

## Corporate Governance

The Board of Standard Chartered PLC is responsible for the overall management of the Group and for ensuring that proper standards of corporate governance are maintained.

This report has been prepared in accordance with the principles and provisions of the Code of Best Practice in the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 and amended in June 2006 (the "Combined Code"). The directors confirm that throughout the period the Company complied with the provisions of the Combined Code except that the Chairman did not meet the independence criteria upon appointment as set out in the Combined Code, and that meeting major shareholders is not currently part of the induction programme for non-executive directors. Explanations of these exceptions and the rationale for the appointment of the Chairman are given in the sections 'Chairman and Group Chief Executive' and 'Independent Non-Executive Directors' below. Apart from these exceptions, the following report explains how the Company applies the principles of the Combined Code.

The Company is a public company, listed on both the London and Hong Kong stock exchanges, and has sufficient share capital in public hands.

The directors confirm that, throughout the financial year, the Company complied with the provisions of Appendix 14 of the HK Listing Rules.

The directors confirm that the Company has in place a code of conduct regarding securities transactions by directors on terms no less exacting than required by Appendix 10 of the HK Listing Rules and that the directors of the Company complied with this code of conduct throughout the financial period.

### The Board

The Board is made up of the Chairman, four executive directors and eight independent non-executive directors and is collectively responsible for the success of the Company. All the directors are subject to election by shareholders at the first AGM after their appointment and then to re-election at intervals of no more than three years.

The Board meets regularly and has a formal schedule of matters specifically reserved for its decision. These matters include determining and reviewing the strategy of the Company and the Group, overseeing the Group's compliance with statutory and regulatory obligations and issues relating to the Company's and the Group's capital.

It is also responsible for the Group's structure and areas of operation, financial reporting, ensuring there is a sound system of internal control and risk management and appointments to the Board. The Board delegates matters to the executive directors and other senior management.

The Board has eight scheduled meetings each year. At least two of these meetings are usually held in countries where the Group operates outside the United Kingdom. The directors use these overseas visits to meet staff, corporate customers and government and regulatory officials.

The directors are given accurate, timely and clear information so that they can maintain full and effective control over strategic, financial, operational, compliance and governance issues.

The following table shows the number of Board and Committee meetings held during the year and the attendance of individual directors.

	Board (Scheduled)	Board (Ad hoc)	Audit & Risk Committee	Audit & Risk Committee (Ad hoc)	Board Nomination Committee	Board Nomination Committee (Ad hoc)	Board Remuneration Committee	Board Remuneration Committee (Ad hoc)	Corporate Responsibility and Community Committee
Number of meetings in 2006	8	4	6	3	2	2	5	1	3
E M Davies*	8	3	–	–	1/1	0/0	–	–	3
P A Sands*	8	4	–	–	–	–	–	–	1/1
Sir CK Chow	8	3	–	–	–	–	–	–	–
M B DeNoma	8	3	–	–	–	–	–	–	–
J F T Dundas	8	4	6	3	–	–	–	–	3
V F Gooding	7	3	–	–	–	–	–	–	3
R H P Markham	7	4	6	3	2	2	–	–	–
R Markland	8	4	6	3	2	2	5	1	–
R H Meddings	8	3	–	–	–	–	–	–	–
K S Nargolwala	8	3	–	–	–	–	–	–	–
P D Skinner	7	3	–	–	–	–	5	1	–
O H J Stocken	7	2	–	–	–	–	4	1	–
Lord Turner*	3/3	2/2	2/2	3	–	–	2/2	1	–
Ho KwonPing*	1/3	0/1	–	–	–	–	1/2	0/0	–
H E Norton*	8	4	4/4	1/1	2	2	5	1	–
B K Sanderson*	7/8	1/2	–	–	1/1	1/1	–	–	2/2

\* Mr Davies was appointed as Group Chairman on 20 November 2006 and became Chairman of both the Board Nomination Committee and the Corporate Responsibility and Community Committee on the same day. Mr Sands was appointed as Group Chief Executive on 20 November 2006 and became a member of the Corporate Responsibility and Community Committee on the same day. Lord Turner was appointed as an Independent Non-executive Director on 1 August 2006 and was appointed as a member of both the Audit and Risk Committee and the Board Remuneration Committee on the same day. Mr Ho retired from the Board on 4 May 2006, Mr Sanderson resigned as a director and Group Chairman on 19 November 2006 and Mr Norton retired from the Board on 31 December 2006.

The directors have a range of skills and experience and each brings an independent judgement and considerable knowledge to the Board's discussions. On appointment, each director receives a comprehensive and tailored induction covering the Group's business and operations and also the legal, regulatory and other obligations of a director of a dual-listed company. As well as a formal induction, directors receive training through a formal and structured programme to continually develop and update their knowledge and capabilities. Where an independent non-executive director is appointed to one of the Board's standing committees, additional training is given which is relevant to the committee appointment. Lord Turner was appointed as an independent non-executive director on 1 August 2006 and has completed his induction programme.

The Company has arranged appropriate insurance cover in respect of legal proceedings and other claims against its directors. In addition, the Company has granted qualifying third party indemnities to the directors of the Company subject to and on terms consistent with the Company's articles of association and the Companies Act 1985.

The Board's executive directors are not allowed more than one non-executive directorship of a FTSE 100 company. Details of the directors' other directorships can be found in their biographies on page 51.

#### **Chairman, Deputy Chairman and Group Chief Executive**

Mr E M Davies was appointed as Group Chairman on 20 November 2006. Immediately prior to this, Mr Davies had been the Group Chief Executive. In considering its decision to appoint Mr Davies, the Board noted the provisions of the Combined Code regarding such appointments and took into account the complexity of the international banking environment in which the Group operates, the magnitude of the Group and the diversity of its businesses and people. The Board believed that there were significant benefits for the Company in continuity as well as the leadership skills that Mr Davies would bring to the role of Chairman. After careful consideration of all these factors, the Board was unanimous in its decision to appoint Mr Davies. In accordance with the Provision A.2.2 of the Combined Code, the Company's major shareholders were consulted in advance of Mr Davies' appointment. The Board considered it unnecessary to use the services of an external search consultant or open advertising in the process for appointing the Group Chairman.

Mr Davies is a non-executive director of Tesco PLC, Tottenham Hotspur plc and Fleming Family & Partners Limited. He is also chairman of the Appeal Fundraising Board of Breakthrough Breast Cancer and a Trustee of the Sir Kyffin Williams Trust. Significant changes to the external commitments of the Chairman are reported to the Board.

The roles and objectives of the Chairman and the Group Chief Executive are separate and have been approved by the Board.

As announced on 20 November 2006, the Board intends to appoint a Deputy Chairman.

#### **Independent Non-Executive Directors**

The Board considers that all of the non-executive directors are independent and has received from each of them the annual confirmation of independence required by the HK Listing Rules. The names and biographies of the non-executive directors are set out on page 51. The non-executive directors are appointed for an initial three-year term and are subject to periodic re-election by shareholders in accordance with the Company's articles of association. The Chairman has regular meetings with the non-executive directors without the executive directors being present.

The reviews of the non-executive directors who have served on the Board for more than six years are covered in the section on the work of the Board Nomination Committee below.

Mr R H P Markham is the Senior Independent Director and can be contacted in writing at the Company's registered office.

Although not part of their induction programme, the non-executive directors have the opportunity, if they wish, to attend meetings with major shareholders and analysts and they receive, in a timely manner, accurate information reflecting the views of the Company's institutional shareholders and other stakeholders. Major shareholders have the opportunity to meet with the Senior Independent Director to discuss any issues or concerns if they wish to do so.

The Board is aware of the other commitments of its non-executive directors and is satisfied that these do not conflict with their duties as directors of the Company. Changes to the commitments of the non-executive directors are reported to the Board.

The terms and conditions of the non-executive directors' appointments are available for inspection at the Company's registered office.

#### **Board Committees**

The Board has four standing committees with specific delegated authorities: the Audit and Risk Committee, the Board Nomination Committee, the Board Remuneration Committee and the Corporate Responsibility and Community Committee. Details of these committees and their members are given below.

#### **Audit and Risk Committee**

The members of the Audit and Risk Committee are:

Mr R H P Markham (chairman)  
Mr J F T Dundas  
Ms R Markland  
Lord Turner

All the members of the Committee are independent non-executive directors. The Board considers that each member has appropriate professional qualifications and brings a broad experience and knowledge of financial reporting to the Committee's deliberations. The Board is satisfied that the Committee's chairman has recent and relevant financial experience.

The Committee currently has six scheduled committee meetings each year and a further two half-day informal meetings to consider more closely the Group's processes, recent developments in financial reporting and regulatory matters and the way in which these developments will impact or potentially impact, the Group's businesses.

The Committee reviews and monitors the integrity of the Company's annual and interim financial statements, circulars to shareholders and any formal announcements relating to the Group's financial performance, including significant financial reporting judgements contained in them. The Committee also reviews the recommendations for provisions against bad or doubtful loans and other credit exposures. It keeps under review the appropriateness of the Group's accounting policies and considers changes to them. Ultimate responsibility for the approval of the annual and interim financial statements rests with the Board.

At least once a year, the Committee meets separately with each of the external auditor and Group Head of Internal Audit without management being present to discuss matters relating to the auditor's remit and any issues arising from the audit.

In relation to the Group's internal audit function, the Committee's responsibilities include:

- monitoring and assessing the role and effectiveness of the Group's internal audit function and receiving reports from the Group Head of Internal Audit on these matters; and
- considering the appointment, resignation or dismissal of the Group Head of Internal Audit.

In relation to the Group's external auditor, the Committee's responsibilities include:

- considering and making recommendations to the Board on the appointment, re-appointment, resignation or dismissal of the external auditor;
- approving the terms of engagement, nature and scope of the audit;
- reviewing the findings of the audit including any major issues that arose during the course of the audit; and
- reviewing and monitoring the cost effectiveness of the audit taking into consideration relevant UK professional and regulatory requirements and approving the audit fee.

The Committee reviews and reports to the Board on, the Group's compliance with relevant regulatory and statutory requirements. The Committee reviews the Group's internal financial controls and the Group's internal control and risk management systems and reports on these to the Board. Details of the Company's internal controls and how risk is managed can be found below under the heading 'Internal Control'.

Arrangements are in place by which the Company's employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other areas. These arrangements are covered in the Company's 'Speaking Up' policy, more commonly known as a 'whistle-blowing policy'. The Committee is responsible for reviewing these arrangements and for ensuring that any matters of concern are investigated appropriately.

### Board Nomination Committee

The members of the Board Nomination Committee are:

Mr E M Davies (chairman)  
Mr J F T Dundas (appointed 23 February 2007)  
Mr R H P Markham  
Ms R Markland

All of the Committee members, with the exception of Mr Davies, are independent non-executive directors.

The Committee's responsibilities include:

- reviewing the structure, size and composition of the Board and making recommendations with regard to any changes that the Committee deems necessary to ensure the Board has the optimum balance of skills, knowledge and experience;
- where Board vacancies arise, evaluating the skill, knowledge and experience needed to fill the vacancy, and identifying and nominating suitable candidates to the Board; and
- keeping under review the succession plans for the Group relating to both directors and other senior executives and making consequential recommendations to the Board.

The Committee is also responsible for making recommendations for the appointment of the Group Chairman, Group Chief Executive or any other director. The Group Chairman will not chair any meeting at which the Committee is considering the appointment of a successor to the Group Chairman.

In the selection process for new directors, the Committee can consult external advisors. An external search consultant was used in the selection process prior to the appointment of Lord Turner as an independent non-executive director. Before recommending the appointment of a non-executive director, the Committee considers the suitability of a candidate against the skills, knowledge and experience required to produce a balanced Board. In addition, the Committee takes into account whether the candidate would have an appropriate amount of time to devote to their duties.

During the year, the Committee reviewed the Group's succession planning processes and the succession plans relating to the Chairman, executive directors and other senior executives.

Mr R H P Markham has served on the Board for more than six years and the Committee has carried out a rigorous review of his performance and contributions to the deliberations of the Board and the Audit and Risk Committee during 2006. The Committee, as part of its review, has taken into account the need for the progressive refreshing of the Board and believes that Mr Markham continues to be committed to the Company and independent in character and judgement.

Sir CK Chow has served on the Board for more than nine years and at the 2007 AGM will offer himself for re-election in accordance with the provisions of the Combined Code. Having carried out a rigorous review of Sir CK's performance and contribution to the Board during 2006, the Committee believes Sir CK continues to be independent in character and judgement and, in addition, believes that Sir CK's long experience as a director will continue to be invaluable to the Board. The Committee therefore fully supports the proposal for his re-election as an independent non-executive director.

In addition, the Committee has reviewed the performance of the non-executive directors standing for re-election at the 2007 AGM and made recommendations to the Board on their re-election.

### Board Remuneration Committee

The members of the Board Remuneration Committee are:

Ms R Markland (chairman)  
Miss V F Gooding (appointed 23 February 2007)  
Mr P D Skinner  
Mr O H J Stocken  
Lord Turner

All of the Committee members are independent non-executive directors. The Committee determines the pay and benefits of the Group Chairman, executive directors and senior management. The remuneration of all directors and senior management is subject to regular monitoring to ensure that levels of remuneration and compensation are appropriate.

A statement of the Company's remuneration policy for directors and details of the work of the Committee are included in the Directors' Remuneration Report on pages 61 to 73.

### Corporate Responsibility and Community Committee

The members of the Corporate Responsibility and Community Committee are:

Mr E M Davies (chairman)  
Mr P A Sands  
Mr J F T Dundas  
Miss V F Gooding

The Committee considers matters relating to how Standard Chartered can build a sustainable business through consideration of environment protection, social investment, economic

development and other corporate responsibility and community matters.

The Committee's responsibilities include:

- ensuring that the Group's corporate responsibility and community aspirations and business activities are aligned;
- responding to emerging sustainability issues arising from new regulation, legislation, stakeholder guidance and reporting;
- promoting the availability of accurate and reliable corporate responsibility and community data; and
- ensuring that the Group is in a position to report annually on Corporate Responsibility and Community activity in line with best practice.

During the year, the Committee received presentations on a range of subjects including the responsible selling and marketing of products and services, the Group's response to protecting the environment and on microfinance and financial inclusion.

The Committee ensures that the Group continues to make progress in its efforts to understand and respond to the concerns and interests of stakeholders. The Group has a formal plan for stakeholder engagement that builds on the comprehensive work already carried out on employee engagement and customer satisfaction. In 2006, this plan focused at a Group level on the socially responsible investment analyst community and on the development and environmental departments within the UK government. The network used to inform the Committee was also widened to include appropriate global stakeholders.

The findings of this stakeholder research, alongside peer analysis and consideration of recognised corporate responsibility benchmarks and indices are used in setting the agendas for the Committee's meetings.

#### **Schedule of Matters Reserved and Terms of Reference**

The schedule of matters reserved for the Board, the roles and responsibilities of the Chairman and Group Chief Executive and the terms of reference for the Audit and Risk Committee, the Board Nomination Committee, the Board Remuneration Committee and the Corporate Responsibility and Community Committee are available on the Company's website and available for inspection at the Company's registered office.

#### **Independent Professional Advice**

Directors may, in appropriate circumstances, take independent professional advice at the Company's expense. All of the directors have access to the Group Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. The appointment and removal of the Group Company Secretary is a matter for the whole Board.

The Board's standing committees are able to take independent professional advice or use external consultants, where appropriate, at the Company's expense.

#### **Performance Evaluation**

The Board is responsible for ensuring that a rigorous evaluation is carried out of its performance, and that of its committees and individual directors.

During 2006, each of the directors, members of the Group Management Committee and the Group Company Secretary completed a questionnaire and details of the comments received were discussed by the Board. In addition, the Audit and Risk Committee, the Board Nomination Committee and the Board

Remuneration Committee each conducted a self-assessment of their effectiveness. A report on the results of the self-assessments was discussed by the Board. It was not considered appropriate for the Corporate Responsibility and Community Committee to carry out self-assessment during 2006 given that its membership and remit were evolving. Individual appraisals of the directors were undertaken during 2006 by the Chairman, Group Chief Executive and Board Nomination Committee as appropriate. The independent non-executive directors, led by the Senior Independent Director, evaluated the Chairman's performance, taking into account the views of all the directors.

During 2005, a formal evaluation of the effectiveness of the Board and its Committees was conducted using the services of an external facilitator.

#### **Relations with Shareholders**

The Board recognises the importance of good communications with all shareholders. There is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. The AGM is used as an opportunity to communicate with all shareholders.

The Combined Code requires companies to post the notice of the AGM to shareholders at least 20 working days before the date of the meeting. The Company aims to achieve this and will always give shareholders the 21 days' notice required by the Companies Act 1985 and the HK Listing Rules. Separate resolutions are proposed for each substantially separate issue. The Company displays the proxy voting results on each resolution at the AGM and on the Company's website. The notice of AGM is also available on audio cassette and CD.

The Company encourages its shareholders to receive the Company's corporate documents electronically. The annual and interim financial statements, notice of AGM and dividend circulars are all available electronically. Shareholders are also able to vote electronically on the resolutions being put to the AGM.

#### **Auditor Independence and Objectivity**

The Company has adopted a policy on the use of non-audit services provided by the Company's external auditor, KPMG. The Audit and Risk Committee's pre-approval is required before the Company uses non-audit services that fall within definitions contained in the policy. The non-audit services of KPMG will only be used where the Company benefits in a cost-effective manner and the auditor maintains the necessary degree of independence and objectivity.

In addition to audit-related services, KPMG provided the following types of services in 2006:

- tax advisory and compliance;
- advice and support with due diligence exercises;
- advice on IFRS accounting;
- regulatory reviews and reporting;
- corporate recovery services; and
- risk and compliance advisory services.

Details of the amounts paid to KPMG during the year for audit and non-audit services are set out in note 7 to the accounts.

#### **Going Concern**

The Board confirms that it is satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason it continues to adopt the going concern basis when preparing the financial statements.

### Internal Control

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximise profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations, and enhance resilience to external events. To achieve this, the Board has established a process for the identification, evaluation and management of the risks faced by the Group which operated through the year ended 31 December 2006 and to 27 February 2007, the date the Board approved this annual report and accounts. It should be recognised that such a process can only provide reasonable, not absolute, assurance against material misstatement or loss. This process is reviewed regularly by the Board and meets the requirements of the guidance entitled 'Internal Control: Guidance for Directors on the Combined Code' issued by the Institute of Chartered Accountants in England and Wales in 1999 and revised in 2005. The system of internal control of the Group is also subject to regulatory oversight in the United Kingdom and overseas.

The effectiveness of the Group's internal control system is reviewed regularly by the Board, its committees, Group management, and Group Internal Audit. The Audit and Risk Committee has reviewed the effectiveness of the Group's system of internal control during the year ended 31 December 2006 and reported to the Board. The Committee's review was supported by an annual business self-certification process, which was managed by Group Internal Audit.

Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group through its programme of business audits. The work of Group Internal Audit is focused on the areas of greatest risk as determined by a risk-based assessment methodology.

Group Internal Audit reports regularly to the Audit and Risk Committee, the Chairman and to the Group Chief Executive. The findings of all adverse audits are reported to the Chairman and to the Group Chief Executive and immediate corrective action is required.

The Risk Review on pages 34 to 48 describes the Group's risk management structure. The Group's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Executive risk committees review regularly the Group's risk profile.

The performance of the Group's businesses is reported regularly to senior line management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are monitored closely. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts, and the valuation of assets and positions.

### Compliance and Regulatory Matters

During 2004, Standard Chartered Bank entered into a Written Agreement with the Federal Reserve Bank of New York and the New York State Banking Department to address deficiencies relating to compliance with applicable federal and state laws,

rules and regulations governing anti-money laundering. The Written Agreement remained in place during 2006. However, the Board believes that during the year the Bank achieved substantial compliance with the terms of the Written Agreement. The status of this matter continues to be monitored closely by the Board.

### Group Code of Conduct

The Board has approved a Group Code of Conduct relating to the lawful and ethical conduct of business. These requirements are supported by the Group's core values. The Group Code of Conduct has been communicated to all employees. All employees are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates.

### Social, Ethical and Environmental Responsibilities

The Group complies with the guidelines issued by the Association of British Insurers on socially responsible investment and reporting on social, ethical and environmental ("SEE") matters and is committed to the communities and environments in which it operates. The Board is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. The Group has established and maintains policies and procedures in relation to SEE related risks. Details of these policies can be found on the Company's website: [www.standardchartered.com/sustainability](http://www.standardchartered.com/sustainability). Through the Group's risk management structure and control framework, the Board receives regular and adequate information to identify and assess significant risks and opportunities arising from SEE matters. Formal training arrangements are in place for key SEE issues, including arrangements for directors.

Designated policy owners monitor risks in their area. They also work with line management to assist them in designing procedures to ensure compliance with these requirements. In every country, the Country Management Committee ("Manco") supported by the Country Operational Risk Group ("CORG") is responsible for ensuring there are risk management frameworks in place to monitor, manage and report SEE risk. The Country Chief Executives chair both the Mancos and CORGs.

Compliance with these policies and procedures is the responsibility of all managers. In assessing, incentivising and rewarding performance, guidance to managers was published during 2002. This explicitly states that account should be taken of adherence to all relevant Group policies, including those associated with SEE risk. Significant exceptions and emerging risks are escalated to senior management through clearly documented internal reporting procedures such as Manco.

Key areas of risk are those associated with customers' social issues and any impact they may have on the natural environment. The Board recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on the Group's business. These risks are implicitly recognised in reaching lending decisions explicitly identified in the Group's lending policies. During 2006, the Group adopted the revised Equator Principles 2 that set procedures, based on the International Finance Corporation guidelines, for recognising the environmental and social impacts and risks associated with project finance. The Principles have been embedded in the Group's project finance lending policy and procedures.

The Group continues to review and, where appropriate, strengthen its money laundering prevention policies, procedures and training.

The Board is not aware of any material exceptions to its policies.