www.standardchartered.com/sustainability)

## Corporate Governance

A report on corporate governance is included on pages 56 to 60.

## Auditor

A resolution will be proposed at the 2007 AGM to reappoint KPMG as the auditor of the Company.

The directors have taken all necessary steps to make themselves and KPMG aware of any information needed in performing the audit of the 2006 Annual Report and Accounts and as far as each of the directors is aware, there is no relevant audit information of which KPMG is unaware.

## Annual General Meeting

The Company's AGM will be held at 12 noon (UK time) (7.00 pm Hong Kong time) on Thursday 3 May 2007 at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU. Details of the business to be transacted at the AGM are included in the accompanying Notice of AGM.

By order of the Board

## C Burns

Group Company Secretary  
27 February 2007