1. Accounting Policies

Statement of compliance

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"), equity account the Group's interest in associates and proportionately consolidate interests in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") Interpretations as adopted by the EU (together "adopted IFRS"). In publishing the parent company financial statements together with the Group financial statements, the Company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

The Group has retrospectively adopted Amendment to IAS 21 – Net Investment in a Foreign Operation, Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts, Amendment to IAS 39 – Cash Flow Hedge Accounting of Forecast Intragroup Transactions and IFRIC Interpretation 4, 'Determining whether an arrangement contains a lease'. None of these had an impact on the Group's consolidated financial statements.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of cash-settled share based payments, available-for-sale assets, and financial assets and liabilities (including derivatives) at fair value through profit or loss.

The preparation of financial statements in conformity with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to directly or indirectly govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with costs directly attributable to the acquisition. Identifiable net assets and contingent liabilities acquired are fair valued at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in the Group accounts. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Associates

Associates are all entities over which the Group has the ability to significantly influence the financial and operating policies and procedures, but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint Ventures

Interests in jointly controlled entities are recognised using proportionate consolidation whereby the Group's share of the joint venture's assets, liabilities, income and expenses are combined line by line with similar items in the Group's financial statements.

Investment in subsidiaries, associates and joint ventures

In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received, if any.

Foreign currency translation

Both the parent company financial statements and the Group financial statements are presented in US dollars, which is the presentation currency of the Group and the functional and presentation currency of the Company.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the income statement or shareholders' equity.

1. Accounting Policies continued

Group companies
The results and financial position of all the entities included in the Group financial statements that have a functional currency different from the presentation currency are accounted for as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly; and
- all resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold they are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Goodwill on acquisitions of associates is included in 'Investments in associates'. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Acquired intangibles
At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (four to sixteen years).

Computer software
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised on the basis of expected useful life (three to five years). Costs associated with maintaining software are recognised as an expense as incurred.

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated although it is subject to impairment testing. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	up to 50 years
Leasehold improvements	life of lease, up to 50 years
Equipment and motor vehicles	3 to 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are included in the income statement.

Leases

Where a Group company is the lessee
The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the group is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' with a corresponding liability to the lessor recognised in 'Other liabilities'. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

Where a Group company is the lessor
When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax and cash flows.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and balances at central banks (unless restricted), treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Employee benefits

Pension obligations
The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

1. Accounting Policies continued

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of recognised income and expense in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight-line basis. Current service costs and any past service costs, together with the unwinding of the discount on plan liabilities, offset by the expected return on plan assets, are charged to operating expenses.

Share-based compensation

The Group operates equity-settled and cash-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. For forfeitures prior to vesting attributable to factors other than failure to satisfy market-based performance conditions, the cumulative charge incurred is credited to the income statement.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued at each balance sheet date with any changes in fair value charged or credited to staff costs in the income statement.

Taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted as at the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares which carry a mandatory coupon, or which are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in other income.

Share capital

Incremental costs directly attributable to the issue of new shares or options, or to the acquisition of a business, are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

Financial assets and liabilities (excluding derivatives)

The Group classifies its financial assets in the following categories: financial assets held at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition.

1. Accounting Policies continued

(a) Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as trading unless they are designated as hedges.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis, or
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis, or
- the assets or liabilities include embedded derivatives and such derivatives are not recognised separately.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(c) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

(d) Available-for-sale

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity prices.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, financial assets held-to-maturity and available-for-sale are initially recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers. Financial assets and financial liabilities are initially recognised at fair value plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs.

Subsequent measurement

Available-for-sale financial assets and financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted financial assets or financial liabilities in active markets are based on current prices. If the market for a financial asset or financial liability is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement. Financial liabilities are derecognised when they are extinguished.

Income recognition

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised in the income statement using the effective interest method.

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, as well as any interest receivable or payable, is included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

Impairment of financial assets

Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

1. Accounting Policies continued

Impairment of financial assets continued

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process which considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Available-for-sale assets

A significant or prolonged decline in the fair value of a security below its cost is considered in determining whether an asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Derivative financial instruments and hedge accounting

Derivative contracts are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

1. Accounting Policies continued

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") remain on the balance sheet; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

Interest income and expense

Interest income and expense on available-for-sale assets and financial assets or liabilities held at amortised cost is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

Hyperinflation

Where the Group has operations in countries that experience hyperinflation, the financial statements are restated for changes in general purchasing power of the local currency.

2. Segmental Information

The Group is organised on a worldwide basis into two main business segments: Wholesale Banking and Consumer Banking. The types of products and services within these segments are set out in the Financial Review. The Group's secondary reporting format comprises geographical segments.

By Class of Business

	2006				2005			
	Consumer Banking $million	Wholesale Banking $million	Corporate items not allocated $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Corporate items not allocated $million	Total $million
Internal income**	(75)	75	–	–	(34)	34	–	–
Net interest income	3,545	1,783	–	5,328	2,916	1,419	–	4,335
Other income	1,214	2,065	13	3,292	920	1,606	–	2,526
Operating income	4,684	3,923	13	8,620	3,802	3,059	–	6,861
Operating expenses	(2,641)	(2,151)	(4)	(4,796)	(2,101)	(1,710)	–	(3,811)
Operating profit before impairment losses and taxation	2,043	1,772	9	3,824	1,701	1,349	–	3,050
Impairment (losses)/releases on loans and advances and other credit risk provisions	(721)	92	–	(629)	(425)	106	–	(319)
Other impairment	–	(15)	–	(15)	(3)	(11)	(36)	(50)
Loss from associates	–	–	(2)	(2)	–	–	–	–
Profit before taxation	1,322	1,849	7	3,178	1,273	1,444	(36)	2,681
Total assets employed	88,538	176,971	*538	266,047	74,134	140,464	*498	215,096
Total liabilities employed	107,141	141,441	*68	248,650	79,008	123,472	*283	202,763
Total risk weighted assets and contingents	60,380	93,063	–	153,443	52,054	73,870	–	125,924
Other segment items:								
Capital expenditure	209	150	–	359	114	109	–	223
Depreciation	100	35	–	135	87	39	–	126
Amortisation of intangible assets	52	81	–	133	74	83	–	157

* As required by IAS 14, tax balances are not allocated.

** Internal income for 2005 has been restated as the Group refined its method for charging and allocating expense for capital in 2006. The restatement had no effect on total income. See note 52.

2. Segmental Information continued

By Geographic Segment

The Group manages its business segments on a global basis. The operations are based in nine main geographical areas. The UK is the home country of the parent.

	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	Total $million
Internal income	(14)	3	(2)	50	17	(17)	(7)	(10)	(20)	–
Net interest income	1,115	345	242	1,097	788	445	660	396	240	5,328
Fees and commissions income, net	406	159	50	152	302	204	296	160	152	1,881
Net trading income	74	56	60	64	166	101	115	91	193	920
Other operating income	34	59	21	159	111	84	6	3	14	491
Operating income	1,615	622	371	1,522	1,384	817	1,070	640	579	8,620
Operating expenses	(720)	(294)	(164)	(972)	(785)	(375)	(514)	(413)	(559)	(4,796)
Operating profit before impairment losses and taxation	895	328	207	550	599	442	556	227	20	3,824
Impairment (losses)/releases on loans and advances and other credit risk provisions	(7)	(39)	(29)	(96)	(384)	(39)	(53)	(26)	44	(629)
Other impairment	–	–	–	–	(3)	–	–	(9)	(3)	(15)
Loss from associates	–	–	–	–	(4)	–	–	–	2	(2)
Profit before taxation	888	289	178	454	208	403	503	192	63	3,178
Loans and advances to customers – average	22,859	12,976	8,671	38,986	12,261	5,876	9,531	2,397	10,415	123,972
Net interest margins (%)	2.3	1.3	2.1	1.9	3.0	3.4	3.8	5.7	0.3	2.5
Loans and advances to customers – period end	22,037	14,626	9,199	40,029	22,872	6,242	10,525	2,536	12,458	140,524
Loans and advances to banks – period end	6,474	939	161	1,753	4,462	477	1,058	387	5,353	21,064
Total assets employed*	49,831	25,393	11,846	64,159	46,874	14,382	18,112	7,792	65,904	304,293
Total risk weighted assets and contingents	23,784	13,681	5,315	35,330	24,876	8,450	13,572	3,287	28,282	156,577
Capital expenditure	78	65	3	35	49	22	37	13	57	359

* Total assets employed includes intra-group items of $38,784 million and excludes deferred tax assets of $538 million.

2. Segmental Information continued

	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	Total $million
Internal income*	21	7	6	(1)	13	(7)	5	(14)	(30)	–
Net interest income	935	270	214	826	626	337	478	380	269	4,335
Fees and commissions Income, net	352	139	60	45	225	151	234	151	138	1,495
Net trading income	101	84	44	63	165	72	89	31	120	769
Other operating income	75	14	11	24	28	40	6	5	59	262
Operating income	1,484	514	335	957	1,057	593	812	553	556	6,861
Operating expenses	(649)	(246)	(150)	(632)	(610)	(306)	(339)	(399)	(480)	(3,811)
Operating profit before impairment losses and taxation	835	268	185	325	447	287	473	154	76	3,050
Impairment (losses)/releases on loans and advances and other credit risk provisions	(117)	(43)	(30)	(61)	(49)	(50)	9	(43)	65	(319)
Other impairment	(1)	–	–	–	–	1	–	(47)	(3)	(50)
Profit before taxation	717	225	155	264	398	238	482	64	138	2,681
Loans and advances to customers – average	22,148	11,966	6,521	23,315	9,971	5,107	7,917	2,088	9,819	98,852
Net interest margin (%)	2.2	1.1	2.2	2.0	3.0	3.3	3.2	7.3	0.5	2.5
Loans and advances to customers – period end	21,584	12,541	7,613	36,037	11,210	5,017	7,348	2,251	8,576	112,177
Loans and advances to banks – period end	5,688	2,431	173	3,222	2,213	238	1,255	313	7,426	22,959
Total assets employed**	49,943	23,602	10,409	59,929	24,141	10,943	12,902	5,606	37,083	234,558
Total risk weighted assets and contingents	21,281	11,770	5,224	31,850	15,140	6,369	9,304	2,732	24,256	127,926
Capital expenditure	36	43	6	42	34	18	11	13	20	223

* Internal income by geographies has been restated as the Group has refined its methodology for charging and allocating expense for capital in 2006. The restatement has no effect on total income. See note 52.

** Total assets employed includes intra-group items of $19,960 million and excludes deferred tax assets of $498 million.

2. Segmental Information continued

Apart from the entities that have been acquired in the last two years, Group central expenses have been distributed between segments in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their risk weighted assets. In the year in which an acquisition is made the Group does not charge or allocate the benefit of the Group's capital and the distribution of central expenses is phased in over two years, based on an estimate of central management costs associated with the acquisition.

In 2006, corporate items not allocated to businesses relate to costs associated with the buyback of subordinated debt in Korea, pre-incorporation costs in China and with the gain realised on the effective part disposal of the Standard Chartered Bank branches in Pakistan as set out in note 23. Other impairment includes provisions made in respect of exposures in Zimbabwe. This was included in the geographic segmental information, but in 2005 was not fully allocated to businesses in the business segmental information.

Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.

Total risk weighted assets and contingents include $3,134 million (2005: $2,002 million) of balances which are netted in calculating capital ratios.

Capital expenditure comprises additions to property and equipment (note 25) and intangibles (note 24) including additions resulting from acquisitions.

3. Interest Income

	2006 $million	2005 $million
Balances at central banks	**29**	8
Treasury bills	**746**	469
Loans and advances to banks	**1,177**	851
Loans and advances to customers	**8,997**	6,104
Listed debt securities	**855**	525
Unlisted debt securities	**1,131**	745
Accrued on impaired assets (discount unwind)	**52**	48
	12,987	8,750

Total interest income from financial instruments held at amortised cost in 2006 is $8,738 million (2005: $6,313 million) and from financial instruments held as available-for-sale is $3,534 million (2005: $1,925 million).

4. Interest Expense

	2006 $million	2005 $million
Deposits by banks	**1,122**	643
Customer accounts:		
Current and demand accounts	**1,403**	597
Savings deposits	**164**	97
Time deposits	**3,141**	1,852
Debt securities in issue	**1,186**	703
Subordinated loan capital and other borrowed funds:		
Wholly repayable within five years	**227**	158
Other	**416**	365
	7,659	4,415

Total interest expense on financial instruments held at amortised cost in 2006 is $6,948 million (2005: $4,262 million).

5. Net Trading Income

	2006 $million	2005 $million
Gains less losses on foreign currency	**645**	613
Gains less losses on trading securities	**109**	(19)
Other trading profits	**166**	175
	920	769

6. Other Operating Income

	2006 $million	2005 $million
Other operating income includes:		
Gains less losses on disposal of available-for-sale financial assets	**190**	107
Dividend income	**77**	62
Gains arising on assets fair valued at acquisition	**106**	–
Gain on effective part disposal of Pakistan branches	**17**	–

7. Operating Expenses

	2006 $million	2005 $million
Staff costs:		
Wages and salaries	**2,278**	1,653
Social security costs	**74**	48
Other pension costs (note 35)	**166**	131
Other staff costs	**395**	313
	2,913	2,145
Premises and equipment expenses:		
Rental of premises	**215**	183
Other premises and equipment costs	**208**	167
Rental of computers and equipment	**21**	13
	444	363
General administrative expenses	**1,171**	1,020

Wages and salaries include share based payments – see note 40.

The Group employed 59,205 staff at 31 December 2006 (2005: 43,899).

The Company employed nil staff at 31 December 2006 (2005: nil). It incurred costs of $2 million (2005: $3 million).

Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 61 to 73.

Transactions with directors, officers and other related parties are disclosed in the related parties note 53 on page 140.

7. Operating Expenses continued

Auditor's remuneration

Auditor's remuneration in relation to the Group statutory audit amounts to $3.3 million (2005: $3.1 million). The following fees were payable by the Group to their principal auditor, KPMG Audit Plc and its associates (together "KPMG"):

	2006 $million	2005 $million
Audit fees for the Group statutory audit:		
Fees relating to the current year	**3.3**	3.1
Fees payable to KPMG for other services provided to the Group:		
Audit of Standard Chartered PLC subsidiaries, pursuant to legislation	**7.6**	7.7
Other services pursuant to legislation	**1.6**	3.1
Tax services	**1.0**	0.8
Services relating to information technology	**0.1**	0.1
Services relating to corporate finance transactions	**1.4**	0.4
All other services	**0.2**	0.3
Total fees payable	**15.2**	15.5

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG Audit Plc for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered PLC. It excludes amounts payable for the audit of Standard Chartered PLC's subsidiaries and amounts payable to KPMG Audit Plc's associates. These amounts have been included in 'Fees payable to KPMG for other services provided to the Group'.
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings, including comfort letters and interim reviews.
- Tax services include tax compliance services and tax advisory services.
- Services relating to information technology include advice on IT security and business continuity, and performing agreed upon IT testing procedures.
- Services related to corporate finance transactions include fees payable to KPMG for transaction related work irrespective of whether the Group is vendor or purchaser, such as acquisition due diligence and long-form reports.
- All other services include other assurance and advisory services such as translation services, ad-hoc accounting advice and review of financial models.
- Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

In addition to the above, KPMG estimate they have been paid fees of $0.2 million (2005: $0.2 million) by parties other than the Group but where the Group are connected with the contracting party and therefore may be involved in appointing KPMG. These fees arise from services such as the audit of the Group's pension schemes.

Fees payable to KPMG for non-audit services for Standard Chartered PLC are not disclosed because such fees are disclosed on a consolidated basis for the Group.

8. Depreciation and Amortisation

	2006 $million	2005 $million
Premises	**57**	53
Equipment	**78**	73
Intangibles:		
Software	**81**	125
Acquired on business combinations	**52**	32
	268	283

9. Other Impairment

	2006 $million	2005 $million
Goodwill	**–**	2
Other	**15**	48
	15	50

Other impairment mainly comprises provision for exposures in Zimbabwe.

10. Taxation

Analysis of taxation charge in the year:

	2006 $million	2005 $million
The charge for taxation based upon the profits for the year comprises:		
United Kingdom corporation tax at 30% (2005: 30%):		
Current tax on income for the year	**229**	326
Adjustments in respect of prior periods (including double taxation relief)	**(244)**	4
Double taxation relief	**(208)**	(308)
Foreign tax:		
Current tax on income for the year	**868**	671
Adjustments in respect of prior periods	**33**	(18)
Total current tax	**678**	675
Deferred tax:		
Origination/reversal of temporary differences	**146**	35
Tax on profits on ordinary activities	**824**	710
Effective tax rate	**25.9%**	26.5%

Overseas taxation includes taxation on Hong Kong profits of $166 million (2005: $131 million) provided at a rate of 17.5 per cent (2005: 17.5 per cent) on the profits assessable in Hong Kong.

The taxation charge for the year is lower than the standard rate of corporation tax in the United Kingdom, 30 per cent.

The differences are explained below:

	2006 $million	2005 $million
Profit on ordinary activities before taxation	**3,178**	2,681
Tax at 30% (2005: 30%)	**953**	804
Effects of:		
Tax free income	**(52)**	(16)
Effect of lower tax rates on overseas earnings	**(191)**	(111)
One-off adjustments on Korea branch transfer	**–**	(12)
Effect of higher tax rates on overseas earnings	**133**	–
Adjustments to tax charge in respect of previous periods	**(75)**	(16)
Other items	**56**	61
Tax on profits on ordinary activities	**824**	710

Tax recognised directly in equity:

	2006 $million	2005 $million
Current tax credit on share based payments	**18**	–
Current tax credit/(charge) on available-for-sale assets	**5**	–
Current tax credit/(charge) on instruments reclassified from debt to equity	**–**	20
Total current tax recognised in equity	**23**	20
Deferred tax credit/(charge) on available-for-sale assets	**(70)**	49
Deferred tax credit/(charge) on pensions	**(38)**	51
Deferred tax credit/(charge) on share based payments	**29**	86
Deferred tax credit/(charge) on cash flow hedges	**(25)**	–
Deferred tax on other items	**8**	29
Total deferred tax recognised in equity	**(96)**	215
Total tax recognised in equity	**(73)**	235

11. Dividends

Ordinary Equity Shares	2006 Cents per share	2006 $million	2005 Cents per share	2005 $million
Final dividend declared and paid during the period	45.06	595	40.44	524
Interim dividends declared and paid during the period	20.83	277	18.94	248
	65.89	872	59.38	772

Dividends are recorded in the period in which they are declared. Accordingly, the final dividends set out above relate to the respective prior years. The 2006 final dividend of 50.21 cents per share ($695 million) will be paid in either sterling, Hong Kong dollars or US dollars on 11 May 2007 to shareholders on the UK register of members at the close of business in the UK on 9 March 2007, and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9:00 am Hong Kong time) on 9 March 2007. It is intended that shareholders will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend will be sent to shareholders on or around 26 March 2007.

Preference Shares		2006 $million	2005 $million
Non-cumulative irredeemable preference shares:	7 3/8 per cent preference shares of £1 each*	14	14
	8 1/4 per cent preference shares of £1 each*	15	15
Non-cumulative redeemable preference shares:	8.9 per cent preference shares of $5 each	22	29
	6.409 per cent preference shares of $5 each	3	–

* Dividends on these preference shares are treated as interest expense.

12. Earnings Per Ordinary Share

	2006 Profit* $million	2006 Weighted average number of shares ('000)	2006 Per share amount cents	2005 Profit* $million	2005 Weighted average number of shares ('000)	2005 Per share amount cents
Basic earnings per ordinary share	2,253	1,332,985	169.0	1,917	1,290,916	148.5
Effect of dilutive potential ordinary shares:						
Convertible bonds	–	–		7	10,346	
Options	–	16,050		–	8,678	
Diluted earnings per share	2,253	1,349,035	167.0	1,924	1,309,940	146.9

Normalised earnings per ordinary share

The Group measures earnings per share on a normalised basis. This differs from earnings defined in IAS 33, Earnings per share. The table below provides a reconciliation.

	2006 $million	2005 $million
Profit attributable to ordinary shareholders*	2,253	1,917
Premium and costs paid on repurchase of subordinated debt	4	–
Amortisation of intangible assets arising on business combinations	52	32
Profit on sale of property, plant and equipment	(16)	–
Gain on transfer of branches	(17)	–
Pre-incorporation costs in China	4	–
Other impairment	–	42
Tax on normalised items	(5)	(7)
Normalised earnings	2,275	1,984
Normalised earnings per ordinary share	170.7c	153.7c

* The profit amounts represent the profit attributable to ordinary shareholders i.e. after the declaration of dividends payable to the holders of the non-cumulative redeemable preference shares (see note 11).

There were no ordinary shares issued after the balance sheet date that would have significantly affected the number of ordinary shares used in the above calculations had they been issued prior to the end of the balance sheet period.

13. Financial Instruments Classification Summary

Financial instruments are classified between four recognition principles: held at fair value through profit or loss (comprising trading and designated), available-for-sale, held-to-maturity and loans and receivables. The face of the balance sheet combines financial instruments that are held at their fair value and subdivided between those assets and liabilities held for trading purposes and those that the Group has elected to hold at fair value.

The Group's classification of its principal financial assets and liabilities (excluding derivatives) is summarised below:

	Trading $million	Designated at fair value through profit or loss $million	Available-for-sale $million	Loans and receivables $million	Held to-maturity $million	Total $million
Loans and advances to banks	**1,340**	**–**	**–**	**19,724**	**–**	**21,064**
Loans and advances to customers	**1,000**	**194**	**–**	**139,330**	**–**	**140,524**
Treasury bills and other eligible bills	**2,722**	**696**	**12,522**	**–**	**–**	**15,940**
Debt securities	**8,906**	**695**	**32,701**	**2,649**	**137**	**45,088**
Equity shares	**162**	**–**	**1,478**	**–**	**–**	**1,640**
Total assets at 31 December 2006	**14,130**	**1,585**	**46,701**	**161,703**	**137**	**224,256**
Loans and advances to banks	1,258	–	30	21,671	–	22,959
Loans and advances to customers	230	156	105	111,686	–	112,177
Treasury bills and other eligible bills	2,223	492	10,199	–	–	12,914
Debt securities	5,612	244	25,231	1,264	215	32,566
Equity shares	118	–	954	–	–	1,072
Total assets at 31 December 2005	9,441	892	36,519	134,621	215	181,688

	Trading $million	Designated at fair value through profit or loss $million	Amortised cost $million	Total $million
Deposits by banks	**1,286**	**603**	**26,233**	**28,122**
Customer accounts	**485**	**1,421**	**147,382**	**149,288**
Debt securities in issue	**1,514**	**1,771**	**23,514**	**26,799**
Short positions	**2,889**	**–**	**–**	**2,889**
Total liabilities at 31 December 2006	**6,174**	**3,795**	**197,129**	**207,098**
Deposits by banks	1,102	337	18,834	20,273
Customer accounts	394	614	119,931	120,939
Debt securities in issue	1,068	433	25,913	27,414
Short positions	2,345	–	–	2,345
Total liabilities at 31 December 2005	4,909	1,384	164,678	170,971

14. Financial Assets Held at Fair Value through Profit or Loss

For certain loans and advances and debt securities with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. Derivatives are recorded at fair value whereas loans and advances are usually recorded at amortised cost. To significantly reduce the accounting mismatch between fair value and amortised cost, these loans and advances and debt securities have been designated at fair value through profit or loss. The Group ensures the criteria under IFRS are met by matching the principal terms of interest rate swaps to the corresponding loan and debt security.

The changes in fair value of both the underlying loans and advances and debt securities and interest rate swaps are monitored in a similar manner to trading book portfolios.

The fair value loss on assets designated at fair value through profit or loss was $4.7 million (2005: $8 million). Of this, $0.4 million (2005: $nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was $0.4 million (2005: $nil million).

	2006			2005		
	Trading $million	Designated at fair value through profit or loss $million	Total $million	Trading $million	Designated at fair value through profit or loss $million	Total $million
Loans and advances to banks	**1,340**	**–**	**1,340**	1,258	–	1,258
Loans and advances to customers	**1,000**	**194**	**1,194**	230	156	386
Treasury bills and other eligible bills	**2,722**	**696**	**3,418**	2,223	492	2,715
Debt securities	**8,906**	**695**	**9,601**	5,612	244	5,856
Equity shares	**162**	**–**	**162**	118	–	118
	14,130	**1,585**	**15,715**	9,441	892	10,333

Debt securities

	2006 $million	2005 $million
Issued by public bodies:		
Government securities	**2,321**	1,632
Other public sector securities	**45**	–
	2,366	1,632
Issued by banks:		
Certificates of deposit	**405**	811
Other debt securities	**2,082**	1,028
	2,487	1,839
Issued by corporate entities and other issuers:		
Other debt securities	**4,748**	2,385
Total debt securities	**9,601**	5,856
Of which:		
Listed on a recognised UK exchange	**418**	537
Listed elsewhere	**2,819**	1,526
Unlisted	**6,364**	3,793
	9,601	5,856

Equity shares

	2006	2005
Listed elsewhere	**36**	–
Unlisted	**126**	118
Total equity shares	**162**	118

15. Derivative Financial Instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The types of derivatives used by the Group are set out below.

All derivatives are recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow hedging has been achieved, in which case changes in fair value go through reserves).

These tables analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

In respect of credit risk arising from the use of derivatives, the Group sets limits on net open positions. The amount of credit risk is the current positive fair value (asset) of the underlying contract. The credit risk is managed as part of the overall lending limits to banks and customers, together with potential exposures from market movements. The Group further limits its exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are not presented net in these accounts as transactions are not usually settled on a net basis.

The Derivatives and Hedging section of the Risk Review on page 47 explains the Group's risk management of derivative contracts.

Total derivatives	2006 Notional principal amounts $million	2006 Assets $million	2006 Liabilities $million	2005 Notional principal amounts $million	2005 Assets $million	2005 Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	434,569	3,805	4,165	326,053	5,392	5,884
Currency swaps and options	295,845	4,698	4,793	175,121	351	487
	730,414	8,503	8,958	501,174	5,743	6,371
Interest rate derivative contracts:						
Swaps	653,283	4,353	4,348	471,652	3,452	3,239
Forward rate agreements and options	94,244	138	195	68,015	72	160
Exchange traded futures and options	260,182	42	47	117,026	43	27
	1,007,709	4,533	4,590	656,693	3,567	3,426
Credit derivative contracts	22,195	49	70	9,374	45	52
Equity and stock index options	699	18	44	379	3	3
Commodity derivative contracts	2,469	51	41	4,642	12	12
Total derivatives	1,763,486	13,154	13,703	1,172,262	9,370	9,864
Effect of netting		(6,425)			(4,859)*	
Net credit risk on derivatives		6,729			4,511	

* Restated to present on a consistent basis.

15. Derivative Financial Instruments continued

The Group uses derivatives primarily to mitigate interest rate and foreign exchange risk. Hedge accounting is applied to derivatives and hedged items when the criteria under IFRS have been met. The table below lists the types of derivatives that have achieved hedge accounting with the following two categories:

Fair value hedges

The Group uses interest rate swaps to manage fixed rates of interest. The swaps exchange fixed rate for floating rates on funding to match floating rates received on assets, or exchanges fixed rates on assets to match the floating rates paid on funding. For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss.

Cash flow hedges

The Group uses swaps to manage the variability in future interest cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies. Gains and losses arising on the hedges are deferred in equity until the variability on the cash flow affects profit and loss, at which time the gains or losses are transferred to profit and loss. These cash flows are expected to occur over the next three years.

	2006			2005		
Derivatives held for hedging	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Derivatives designated as fair value hedges						
Swaps	10,570	589	464	6,123	368	143
	10,570	589	464	6,123	368	143
Derivatives designated as cash flow hedges						
Swaps	5,596	17	21	3,581	–	24
Forward foreign exchange contracts	921	61	2	802	4	23
	6,517	78	23	4,383	4	47
Total derivatives held for hedging	17,087	667	487	10,506	372	190

16. Loans and Advances to Banks

	2006 $million	2005 $million
Loans and advances to banks	**21,074**	22,982
Individual impairment provision (note 19)	**(9)**	(22)
Portfolio impairment provision (note 19)	**(1)**	(1)
	21,064	22,959
Of which: loans and advances held at fair value through profit or loss (note 14)	**(1,340)**	(1,258)
	19,724	21,701

17. Loans and Advances to Customers

	2006 $million	2005 $million
Loans and advances to customers	**142,702**	113,908
Individual impairment provision (note 19)	**(1,569)**	(1,364)
Portfolio impairment provision (note 19)	**(609)**	(367)
	140,524	112,177
Of which: loans and advances held at fair value through profit or loss (note 14)	**(1,194)**	(386)
	139,330	111,791

The Group has transferred to third parties by way of securitisation the rights to any collections of principal and interest on customer loan assets with a face value of $3,935 million (2005: $65 million). The Group continues to be exposed to related credit and foreign exchange risk on these assets. The Group continues to recognise these assets in addition to the proceeds and related liability of $3,519 million (2005: $65 million) arising from the securitisations.

During 2006 the Group has entered into collateralised loan obligations over $5.6 billion of loans and advances to customers (2005: $2 billion). The assets remain on the Group's balance sheet and the Group continues to be exposed to the related risks on these assets. The Group's exposure to credit risk is concentrated in Hong Kong, Korea, Singapore and the Other Asia Pacific region. The Group is affected by the general economic conditions in the territories in which it operates. The Group sets limits on the exposure to any counterparty, and credit risk is spread over a variety of different personal and commercial customers. The Group has outstanding residential mortgage loans to Korea residents of $24.0 billion (2005: $22.5 billion) and Hong Kong residents of approximately $11.2 billion (2005: $12.1 billion).

The following tables show loans and advances to customers by each principal category of borrower's business or industry:

	2006			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	**4,817**	**10,376**	**34,559**	**49,752**
Other	**8,787**	**6,506**	**2,114**	**17,407**
Small and medium enterprises	**6,592**	**3,242**	**2,483**	**12,317**
Consumer Banking	**20,196**	**20,124**	**39,156**	**79,476**
Agriculture, forestry and fishing	**637**	**63**	**93**	**793**
Construction	**943**	**115**	**14**	**1,072**
Commerce	**8,972**	**549**	**46**	**9,567**
Electricity, gas and water	**760**	**331**	**610**	**1,701**
Financing, insurance and business services	**9,255**	**2,063**	**669**	**11,987**
Governments	**6,759**	**117**	**121**	**6,997**
Mining and quarrying	**1,836**	**231**	**428**	**2,495**
Manufacturing	**13,844**	**2,337**	**1,807**	**17,988**
Commercial real estate	**1,974**	**1,308**	**14**	**3,296**
Transport, storage and communication	**2,016**	**1,259**	**850**	**4,125**
Other	**1,069**	**274**	**293**	**1,636**
Wholesale Banking	**48,065**	**8,647**	**4,945**	**61,657**
Portfolio impairment provision				**(609)**
				140,524

17. Loans and Advances to Customers continued

	2005			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	4,756	9,598	29,717	44,071
Other	8,352	4,666	1,572	14,590
Small and medium enterprises	5,883	1,687	1,921	9,491
Consumer Banking	18,991	15,951	33,210	68,152
Agriculture, forestry and fishing	546	81	19	646
Construction	602	99	12	713
Commerce	6,518	481	78	7,077
Electricity, gas and water	684	198	680	1,562
Financing, insurance and business services	6,552	1,706	628	8,886
Governments	4,507	197	170	4,874
Mining and quarrying	699	216	213	1,128
Manufacturing	8,477	2,068	798	11,343
Commercial real estate	2,433	974	73	3,480
Transport, storage and communication	1,544	872	974	3,390
Other	888	354	51	1,293
Wholesale Banking	33,450	7,246	3,696	44,392
Portfolio impairment provision				(367)
				112,177

18. Asset Leased to Customers

	2006 $million	2005 $million
Finance leases	**639**	298
Instalment credit agreements	**1,019**	851
	1,658	1,149

Assets leased to customers are included in loans and advances to customers.

The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to $720 million (2005: $201 million).

	2006 $million	2005 $million
Minimum lease receivables under finance leases falling due:		
Within one year	**88**	73
Later than one year and less than five years	**496**	266
After five years	**157**	23
	741	362
Interest income relating to future periods	**(102)**	(64)
Present value of finance lease receivables	**639**	298

19. Impairment Provisions on Loans and Advances

	2006 Total $million	2005 Total $million
At 1 January	**1,754**	1,782
Exchange translation differences	**74**	(25)
Acquisitions	**706**	407
Amounts written off/recoveries on acquisition fair values	**(1,068)**	(871)
Recoveries of amounts previously written off	**128**	153
Discount unwind	**(52)**	(48)
Other	**12**	24
New provisions	**1,131**	915
Recoveries/provisions no longer required	**(497)**	(583)
Net charge against profit*	**634**	332
Provisions held at 31 December**	**2,188**	1,754

* The net charge of $634 million (2005: $332 million) comprises $604 million (2005: $255 million) individual impairment charge and $30 million (2005: $77 million) portfolio impairment charge. It excludes provision releases of $11 million (2005: $13 million) for credit commitments and other provisions (note 34) and impairment charges of $6 million (2005: $nil million) relating to debt securities designated as loans and receivables (note 21).

** The provision of $2,188 million held at 31 December 2006 (2005: $1,754 million) comprises $1,578 million (2005: $1,386 million) individual impairment provision and $610 million (2005: $368 million) portfolio impairment provision.

The following table shows specific provisions by each principal category of borrowers' business or industry:

	2006 $million	2005 $million
Loans to individuals		
Mortgages	**132**	107
Other	**226**	70
Small and medium enterprises	**486**	351
Consumer Banking	**844**	528
Agriculture, forestry and fishing	**23**	32
Construction	**4**	24
Commerce	**169**	129
Electricity, gas and water	**6**	16
Financing, insurance and business services	**20**	105
Mining and quarrying	**36**	26
Manufacturing	**411**	355
Commercial real estate	**12**	16
Transport, storage and communication	**31**	53
Other	**13**	80
Wholesale Banking	**725**	836
Individual impairment provision against loans and advances to customers (note 17)	**1,569**	1,364
Individual impairment provision against loans and advances to banks (note 16)	**9**	22
Portfolio impairment provision (note 16, 17)	**610**	368
Total impairment provisions on loans and advances	**2,188**	1,754

20. Non-Performing Loans and Advances

	2006 $million	2005 $million
Non-performing loans and advances	**2,779**	2,694
Impairment provisions	**(2,188)**	(1,754)
	591	940

Net non-performing loans and advances comprises loans and advances to banks $9 million (2005: $24 million) and loans and advances to customers $582 million (2005: $916 million).

Impairment provisions cover 79 per cent of non-performing lending to customers (2005: 65 per cent).

Impairment provisions for 2006 include $610 million (2005: $368 million) of portfolio impairment provision.

21. Investment Securities

	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Total $million
Treasury and other eligible bills	**–**	**12,522**	**–**	**12,522**
Debt securities	**137**	**32,701**	**2,649**	**35,487**
Equity shares	**–**	**1,478**	**–**	**1,478**
At 31 December 2006	**137**	**46,701**	**2,649**	**49,487**
Treasury and other eligible bills	–	10,199	–	10,199
Debt securities	215	25,231	1,264	26,710
Equity shares	–	954	–	954
At 31 December 2005	215	36,384	1,264	37,863

	2006					
	Debt Securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	**137**	**10,379**	**–**			
Other public sector securities	**–**	**1,403**	**–**			
	137	**11,782**	**–**			
Issued by banks:						
Certificates of deposit	**–**	**8,433**	**2,280**			
Other debt securities	**–**	**9,505**	**178**			
	–	**17,938**	**2,458**			
Issued by corporate entities and other issuers:						
Other debt securities	**–**	**2,981**	**191**			
Total debt securities	**137**	**32,701**	**2,649**			
Listed on a recognised UK exchange	**–**	**6,679**	**–**	**38**	**–**	**6,717**
Listed elsewhere	**113**	**10,183**	**132**	**795**	**7,027**	**18,250**
Unlisted	**24**	**15,839**	**2,517**	**645**	**5,495**	**24,520**
	137	**32,701**	**2,649**	**1,478**	**12,522**	**49,487**
Market value of listed securities	**109**	**16,862**	**130**	**833**	**7,027**	**24,961**

Equity shares largely comprises investments in corporates.

21. Investment Securities continued

	2005					
	Debt Securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	215	8,618	–			
Other public sector securities	–	1,418	–			
	215	10,036	–			
Issued by banks:						
Certificates of deposit	–	6,330	–			
Other debt securities	–	5,973	–			
	–	12,303	–			
Issued by corporate entities and other issuers:						
Other debt securities	–	2,892	1,264			
	–	2,892	1,264			
Total debt securities	215	25,231	1,264			
Listed on a recognised UK exchange	–	5,944	–	23	–	5,967
Listed elsewhere	3	6,776	–	235	7,005	14,019
Unlisted	212	12,511	1,264	696	3,194	17,877
	215	25,231	1,264	954	10,199	37,863
Market value of listed securities	3	12,720	–	258	7,005	19,986

The change in the carrying book amount of investment securities comprised:

	2006				2005			
	Debt securities $million	**Equity shares $million**	**Treasury bills $million**	**Total $million**	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million
At 1 January	**26,710**	**954**	**10,199**	**37,863**	27,598	292	3,938	31,828
Exchange translation differences	**949**	**9**	**528**	**1,486**	(1,026)	1	(154)	(1,179)
Acquisitions	**1,145**	**21**	**842**	**2,008**	2,327	289	5,622	8,238
Additions	**47,411**	**328**	**23,376**	**71,115**	33,655	658	13,443	47,756
Transfers	**–**	**–**	**–**	**–**	35	(35)	–	–
Maturities and disposals	**(40,909)**	**(337)**	**(22,650)**	**(63,896)**	(35,748)	(351)	(12,599)	(48,698)
Provisions	**(6)**	**(4)**	**(16)**	**(26)**	1	(1)	(33)	(33)
Changes in fair value	**142**	**510**	**28**	**680**	(107)	104	(29)	(32)
Amortisation of discounts and premiums	**45**	**(3)**	**215**	**257**	(25)	(3)	11	(17)
At 31 December	**35,487**	**1,478**	**12,522**	**49,487**	26,710	954	10,199	37,863

Treasury bills and other eligible bills include $393 million (2005: $2,347 million) of bills sold subject to sale and repurchase transactions.

Debt securities include $896 million (2005: $811 million) of securities sold subject to sale and repurchase transactions.

At 31 December 2006, unamortised premiums on debt securities held for investment purposes amounted to $39 million (2005: $59 million) and unamortised discounts amounted to $112 million (2005: $41 million).

Income from listed equity shares amounted to $4 million (2005: $32 million) and income from unlisted equity shares amounted to $73 million (2005: $30 million).

22. Investments in Subsidiary Undertakings, Joint Ventures and Associates

	2006 $million	2005 $million
At 1 January 2006	**7,973**	4,292
Additions	**2,683**	3,681
Redemption of capital	**(1,000)**	–
At 31 December 2006	**9,656**	7,973

At 31 December 2006, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital
Standard Chartered Bank, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100%
Standard Chartered First Bank Korea Limited, Korea	Korea	100%
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100%
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	99.0%
Hsinchu International Bank, Taiwan	Taiwan	96.2%
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	100%
Standard Chartered Bank (Thai) Public Company Limited, Thailand*	Thailand	99.97%
Standard Chartered Capital Management (Jersey) LLC, United States	United States	100%
Standard Chartered Receivables (UK) Limited, England and Wales	United Kingdom	100%
Standard Chartered Financial Investments Limited, England and Wales	United Kingdom	100%
Standard Chartered Debt Trading Limited, England and Wales	Hong Kong	100%

* Formerly Standard Chartered Nakornthon Bank Public Company Limited.

Details of all Group companies will be filed with the next annual return of the Company.

Joint venture

The Group has an interest through a joint venture company which holds a majority investment in PT Bank Permata Tbk ("Permata"), in Indonesia. The Group proportionately consolidates its share of the assets, liabilities, income and expense of Permata line by line. On 5 September 2006, the Group acquired an additional 12.96 per cent for a consideration of $98 million, increasing its share to 44.51 per cent (2005: 31.55 per cent) and generating goodwill of $57 million. Contingent liabilities set out in note 44, include $24 million (2005: $11 million) relating to this joint venture arrangement. These mainly comprise banking guarantees and irrevocable letters of credit.

There are no capital commitments related to the Group's investment in Permata.

Related party transactions are disclosed in note 53.

The following amounts have been included in the consolidated accounts of the Group:

	2006 $million	2005 $million
Total assets	**2,021**	1,231
Total liabilities	**(1,661)**	(1,032)
	360	199
Income	**100**	69
Expenses	**(73)**	(62)
Impairment	**(17)**	2
Operating profit	**10**	9
Tax	**(2)**	(2)
Share of post tax result from joint venture	**8**	7

22. Investments in Subsidiary Undertakings, Joint Ventures and Associates continued

Interests in associates

	2006 $million	2005 $million
At 1 January	128	–
Additions	90	128
At 31 December	218	128
Loss for the year	2	–
Total assets	355	128
Total liabilities	216	–
	139	128

On 15 August 2005, the Group contributed $128 million to the establishment of China Bohai Bank. The Group's investment is less than 20 per cent but is considered to be an associate because of the significant influence the Group is able to exercise over the management and financial and operating polices. Bohai commenced operation in 2006 and as such there was no share of income and expenses for 2005.

In January 2006, the Group issued 3,401,290 ordinary shares to acquire 20 per cent of Fleming Family & Partners Limited for $82 million.

In October 2006 the Group acquired 25 per cent of First Africa Holdings Limited at a cost of $5.4 million.

The reporting dates of these associates are within three months of the Group's reporting date.

23. Business Combinations

2006 acquisitions

On 5 September 2006, the Group acquired 95.4 per cent of the share capital of Union Bank Limited ("Union"), a large banking group in Pakistan. The acquired business contributed operating income of $51 million and profit before tax of $7 million to the Group for the period from 6 September 2006 to 30 December 2006.

	$million
Details of net assets acquired and goodwill are as follows:	
Purchase consideration:	
– cash paid	487
– direct costs relating to the acquisition	2
Total purchase consideration	489
Fair value of net assets acquired	83
Goodwill	406

On 30 December 2006, the business and assets of the Standard Chartered Bank branches in Pakistan were transferred into a new entity, Standard Chartered (Pakistan) Limited, the acquiring entity of Union. A share swap was effected for the minority shareholders of Union to swap their Union holdings into those of Standard Chartered (Pakistan) Limited, following which the Group's shareholding increased to 99.0 per cent. Additional goodwill of $17 million was generated as a result of this share swap.

The goodwill is attributable to the significant synergies expected to arise from the development of Union within the Standard Chartered Group and to those intangibles, such as the branch network, which are not recognised separately.

23. Business Combinations continued

The assets and liabilities arising from the acquisition are as follows:

	Fair value $million	Acquiree's carrying amount $million
Cash and balances at central banks*	148	148
Loans and advances to banks	104	104
Loans and advances to customers	1,128	1,206
Investment securities	404	411
Intangibles other than goodwill	55	3
Property, plant and equipment	45	28
Deferred tax assets	40	1
Other assets	48	61
Total assets	1,972	1,962
Deposits by banks	425	425
Customer accounts	1,320	1,309
Other liabilities	97	96
Subordinated liabilities and other borrowed funds	40	41
Total liabilities	1,882	1,871
Minority interest	7	7
Net assets acquired	83	84
Purchase consideration settled in cash	489	
Cash and cash equivalents in subsidiary acquired	(164)	
Cash outflow on acquisition	325	

* Cash and balances at central banks include amounts subject to regulatory restrictions.

The fair value amounts contain some provisional balances which will be finalised within 12 months of the acquisition date.

The intangible assets acquired as part of the acquisition of Union can be analysed as follows:

	$million
Brand names	6
Customer relationships	13
Core deposits	33
Capitalised software	3
Total	55

23. Business Combinations continued

On 29 September 2006, the Group launched a tender offer for Hsinchu International Bank ("Hsinchu") a banking group in Taiwan and through this acquired 95.4 per cent of the share capital. The effective date of the acquisition, being the date the Group acquired a controlling interest, was 19 October 2006. Subsequent to this, the Group acquired a further 0.8 per cent through share purchase to take its overall share to 96.2 per cent at 31 December 2006. The acquired business contributed operating income of $80 million and profit before tax of $27 million to the Group for the period from 19 October 2006 to 31 December 2006.

	$million
Details of net assets acquired and goodwill are as follows:	
Purchase consideration:	
– cash paid through tender	1,176
– cash paid for subsequent purchases	15
– direct costs relating to the acquisition	10
Total purchase consideration	1,201
Fair value of net assets acquired	253
Goodwill	948

The goodwill is attributable to the significant synergies expected to arise from the development of Hsinchu within the Standard Chartered Group and those intangibles such as its extensive branch network and the workforce in place, with Mandarin speaking capabilities, which are not recognised separately.

The assets and liabilities arising from the acquisition are as follows:

	Fair value $million	Acquiree's carrying amount $million
Cash and balances at central banks*	481	481
Loans and advances to banks	440	440
Loans and advances to customers	9,245	9,352
Investment securities	1,604	1,609
Intangibles other than goodwill	122	–
Financial assets held at fair value through profit or loss	563	563
Property, plant and equipment	286	307
Deferred tax assets	144	140
Other assets	212	213
Total assets	13,097	13,105
Deposits by banks	988	988
Customer accounts	10,709	10,709
Debt securities in issue	532	532
Other liabilities	60	57
Subordinated liabilities and other borrowed funds	545	545
Total liabilities	12,834	12,831
Minority interest	10	10
Net assets acquired	253	264
Purchase consideration settled in cash	1,201	
Cash and cash equivalents in subsidiary acquired	(589)	
Cash outflow on acquisition	612	

* Cash and balances at central banks include amounts subject to regulatory restrictions.

Due to the proximity of the acquisition to the year-end the fair value amounts contain some provisional balances which will be finalised within 12 months of the acquisition date.

23. Business Combinations continued

The intangible assets acquired as part of the acquisition of Hsinchu can be analysed as follows:

	$million
Brand names	24
Customer relationships	43
Core deposits	55
Total	122

If the acquisitions of Union and Hsinchu had occurred on 1 January 2006, the operating income of the Group (excluding the income relating to the incremental stake acquired in Permata) would have been approximately $8,974 million, with contributions of $141 million from Union Bank and $360 million from Hsinchu, and profit before taxation (excluding the profit relating to the incremental stake acquired in Permata) would have been approximately $3,053 million, with Union contributing $38 million and Hsinchu a loss of $125 million.

2005 acquisitions

On 15 April 2005, the Group acquired 100 per cent of the share capital of Korea First Bank (now called SC First Bank), a major banking group in the Republic of Korea (South Korea). The acquired business contributed operating income of $859 million and profit before tax of $227 million to the Group for the period from 15 April 2005 to 31 December 2005.

If the acquisition had occurred on 1 January 2005, SCFB would have added approximately $1,150 million to Group operating income and $300 million to profit before tax for the period.

	$million
Details of net assets acquired and goodwill are as follows:	
Purchase consideration:	
– cash paid	3,338
– direct costs relating to the acquisition	35
Total purchase consideration	3,373
Fair value of net assets acquired	1,635
Goodwill	1,738

The goodwill is attributable to the significant synergies expected to arise from the development of SCFB within the Standard Chartered Group and those intangibles, such as workforce in place, which are not recognised separately.

23. Business Combinations continued

The assets and liabilities arising from the acquisition are as follows:

	Fair value $million	Acquiree's carrying amount $million
Cash and balances at central banks*	2,321	2,321
Derivative financial instruments	27	27
Loans and advances to banks	890	890
Loans and advances to customers	31,455	31,983
Investment securities	8,153	8,139
Intangibles other than goodwill	229	58
Property, plant and equipment	1,088	1,109
Deferred tax assets	97	15
Other assets	887	884
Total assets	45,147	45,426
Deposits by banks	2,782	2,782
Customer accounts	18,923	19,328
Financial liabilities held at fair value through profit or loss	121	–
Derivative financial instruments	240	240
Debt securities in issue	16,871	17,243
Other liabilities	2,962	2,239
Subordinated liabilities and other borrowed funds	1,280	1,514
Total liabilities	43,179	43,346
Minority interest	333	298
Net assets acquired	1,635	1,782
Purchase consideration settled in cash	3,373	
Cash and cash equivalents in subsidiary acquired	(2,378)	
Cash outflow on acquisition	995	

* Cash and balances at central banks include amounts subject to regulatory restrictions.

The fair value amounts have been finalised in the 2006 accounts.

The intangible assets acquired as part of the acquisition on SCFB can be analysed as follows:

	$million
Brand names	86
Customer relationships	24
Core deposits	91
Capitalised software	28
Total	229

During 2005, the Group acquired a further 24.97 per cent of Standard Chartered Bank (Thai) Public Company Limited in Thailand for $98 million giving rise to goodwill of $64 million, and other businesses giving rise to negative goodwill of $6 million, which has been recognised through the Consolidated Income Statement.

24. Goodwill and Intangible Assets

	2006				2005			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	4,451	218	462	5,131	2,643	–	466	3,109
Exchange translation differences	212	18	19	249	8	2	(3)	7
Acquisitions	1,428	179	9	1,616	1,802	216	28	2,046
Additions	–	25	89	114	–	–	88	88
Disposals	–	–	(18)	(18)	–	–	(14)	(14)
Amounts written off	–	–	(99)	(99)	(2)	–	(103)	(105)
Other movements	–	(1)	(4)	(5)	–	–	–	–
At 31 December	6,091	439	458	6,988	4,451	218	462	5,131
Provision for amortisation								
At 1 January	514	32	264	810	514	–	242	756
Exchange translation differences	–	4	8	12	–	–	(2)	(2)
Amortisation for the period	–	52	81	133	–	32	125	157
Disposals	–	–	(17)	(17)	–	–	(4)	(4)
Amounts written off	–	–	(96)	(96)	–	–	(97)	(97)
At 31 December	514	88	240	842	514	32	264	810
Net book value	5,577	351	218	6,146	3,937	186	198	4,321

At 31 December 2006, accumulated goodwill impairment losses incurred from 1 January 2004 amounted to $69 million (2005: $69 million).

	$million
Acquired intangibles comprises:	
Core deposits	148
Customer relationships	90
Brand names	109
Licences	4
	351

Acquired intangibles primarily comprise those recognised as part of the acquisitions of SCFB, PT Bank Permata Tbk, Union Bank and Hsinchu. The acquired intangibles are amortised over periods from four years to a maximum of 16 years in the case of the customer relationships intangible acquired in SCFB.

24. Goodwill and intangible assets continued

Significant items of goodwill arising on acquisitions have been allocated to the following cash generating units for the purposes of impairment testing:

Acquisition	Cash Generating Unit	Goodwill $million
SCFB	Korean business	**1,913**
Union	Pakistan business	**422**
Hsinchu	Taiwan business	**965**
Manhattan Card Business	Credit card and personal loan – Asia, India & MESA	**894**
Grindlays (India)	India business	**377**
Grindlays (MESA)	MESA business	**368**
SC (Thai)	Thailand business	**291**
Permata	Group's share of Permata	**171**
Other		**176**
		5,577

All recoverable amounts were measured based on value in use. The key assumptions and approach to determining value in use calculations, as set out below, are solely estimates for the purposes of assessing impairment on acquired goodwill. The calculation for each unit uses cash flow projections based on budgets and forecasts approved by management covering one year, except for Hsinchu (two years) and Permata (five years). These are then extrapolated for periods of up to a further 19 years using steady GDP growth rates. Where these rates are different from available market data on long-term rates, that fact is stated below. Management believes that any reasonable possible change in the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

SCFB

SCFB was acquired in April 2005 with initial goodwill recognised of $1,738 million. The business comprises Consumer and Wholesale Banking operations in Korea.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Korea. A discount rate of 13.1 per cent was used.

Union

Union was acquired in September 2006 with initial goodwill recognised of $406 million. Additional goodwill of $17 million arose as a result of a share swap. The business comprises Consumer and Wholesale Banking operations in Pakistan.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Pakistan. A pre-tax discount rate of 24.8 per cent was used.

Hsinchu

Hsinchu was acquired in October 2006 with initial goodwill recognised of $948 million. The business comprises Consumer and Wholesale Banking operations in Taiwan.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Taiwan. A pre-tax discount rate of 15.2 per cent was used.

Manhattan Card Business

Manhattan Card Business was acquired in 2000 with initial goodwill recognised of $1,061 million. This was amortised to $892 million under UK GAAP until 31 December 2003. The business comprises a credit card business and a personal loans business across Asia, India and MESA.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast global GDP growth. A discount rate of 13.6 per cent was used.

Grindlays (India)

Grindlays (India) was acquired in 2000 with initial goodwill recognised of $446 million. This was amortised to $366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in India.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of India. A discount rate of 25.8 per cent was used.

Grindlays (MESA)

Grindlays (MESA) was acquired in 2000 with initial goodwill recognised of $446 million. This was amortised to $366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in MESA.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long term forecast GDP growth of MESA. A discount rate of 18.5 per cent was used.

SC (Thai)

75 per cent of SC Thai (formerly SC Nakornthon) was acquired in 1999 with initial goodwill recognised of $222 million. This was amortised to $204 million under UK GAAP until 31 December 2003. In 2005 the Group acquired the remaining 25 per cent, increasing goodwill to $272 million. The business comprises Consumer and Wholesale Banking operations in Thailand.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long term forecast GDP growth of Thailand. A discount rate of 18.7 per cent was used.

Permata

31.55 per cent of Permata was acquired in 2004 with initial goodwill recognised of $115 million. A further 12.96 per cent was acquired in September 2006 with goodwill of $57 million. This business comprises Consumer and Wholesale Banking operations in Indonesia.

In assessing impairment of goodwill, the Group assumed that growth would increase at a steady rate in line with the long-term forecast GDP growth of Indonesia. A discount rate of 20.0 per cent was used.

25. Property, Plant and Equipment

	2006			2005		
	Premises $million	Equipment $million	Total $million	Premises $million	Equipment $million	Total $million
Cost or valuation						
At 1 January	1,694	414	2,108	653	337	990
Exchange translation differences	106	10	116	–	(6)	(6)
Additions	146	99	245	70	65	135
Acquisitions	288	47	335	1,052	36	1,088
Disposals and fully depreciated assets written off	(47)	(64)	(111)	(26)	(66)	(92)
Other	(3)	3	–	(55)	48	(7)
At 31 December	2,184	509	2,693	1,694	414	2,108
Depreciation						
Accumulated at 1 January	177	287	464	180	255	435
Exchange translation differences	6	7	13	(4)	(6)	(10)
Charge for the year	57	78	135	53	73	126
Attributable to assets sold or written off	(25)	(62)	(87)	(22)	(62)	(84)
Other	–	–	–	(30)	27	(3)
Accumulated at 31 December	215	310	525	177	287	464
Net book amount at 31 December	1,969	199	2,168	1,517	127	1,644

Assets held under finance leases have the following net book amount:

	2006		2005	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Cost	47	4	48	7
Aggregate depreciation	(4)	(2)	(3)	(5)
Net book amount	43	2	45	2

The Group's premises leases include rent review periods, renewal terms and in some cases purchase options.

	2006 $million	2005 $million
Minimum lease payments under finance leases falling due:		
Within one year	1	1
Later than one year and less than five years	2	2
After five years	–	–
	3	3
Future finance charges on finance leases	–	–
Present value of finance lease liabilities	3	3

26. Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the reporting period.

	At 1 January 2006 $million	Exchange & other adjustments $million	Acquisitions $million	Charge to profit $million	Charge to equity $million	At 31 December 2006 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(34)	30	(10)	4	–	(10)
Impairment provisions on loans and advances	(185)	(27)	(111)	160	–	(163)
Tax losses carried forward	(7)	–	(37)	(24)	–	(68)
Available-for-sale assets	(32)	(2)	–	–	70	36
Premises revaluation	12	–	(4)	5	–	13
Cash flow hedges	(1)	–	–	–	25	24
Unrelieved foreign tax	–	–	–	(76)	–	(76)
Retirement benefit obligations	(160)	(12)	(9)	(8)	38	(151)
Share based payments	(101)	–	–	(1)	(29)	(131)
Other temporary differences	10	(40)	(60)	86	(8)	(12)
	(498)	(51)	(231)	146	96	(538)

	At 1 January 2005 $million	Exchange translation differences $million	Acquisitions $million	Charge to profit $million	Credit to equity $million	At 31 December 2005 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(5)	–	(17)	(12)	–	(34)
Impairment provisions on loans and advances	(128)	(3)	(53)	(1)	–	(185)
Tax losses carried forward	(9)	–	–	2	–	(7)
Available-for-sale assets	9	–	8	–	(49)	(32)
Premises revaluation	12	–	–	–	–	12
Cash flow hedges	(1)	–	–	–	–	(1)
Unrelieved foreign tax	(21)	–	–	21	–	–
Retirement benefit obligations	(46)	(1)	(47)	(15)	(51)	(160)
Share based payments	(7)	–	–	(8)	(86)	(101)
Other temporary differences	(22)	1	12	48	(29)	10
	(218)	(3)	(97)	35	(215)	(498)

	2006 $million	2005 $million
No account has been taken of the following potential deferred taxation assets/(liabilities):		
Unrelieved foreign tax	222	239
Unremitted earnings from overseas subsidiaries	(282)	(144)
Foreign exchange movements on investments in branches	(41)	33
Other	34	35

No provision is made for any tax liability which might arise on the disposal of subsidiary undertakings or branches that are foreign operations at the amounts stated in these accounts, other than in respect of disposals which are intended in the foreseeable future.

27. Other Assets

	2006 $million	2005 $million
Hong Kong SAR Government certificates of indebtedness (note 33)	**2,605**	2,492
Other	**5,996**	4,671
	8,601	7,163

The government of Hong Kong certificates of indebtedness are subordinated to the claims of other parties.

28. Deposits by Banks

	2006 $million	2005 $million
Deposits by banks	**26,233**	18,834
Deposits by banks included within:		
Financial liabilities held at fair value through profit or loss (note 30)	**1,889**	1,439
	28,122	20,273

29. Customer Accounts

	2006 $million	2005 $million
Customer accounts	**147,382**	119,931
Customer accounts included within:		
Financial liabilities held at fair value through profit or loss (note 30)	**1,906**	1,008
	149,288	120,939

Included in customer accounts were deposits of $1,724 million (2005: $2,640 million) held as collateral for irrevocable commitments under import letters of credit.

30. Financial Liabilities Held at Fair Value through Profit or Loss

	2006		
	Trading $million	Designated at fair value through profit or loss $million	Total $million
Deposits by banks	1,286	603	1,889
Customer accounts	485	1,421	1,906
Debt securities in issue	1,514	1,771	3,285
Short positions	2,889	–	2,889
	6,174	3,795	9,969

	2005		
	Trading $million	Designated at fair value through profit or loss $million	Total $million
Deposits by banks	1,102	337	1,439
Customer accounts	394	614	1,008
Debt securities in issue	1,068	433	1,501
Short positions	2,345	–	2,345
	4,909	1,384	6,293

The Group designates certain financial liabilities at fair value through profit or loss where either the liabilities:

- have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered into with the intention of significantly reducing interest rate risk, or
- are exposed foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes, or
- have been acquired to fund trading asset portfolios or assets, or where the assets and liabilities are managed, and performance evaluated, on a fair value basis for a documented risk management or investment strategy.

Derivatives are recorded at fair value whereas non-trading financial liabilities (unless designated at fair value) are recorded at amortised cost. Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost expense recognition (a criterion of IFRS). The Group ensures the criteria under IFRS are met by matching the principal terms of derivatives to the corresponding liabilities, either individually or on a portfolio basis.

The changes in fair value of both the underlying liabilities and derivatives are monitored in a similar manner to trading book portfolios.

The fair value loss on liabilities designated at fair value through profit or loss was $31.2 million for the year (2005: $12 million gain). Of this, $3.7 million (2005: $1.7 million gain) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was $5.4 million (2005: $1.9 million).

As at December 2006, the difference between the carrying amount at fair value and the amount the Group is contractually obliged to pay at maturity to the holders of the obligations was $67.7 million (2005: $34.1 million).

31. Debt Securities in Issue

	2006			2005		
	Certificates of deposit of $100,000 or more $million	Other debt securities in issue $million	Total $million	Certificates of deposit of $100,000 or more $million	Other debt securities in issue $million	Total $million
Debt securities in issue	10,939	12,575	23,514	14,179	11,734	25,913
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 30)	1,154	2,131	3,285	201	1,300	1,501
	12,093	14,706	26,799	14,380	13,034	27,414

32. Structure of deposits

The following tables set out the structure of the Group's deposits by principal geographic region where it operates at 31 December 2006 and 31 December 2005.

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	Total $million
Non interest bearing current and demand accounts	3,320	1,722	1,435	163	2,123	2,082	3,654	1,649	894	17,042
Interest bearing current and demand accounts	16,894	2,964	261	15,263	5,456	5	1,300	1,136	5,529	48,808
Savings deposits	10	1,857	741	11	11,089	1,451	1,685	449	–	17,293
Time deposits	18,961	9,754	5,211	16,682	12,293	4,073	6,901	1,575	13,574	89,024
Other deposits	14	7	750	1,756	1,507	241	568	140	260	5,243
Total	39,199	16,304	8,398	33,875	32,468	7,852	14,108	4,949	20,257	177,410
Deposits by banks	734	1,276	597	9,297	5,869	871	1,968	323	7,187	28,122
Customer accounts	38,465	15,028	7,801	24,578	26,599	6,981	12,140	4,626	13,070	149,288
	39,199	16,304	8,398	33,875	32,468	7,852	14,108	4,949	20,257	177,410
Debt securities in issue	627	1,087	992	17,561	1,597	932	12	171	3,820	26,799
Total	39,826	17,391	9,390	51,436	34,065	8,784	14,120	5,120	24,077	204,209

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	Total $million
Non interest bearing current and demand accounts	2,998	2,001	1,120	216	1,343	1,928	2,855	1,359	473	14,293
Interest bearing current and demand accounts	12,753	2,063	148	13,554	3,612	3	1,110	1,264	4,534	39,041
Savings deposits	6	1,383	459	12	2,478	1,286	1,369	368	–	7,361
Time deposits	17,893	11,324	4,046	14,542	8,397	3,164	5,179	872	10,675	76,092
Other deposits	20	49	1,120	1,322	748	11	432	97	626	4,425
Total	33,670	16,820	6,893	29,646	16,578	6,392	10,945	3,960	16,308	141,212
Deposits by banks	627	3,641	652	4,742	3,517	676	1,893	98	4,427	20,273
Customer accounts	33,043	13,179	6,241	24,904	13,061	5,716	9,052	3,862	11,881	120,939
	33,670	16,820	6,893	29,646	16,578	6,392	10,945	3,960	16,308	141,212
Debt securities in issue	840	1,111	619	19,815	741	655	–	85	3,548	27,414
Total	34,510	17,931	7,512	49,461	17,319	7,047	10,945	4,045	19,856	168,626

33. Other Liabilities

	2006 $million	2005 $million
Notes in circulation	2,605	2,492
Cash-settled share based payments	50	26
Other liabilities	8,700	5,928
	11,355	8,446

Hong Kong currency notes in circulation of $2,605 million (2005: $2,492 million) are secured by the government of Hong Kong certificates of indebtedness of the same amount included in other assets (note 27).

34. Provisions for Liabilities and Charges

	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January 2006	43	12	55
Exchange translation differences	2	–	2
Acquired	1	–	1
(Release)/charge against profit	(5)	16	11
Provisions utilised	(9)	(11)	(20)
Other	(5)	1	(4)
At 31 December 2006	27	18	45

Provision for credit commitments comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet its repayment obligations.

35. Retirement Benefit Obligations

Retirement benefit obligations comprise:

	2006 $million	2005 $million
Defined benefit schemes obligation	460	465
Defined contribution schemes obligation	12	11
Net book amount	472	476

	2006 $million	2005 $million
At 1 January	476	169
Exchange translation differences	48	(7)
Charge against profit (net of finance income)	166	126
Change in net liability	(218)	188
At 31 December	472	476

Retirement benefit charge comprises:

	2006* $million	2005 $million
Defined benefit schemes	96	71
Defined contribution schemes	70	60
Charge against profit (note 7)	166	131

* The 2006 charge is presented net of finance charge of $6 million.

35. Retirement Benefit Obligations continued

UK Fund

The financial position of the Group's principal retirement benefit scheme, the Standard Chartered Pension Fund (the "Fund") (a defined benefit scheme), is assessed in the light of the advice of an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was performed as at 31 December 2002 by T. Cunningham, Fellow of the Institute of Actuaries, of Lane, Clark and Peacock Actuaries, using the projected unit method. A new valuation of the Fund is being carried out with an effective date of 31 December 2005. The results of the valuation were not available at the time of publication. The assumptions having the most significant effect on the outcome of this valuation were:

Return from investments held for pensioners	5.0 per cent per annum
Return from investments held for non-pensioners before retirement	6.4 per cent per annum
Return from investments held for non-pensioners after retirement	5.2 per cent per annum
General increase in salaries	4.8 per cent per annum
Increase in pensions:	
In deferment (where applicable)	2.3 per cent per annum
In payment* (pre April 1997 service)	2.3 per cent per annum
In payment (post April 1997 service)	2.3 per cent per annum

* Applies to discretionary increases and some guaranteed increases.

Applying these assumptions, at the valuation date the market value of the assets of the Fund ($1,197 million) was sufficient to cover 97 per cent of the benefits that had accrued to members (84 per cent including the allowance for discretionary benefit increases). The Group paid an additional contribution of $114 million into the Fund on 30 December 2003 to improve the financial position of the Fund. No further additional contributions were paid during 2004 and none are currently expected to be required until 1 January 2009.

Contributions payable to the Fund during 2006 totalled $19 million (2005: $11 million) and regular contributions were set at 22.5 per cent of pensionable salary for all United Kingdom (UK) employees and seconded staff, and 38.4 per cent of pensionable salary for international staff. With effect from 1 July 1998 the Fund was closed to new entrants and new employees have subsequently been offered membership of a defined contribution scheme. Due to the closure of the Fund to new entrants, the current service cost will increase as a percentage of pensionable pay as the members approach retirement.

Pension costs for the purpose of these accounts were assessed using the projected unit method, and the assumptions set out below were based on market data at the date of calculation.

Overseas Schemes

The principal overseas defined benefit arrangements operated by the Group are in Hong Kong, India, Jersey, Korea, Taiwan and the United States.

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2006. (The effective date of the full valuations ranges between 31 December 2004 and 31 December 2005.)

Separate figures are disclosed for the UK Fund, Overseas Funded Defined Benefit, Post-retirement Medical and Other Unfunded Schemes.

The financial assumptions used at 31 December 2006 were:

	Funded Defined Benefit Schemes			
	UK Fund**		Overseas Scheme*	
	2006 %	2005 %	2006 %	2005 %
Price inflation	3.00	2.80	1.5-4.5	1.5-4.5
Salary increases	4.50	5.30	3.25-5.50	3.5-5.5
Pension increases	2.90	2.70	0.00-2.90	0.00-2.70
Discount rate	5.20	4.90	2.25-8.00	2.25-7.50
Post-retirement medical trend rate	N/A	N/A	N/A	N/A

Pension increases for the UK Fund range from 2.9 per cent to 3.0 per cent. The average has been stated. Deferred pension increases for the UK Fund are assumed to be 3.0 per cent.

* The range of assumptions shown is for the main funded defined benefit overseas schemes in Hong Kong, India, Jersey, Korea, Taiwan and the United States. These comprise 92 per cent of the total liabilities of funded overseas schemes.

** The assumption for life expectancy for the UK fund assumes that a male member currently aged 60 will live for 26 years (2005: 26 years) and a female member 29 years (2005: 29 years) and a male member currently aged 40 will live for 27 years (2005: 29 years) and a female member 30 years (2005: 30 years) after their 60th birthday.

35. Retirement Benefit Obligations continued

	Unfunded Schemes			
	Post-retirement Medical*		Other	
	2006 %	2005 %	2006 %	2005 %
Price inflation	**2.70**	2.70	**2.5-7.00**	2.70-6.00
Salary increases	**4.00**	4.00	**4.00-9.00**	4.00-8.00
Pension increases	**N/A**	N/A	**0.00-2.90**	0.00-2.70
Discount rate	**6.00**	5.75	**3.00-10.50**	3.00-14.00
Post-retirement medical rate	**9% in 2006 reducing by 1% per annum to 5% in 2010**	10% in 2005 reducing by 1% per annum to 5% in 2010	**N/A**	N/A

* The Post-retirement Medical plan is in the United States.

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2006 were:

	Funded Defined Benefit Schemes				Unfunded Schemes			
	UK Fund		Overseas Schemes		Post-retirement Medical		Other	
At 31 December 2006	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million
Equities	**7.50**	**570**	**8.00-14.00**	**210**	**N/A**	**N/A**	**N/A**	**N/A**
Bonds	**4.50**	**1,144**	**4.25-8.00**	**155**	**N/A**	**N/A**	**N/A**	**N/A**
Property	**N/A**	**–**	**7.00-12.00**	**3**	**N/A**	**N/A**	**N/A**	**N/A**
Others	**4.50**	**108**	**2.50-5.10**	**149**	**N/A**	**N/A**	**N/A**	**N/A**
Total market value of assets		**1,822**		**517**		**N/A**		**N/A**
Present value of the schemes' liabilities		**(1,982)**		**(542)**		**(9)**		**(266)**
Net pension liability*		**(160)**		**(25)**		**(9)**		**(266)**

	Funded Defined Benefit Schemes				Unfunded Schemes			
	UK Fund		Overseas Schemes		Post-retirement Medical		Other	
At 31 December 2005	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million
Equities	7.75	619	7.75-12.00	162	N/A	N/A	N/A	N/A
Bonds	4.25	909	4.25-12.00	133	N/A	N/A	N/A	N/A
Property	N/A	–	7.00-12.00	2	N/A	N/A	N/A	N/A
Others	4.90	22	1.75-4.90	83	N/A	N/A	N/A	N/A
Total market value of assets		1,550		380		N/A		N/A
Present value of the schemes' liabilities		(1,785)		(403)		(11)		(196)
Net pension liability*		(235)		(23)		(11)		(196)

	Funded Defined Benefit Schemes		Unfunded Schemes	
	UK Fund	Overseas Schemes	Post-retirement Medical	Other
At 31 December 2004	Value $million	Value $million	Value $million	Value $million
Total market value of assets	1,596	317	N/A	N/A
Present value of the schemes' liabilities	(1,679)	(338)	(11)	(45)
Net pension liability*	(83)	(21)	(11)	(45)

The range of assumptions shown is for the main Overseas Schemes in Hong Kong, India, Jersey, Korea, Taiwan and the United States.

The expected return on plan assets is set by reference to historical returns in each of the main asset classes, current market indicators such as long term bond yields and the expected long term strategic asset allocation of each plan.

* No scheme contains a surplus that is non-recoverable.

35. Retirement Benefit Obligations continued

The pension cost for defined benefit schemes was:

Year ending 31 December 2006	Funded Defined Benefit Schemes UK Fund $million	Funded Defined Benefit Schemes Overseas Schemes $million	Unfunded Schemes Post-retirement Medical $million	Unfunded Schemes Other $million	Total $million
Current service cost	21	42	–	17	80
Past service cost	9	1	–	(1)	9
Loss on settlements and curtailments	1	–	–	–	1
Expected return on pension scheme assets	(93)	(23)	–	–	(116)
Interest on pension scheme liabilities	92	19	1	10	122
Total charge to profit before deduction of tax	30	39	1	26	96
Gain on assets in excess of expected return*	(23)	(27)	–	–	(50)
Experience (gain)/loss on liabilities	(90)	20	(2)	18	(54)
Total (gain)/loss recognised in Statement of Recognised Income and Expenses before tax	(113)	(7)	(2)	18	(104)
Deferred taxation	34	3	–	1	38
Total (gain)/loss after tax	(79)	(4)	(2)	19	(66)

* The actual return on the UK fund assets was $116 million and on overseas scheme assets was $50 million.

The total cumulative amount recognised in the Statement of Recognised Income and Expenses before tax to date is $51 million.

Year ending 31 December 2005	Funded Defined Benefit Schemes UK Fund $million	Funded Defined Benefit Schemes Overseas Schemes $million	Unfunded Schemes Post-retirement Medical $million	Unfunded Schemes Other $million	Total $million
Current service cost	16	41	1	14	72
Past service cost	–	–	–	–	–
Gain on settlements and curtailments	(1)	–	–	–	(1)
Expected return on pension scheme assets	(93)	(28)	–	–	(121)
Interest on pension scheme liabilities	85	24	–	7	116
Total charge to profit before deduction of tax	7	37	1	21	66
Gain on assets in excess of expected return*	(91)	(20)	–	–	(111)
Experience loss on liabilities	256	5	–	–	261
Total loss/(gain) recognised in Statement of Recognised Income and Expenses before tax	165	(15)	–	–	150
Deferred taxation	(50)	5	–	–	(45)
Total loss/(gain) after tax	115	(10)	–	–	105

* The actual return on the UK fund assets was $184 million and on overseas scheme assets was $48 million.

Year ending 31 December 2004	Funded Defined Benefit Schemes UK Fund $million	Funded Defined Benefit Schemes Overseas Schemes $million	Unfunded Schemes Post-retirement Medical $million	Unfunded Schemes Other $million	Total $million
Gain on assets in excess of expected return*	(20)	(2)	–	–	(22)
Experience gain on liabilities	–	(1)	(1)	–	(2)
Loss/(gain) on change of assumptions	23	7	–	(1)	29
Total loss/(gain) recognised in Statement of Recognised Income and Expenses before tax	3	4	(1)	(1)	5
Deferred taxation	(1)	–	–	–	(1)
Total loss/(gain) after tax	2	4	(1)	(1)	4

* The actual return on the UK fund assets was $111 million and on overseas scheme assets was $31 million.

35. Retirement Benefit Obligations continued

Movement in the pension schemes and post–retirement medical deficit during the year comprise:

	Funded Defined Benefit Schemes		Unfunded Schemes		
Year ending 31 December 2006	UK Fund $million	Overseas Schemes $million	Post-retirement Medical $million	Other $million	Total $million
Deficit at 1 January 2006	(235)	(23)	(11)	(196)	(465)
Contributions	19	51	1	11	82
Current service cost	(21)	(42)	–	(17)	(80)
Past service cost	(9)	(1)	–	1	(9)
Settlement/curtailment costs	(1)	–	–	–	(1)
Other finance income/(charge)	1	4	(1)	(10)	(6)
Actuarial (loss)/gain	113	7	2	(18)	104
Acquisitions	–	(25)	–	(12)	(37)
Exchange rate adjustment	(27)	(3)	–	(18)	(48)
Reclassifications	–	7	–	(7)	–
Deficit at 31 December 2006	(160)	(25)	(9)	(266)	(460)

	Funded Defined Benefit Schemes		Unfunded Schemes		
Year ending 31 December 2005	UK Fund $million	Overseas Schemes $million	Post-retirement Medical $million	Other $million	Total $million
Deficit at 1 January 2005	(83)	(21)	(11)	(45)	(160)
Contributions	11	49	1	11	72
Current service cost	(16)	(41)	(1)	(14)	(72)
Past service cost	–	–	–	–	–
Settlement/curtailment costs	1	–	–	–	1
Other finance income/(charge)	8	4	–	(7)	5
Actuarial (loss)/gain	(165)	15	–	–	(150)
Acquisitions	–	(28)	–	(141)	(169)
Exchange rate adjustment	9	(1)	–	–	8
Deficit at 31 December 2005	(235)	(23)	(11)	(196)	(465)

Movement in the pension schemes and post–retirement medical gross assets and obligations during the year comprise:

Year ending 31 December 2006	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2006	1,930	(2,395)	(465)
Contributions	82	–	82
Current service cost	–	(80)	(80)
Past service cost	–	(9)	(9)
Settlement/curtailment costs	–	(1)	(1)
Interest cost	–	(122)	(122)
Expected return on scheme assets	116	–	116
Benefits paid out	(119)	119	–
Actuarial gain	50	54	104
Acquisitions	48	(85)	(37)
Exchange rate adjustment	232	(280)	(48)
Deficit at 31 December 2006	2,339	(2,799)	(460)

35. Retirement Benefit Obligations continued

Year ending 31 December 2005	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2005	1,913	(2,073)	(160)
Contributions	72	–	72
Current service cost	–	(72)	(72)
Settlement/curtailment costs	–	1	1
Interest cost	–	(116)	(116)
Expected return on scheme assets	121	–	121
Benefits paid out	(98)	98	–
Actuarial (loss)/gain	111	(261)	(150)
Acquisitions	2	(171)	(169)
Exchange rate adjustment	(191)	199	8
Deficit at 31 December 2005	1,930	(2,395)	(465)

36. Subordinated Liabilities and Other Borrowed Funds

	2006 $million	2005 $million
Subordinated loan capital – issued by subsidiary undertakings		
£30 million Floating Rate Notes 2009	58	51
£300 million 6.75 per cent Notes 2009	526	476
€600 million 5.375 per cent Notes 2009	710	655
BWP 75 million Floating Rate Notes 2012	13	14
$700 million 8.0 per cent subordinated Notes 2031	724	753
€500 million 8.16 per cent non-cumulative Trust Preferred Securities (callable 2010)	674	630
£600 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities (callable 2016)	1,342	628
£200 million 7.75 per cent Step-Up Notes (callable 2022)	454	426
$350 million 4.375 per cent Notes 2014 (Floating rate from 2009)	340	340
HKD 500 million 3.5 per cent Notes 2014 (Floating rate from 2009)	63	62
HKD 670 million Floating Rate Notes 2014	80	85
€750 million 3.625 per cent (Floating rate from 2012) Subordinated Notes 2017	946	880
$500 million Floating Rate Notes 2015	499	498
$500 million Floating Rate Notes 2016	498	498
$154 million Subordinated debt 2013	148	383
$92 million Subordinated debt 2013	92	206
KRW 205 billion Subordinated debt 2009	218	200
KRW 160 billion Subordinated debt 2008	167	157
KRW 136 billion Subordinated debt 2007	146	133
KRW 104 billion Subordinated debt 2007	109	102
KRW 40 billion Subordinated debt 2006	–	40
KRW 30 billion Subordinated debt 2011	32	29
KRW 27 billion Subordinated debt 2008	29	27
BWP 50 million Fixed and Floating Rate Subordinated Notes 2015	8	9
TZS 8 billion Subordinated Notes 2015	6	7
KRW 3 billion Subordinated debt 2011	3	3
€675 million Floating Rate Notes 2018	885	–
$100 million Floating Rate Notes 2018	100	–
IDR 500 billion Floating Rate Notes 2016	24	–
PKR 750 million Floating Rate Notes 2008	11	–
PKR 750 million Floating Rate Notes 2011	12	–
PKR 1 billion Floating Rate Notes 2015	17	–
TWD 8 billion Floating Rate Notes 2007	246	–
TWD 10 billion undated Floating Rate Notes	306	–
£675 million 5.375 per cent undated step up Subordinated Notes (callable 2020)	1,252	1,156
	10,738	8,448
Subordinated loan capital – issued by Company		
Primary Capital Floating Rate Notes:		
$400 million	400	400
$300 million (Series 2)	300	300
$400 million (Series 3)	400	400
$200 million (Series 4)	200	200
£150 million	294	258
Other borrowings – issued by Company	*367	*343
	1,961	1,901
Total for Group	12,699	10,349
Total for Company	1,977	1,893

* In the balance sheet of the Company the amount recognised is $383 million (2005: $335 million) with the difference being the effect of hedge accounting achieved on a Group basis.

36. Subordinated Liabilities and Other Borrowed Funds continued

All Subordinated liabilities described above are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements.

Of total Subordinated liabilities and other borrowings, $5,118 million is at fixed interest rates (31 December 2005: $6,151 million).

In March 2006, the Group bought back $221 million 5.75 per cent Upper Tier 2 and $108 million 6.25 per cent Lower Tier 2 Subordinated debt.

On 11 May 2006, the bank issued Innovative Tier 1 capital in the form of £300 million Step-up Callable Preferred Securities at a price of 116.801 per cent, as a tap on the £300 million Preferred Securities issued in May 2001. The two issues were consolidated and formed a single series with effect from 11 May 2006. The Preferred Securities pay an annual coupon of 8.103 per cent and are perpetual, with a call date of 11 May 2016 and at every coupon date thereafter.

On 29 November 2006, the Group issued €675 million Floating Rate Step Up Dated Subordinated Notes due 2018, and $100 million Floating Rate Step Up Dated Subordinated Notes due 2018.

On 15 December 2006, Permata issued IDR 500 billion Floating Rate Notes, which have a maturity of 10 years with an issuer's call option after five years.

The KRW40 billion Subordinated debt 2006 was redeemed in December 2006.

37. Share Capital

The authorised share capital of the Company at 31 December 2006 was $5,113 million (2005: $4,857 million) made up of 2,632 million ordinary shares of $0.50 each, 500 million non-cumulative irredeemable preference shares of £1 each, 300 million non-cumulative redeemable preference shares of $5 each and one million non-cumulative redeemable preference share of €1,000 each.

As at 31 December 2006, 7,500 $5 non-cumulative redeemable preference shares were in issue. The irredeemable preference shares of £1 each were reclassified to other borrowed funds from 1 January 2005 upon adoption of IAS 32.

Group and Company

	Number of ordinary shares (millions)	Ordinary share capital $million	Preference share capital $million	Total $million
At 1 January 2005	1,179	590	2	592
Capitalised on scrip dividend	4	2	–	2
Shares issued	133	66	–	66
At 31 December 2005	**1,316**	**658**	**2**	**660**
Capitalised on scrip dividend	**15**	**7**	**–**	**7**
Shares repurchased	**–**	**–**	**(2)**	**(2)**
Shares issued	**53**	**27**	**–**	**27**
At 31 December 2006	**1,384**	**692**	**–**	**692**

On 12 January 2006, the Company issued 3,401,290 new ordinary shares at an average price of 1301 pence per share representing approximately 0.3 per cent of the Company's existing issued ordinary share capital. The middle market price on 12 January 2006 was 1323 pence. The issue of ordinary shares was used to acquire 20 per cent of Fleming Family & Partners Limited.

On 2 October 2006, the Company repurchased the remaining 328,388 8.9 per cent non-cumulative preference shares. The preference shares were repurchased at a premium of $326 million and were cancelled.

On 4 October 2006, the Company issued 48,500,000 ordinary shares of US$0.50 each at a placing price of 1375 pence per share representing approximately 3.7 per cent of the Company's existing issued ordinary share capital. The middle market price on 4 October 2006 was 1363 pence. The issue of ordinary shares was used to acquire HIB.

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

On 8 December 2006, the Company issued 7,500 non-cumulative redeemable preference shares of $5 each at a placing price of $100,000 each. The shares are redeemable at the option of the Company and have discretionary coupon payments and are accordingly classified as equity as required by IAS 32. The shares were issued to fund the continuing business of the Group.

The holding of Standard Chartered PLC shares for the beneficiaries of the Group's share based award schemes is set out in note 38.

38. Reserves

Group

	Share** premium account $million	Capital reserve $million	Capital redemption reserve $million	Merger** reserve $million	Available for sale reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained* earnings $million	Total $million
At 1 January 2005	2,835	5	11	–	73	42	96	5,227	8,289
Recognised income and expenses	–	–	–	–	(50)	(62)	(90)	1,865	1,663
Capitalised on scrip dividend	(2)	–	–	–	–	–	–	–	(2)
Shares issued, net of expenses	201	–	–	1,944	–	–	–	–	2,145
Net own shares adjustment	–	–	–	–	–	–	–	(73)	(73)
Share option expense and related taxation	–	–	–	–	–	–	–	123	123
Dividends, net scrip	–	–	–	–	–	–	–	(712)	(712)
Debt recognition premium	–	–	–	–	–	–	–	(211)	(211)
At 31 December 2005	3,034	5	11	1,944	23	(20)	6	6,219	11,222
Recognised income and expenses	–	–	–	–	387	71	672	2,354	3,484
Capitalised on scrip dividend	(7)	–	–	–	–	–	–	–	(7)
Shares issued, net of expenses	838	–	–	1,205	–	–	–	–	2,043
Shares repurchased	(326)	–	2	–	–	–	–	(2)	(326)
Net own shares adjustment	–	–	–	–	–	–	–	149	149
Share option expense and related taxation	–	–	–	–	–	–	–	115	115
Dividends, net scrip	–	–	–	–	–	–	–	(519)	(519)
At 31 December 2006	3,539	5	13	3,149	410	51	678	8,316	16,161

* Premises revaluation reserve, which represents revaluations made prior to the adoption of IFRS by the Group on 1 January 2004, has been transferred to retained earnings.

** The share premium account has been restated in 2005 to transfer to the merger reserve the premium arising on the shares issued to assist in the funding of the acquisition of SCFB. This treatment is consistent with that adopted in 2006 for the premium arising on the shares issued to assist in the funding of the acquisition of HIB.

Transaction costs relating to share issues deducted from reserves account total $20 million (2005: $25 million).

The cumulative amount of goodwill on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is $27 million (2005: $27 million).

Capital reserves represent the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001.

Capital redemption reserve represents the repurchase of preference shares.

Available-for-sale reserve is the fair value movement of financial assets classified as available-for-sale. Gains and losses are deferred to this reserve until such time as the underlying asset is sold or matures.

Cash flow hedge reserve is the fair value movement of derivatives that meet the criteria of a cash flow hedge. Gains and losses are deferred to this reserve until such time as the underlying hedged item affects profit and loss.

Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve until such time as the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations.

Retained earnings are the carried forward recognised income and expenses of the Group plus current period recognised income and expenses less dividend distribution, treasury shares and share option expenses.

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

Shares of the Group held for the beneficiaries of the Group's share based payment schemes

Bedell Cristin Trustees Limited is trustee of both the 1995 Employees' Share Ownership Plan Trust ("the 1995 trust"), which is an employee benefit trust used in conjunction with some of the Group's employee share schemes, and of the Standard Chartered 2004 Employee Benefit Trust ("the 2004 trust") which is an employee benefit trust used in conjunction with the Group's deferred bonus plan. The trustee has agreed to satisfy a number of awards made under the employee share schemes and the deferred bonus plan through the relevant employee benefit trust. As part of these arrangements Group companies fund the trust, from time to time, to enable the trustee to acquire shares to satisfy these awards. All shares have been acquired through the London Stock Exchange.

The 1995 trust has not acquired any shares in the year ended 31 December 2006 (2005: 11,700,000 Standard Chartered PLC shares were acquired from the Company for an aggregate price of $211 million). The shares are held in a pool for the benefit of participants under the Group's Restricted Share Scheme, Performance Share Plan and Executive Share Option Schemes. The purchase of these shares has been fully funded by the Group. At 31 December 2006, the 1995 trust held 2,148,874 (2005: 13,631,745) shares, of which all (2005: 11,521,682) have vested unconditionally.

38. Reserves continued

During the current year the 2004 trust has acquired, at market value, 301,952 (2005: 422,659) Standard Chartered PLC shares for an aggregate price of $9 million (2005: $8 million), which are held in a pool for the benefit of participants under the Group's deferred bonus plan. The purchase of these shares has been fully funded by the Group. At 31 December 2006, the 2004 trust held 311,157 (2005: 409,160) Standard Chartered PLC shares, of which none (2005: 7,333) have vested unconditionally.

Own shares held total 2,460,031 at 31 December 2006 (2005: 14,040,907).

Except as disclosed above, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the Company listed on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2006.

Company

	Share* premium account $million	Capital reserve $million	Capital redemption reserve $million	Merger* reserve $million	Retained earnings $million	Total $million
At 1 January 2005	2,835	5	11	–	694	3,545
Recognised income and expenses	–	–	–	–	798	798
Capitalised on scrip dividend	(2)	–	–	–	–	(2)
Shares issued, net of expenses	201	–	–	1,944	–	2,145
Net own shares adjustment	–	–	–	–	(73)	(73)
Share option expense and related taxation	–	–	–	–	52	52
Dividends net scrip	–	–	–	–	(712)	(712)
At 31 December 2005	3,034	5	11	1,944	759	5,753
Recognised income and expenses	–	–	–	–	683	683
Capitalised on scrip dividend	(7)	–	–	–	–	(7)
Shares issued, net of expenses	838	–	–	1,205	–	2,043
Shares repurchased	(326)	–	–	–	–	(326)
Net own shares adjustment	–	–	–	–	149	149
Transfer to Capital Redemption Reserve	–	–	2	–	(2)	–
Share option expense and related taxation	–	–	–	–	67	67
Dividends net scrip	–	–	–	–	(519)	(519)
At 31 December 2006	3,539	5	13	3,149	1,137	7,843

* The share premium account has been restated in 2005 to transfer to the merger reserve the premium arising on the shares issued to assist in the funding of the acquisition of SCFB. This treatment is consistent with that adopted in 2006 for the premium arising on the shares issued to assist in the funding of the acquisition of HIB.

39. Minority Interests

	£200m 2022 Step-Up Notes $million	£300m 8.103% Step-Up Callable Perpetual Trust $million	$300m 7.267% Hybrid Tier-1 Securities $million	Other minority interests $million	Total $million
At 1 January 2005	396	598	–	960	1,954
Arising on acquisitions	–	–	333	–	333
Appropriation in respect of exchange translation	(43)	(64)	–	(1)	(108)
Other profits attributable to minority interests	26	41	14	52	133
Recognised income and expenses	(17)	(23)	14	51	25
Distributions	(26)	(42)	(11)	(39)	(118)
Reductions	(353)	(533)	–	(857)	(1,743)
At 31 December 2005	–	–	336	115	451
Arising on acquisitions	–	–	–	17	17
Income/expenses in equity attributable to minority interests	–	–	–	35	35
Other profits attributable to minority interests	–	–	19	57	76
Recognised income and expenses	–	–	19	92	111
Distributions	–	–	(22)	(33)	(55)
Other increases	–	–	–	20	20
At 31 December 2006	–	–	333	211	544

In September 2006, the Group acquired 95.4 per cent of Union and in October 2006, 96.2 per cent of HIB. Union was subsequently amalgamated with the Standard Chartered Bank branches in Pakistan into Standard Chartered (Pakistan) Limited, increasing the Group's shareholding to 99.0 per cent. Further details are disclosed in note 23 of the financial statements.

40. Share Based Payments

The Group operates a number of share based payment schemes for its directors and employees.

The total charge for the year relating to employee share based payment plans was $96 million (2005: $78 million) of which $67 million (2005: $64 million) relates to equity settled awards, and $29 million (2005: $14 million) relates to cash settled awards. After deferred tax, the total charge was $93 million (2005: $68 million).

1994 Executive Share Option Scheme (closed)

No awards have been made under this scheme since August 1999 as the scheme was replaced by the 2000 Executive Share Option Scheme. Executive share options to purchase ordinary shares in the Company are exercisable after the third, but before the tenth anniversary of the date of grant. The exercise price is the share price at the date of grant and options can only be exercised if EPS increases by at least 15 per cent over three consecutive years.

2000 Executive Share Option Scheme

The 2000 scheme is designed to be internationally competitive and focus executive directors and their senior management teams on delivering long-term performance. An EPS performance criterion must be met before options can be exercised.

Executive share options to purchase ordinary shares in the Company are exercisable after the third, but before the tenth, anniversary of the date of grant. The exercise price per share is the share price at the date of grant and options can only be exercised if a performance condition is satisfied.

2001 Performance Share Plan

The Performance Share Plan is designed to be an intrinsic part of total remuneration for the Group's executive directors and for a small number of the Group's most senior executives. It is an internationally competitive long-term incentive plan that focuses executives on meeting and exceeding the long-term performance targets of the Group. The performance criteria which need to be met are set out in the Directors' Remuneration Report on pages 61 to 64. Awards of nil price options to acquire shares are granted to the executives and will normally be exercised between three and ten years after the date of grant if the individual is still employed by the Group. There is provision for earlier exercise in certain limited circumstances.

1997/2006 Restricted Share Scheme

The Group operates a discretionary Restricted Share Scheme ("RSS") for high performing and high potential staff at any level of the organisation whom the Group wish to motivate and retain. Except upon appointment when an executive director may be granted an award of restricted shares, the RSS is not applicable to executive directors, as it has no performance conditions attached to it. 50 per cent of the award vests two years after the date of grant and the balance after three years. The awards can be exercised within seven years of the grant date. The value of shares awarded in any year to any individual may not exceed two times their base salary.

In addition, the Group operates a Supplementary Restricted Share Scheme which can be used to defer part of an employee's annual bonus in shares. The plan is principally used for employees in the global markets area and is similar to the RSS outlined above except for three important factors: directors are specifically prohibited from the plan; no new shares can be issued to satisfy awards; and there is no individual annual limit. No awards were made under this scheme in 2005 and 2006, and none are outstanding as at 31 December 2004, 2005 and 2006.

2004 Deferred Bonus Plan

Under the 2004 Deferred Bonus Plan, shares are conditionally awarded instead of all or part of the directors' annual cash bonus. Further details are contained in the Directors' Remuneration Report on page 70.

All Employee Sharesave Schemes

No awards have been made under the 1994 UK Sharesave and 1996 International Sharesave schemes since 2003, as these were replaced by the 2004 UK and International Sharesave schemes. Under these Sharesave schemes, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company. The price at which they may purchase shares is at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the all employee sharesave schemes.

In some countries in which the Group operates it is not possible to operate Sharesave schemes, typically because of securities law, regulatory or other similar issues. In these countries the Group offers an equivalent cash-based scheme to its employees.

40. Share Based Payments continued

1994 Executive Share Option Scheme ("1994 ESOS")

Awards made under this scheme are not subject to the valuation criteria of IFRS 2, as all awards are granted prior to 7 November 2002, and are all vested as at that date.

A reconciliation of option movements over the year to 31 December 2006 and 2005 is shown below:

	2006		2005	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	**1,114,542**	**£7.64**	2,252,949	£7.27
Granted	**–**	**–**	–	–
Lapsed	**(4,830)**	**£7.29**	(59,250)	£5.09
Exercised	**(750,505)**	**£7.39**	(1,079,157)	£7.00
Outstanding at 31 December	**359,207**	**£8.18**	1,114,542	£7.64
Exercisable at 31 December	**359,207**	**£8.18**	1,114,542	£7.64

	2006			2005		
Range of exercise price	Weighted average exercise price	No. of shares	Weighted average remaining contractual life	Weighted average exercise price	No. of shares	Weighted average remaining contractual life
£6.20/£8.88	**£8.18**	**359,207**	**1.1 years**	–	–	–
£3.87/£8.88	**–**	**–**	**–**	£7.64	1,114,542	1.9 years

The intrinsic value of vested 1994 ESOS cash settled awards as at 31 December 2006 was $0.3 million (2005: $0.7 million).

2000 Executive Share Option Scheme ("2000 ESOS")

No share awards were granted during 2006.

Valuation

Options are valued using a binomial option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	2005	
Grant date	14 June	9 March
Share price at grant date	£10.395	£9.71
Exercise price	£10.395	£9.71
Shares under option as at 31 December	153,839	752,938
Vesting period (years)	3	3
Expected volatility (%)	31.6	32.3
Expected option life (years)	5	5
Risk free rate (%)	4.6	4.9
Expected dividends (yield) (%)	3.5	3.5
Fair value (£)	2.53	2.57

The expected volatility is based on historical volatility over the last five years or five years prior to grant. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

	2006		2005	
	No. of Shares	Weighted average exercise price	No. of Shares	Weighted average exercise price
Outstanding at 1 January	**23,634,660**	**£8.08**	30,707,971	£8.00
Granted	**–**	**–**	906,777	£9.83
Lapsed	**(204,514)**	**£9.77**	(508,060)	£7.87
Exercised	**(8,455,950)**	**£7.52**	(7,472,028)	£7.99
Outstanding at 31 December	**14,974,196**	**£8.37**	23,634,660	£8.08
Exercisable at 31 December	**8,758,519**	**£7.63**	8,303,114	£8.21

40. Share Based Payments continued

Range of exercise price	2006 Weighted average exercise price	2006 No. of shares	2006 Weighted average remaining contractual life	2005 Weighted average exercise price	2005 No. of shares	2005 Weighted average remaining contractual life
£6.905/£10.395	**£8.37**	**14,974,196**	**6.2 years**	–	–	–
£6.905/£10.395	**–**	**–**	**–**	£8.08	23,634,660	7 years

The intrinsic value of vested 2000 ESOS cash-settled awards as at 31 December 2006 was $6 million (2005: $4 million).

The weighted average share price at the time the options were exercised for both the 1994 and 2000 ESOS schemes during 2006 was £14.59 (2005: £11.21).

2001 Performance Share Plan ("2001 PSP")

Valuation

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

	2006			2005	
Grant Date	12 September	11 May	14 March	20 September	9 March
Share price at grant date	**£13.17**	**£14.60**	**£14.35**	£11.89	£9.71
Shares under option as at 31 December	**155,219**	**274,689**	**1,678,707**	8,410	1,488,580
Vesting period (years)	**3**	**3**	**3**	3	3
Expected dividends (yield) (%)	**3.2**	**3.0**	**3.0**	3.5	3.7
Fair value (EPS) (£)	**6.00**	**6.67**	**6.56**	5.36	4.35
Fair value (TSR) (£)	**2.60**	**2.89**	**2.84**	2.31	1.89

The expected dividend yield is based on the historical dividend yield over the last three years or the three years prior to grant. The EPS and TSR fair value relates to the performance criteria to be satisfied as explained in the Directors' Remuneration Report. The TSR fair value is derived by discounting 50 per cent of the award which is subject to the TSR condition by the loss of expected dividends over the performance period, and the likelihood of meeting the TSR condition which is calculated by the area under the TSR vesting schedule curve.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

	2006 No. of shares	2006 Weighted average exercise price	2005 No. of shares	2005 Weighted average exercise price
Outstanding at 1 January	**3,919,726**	**–**	3,066,957	–
Granted	**2,125,493**	**–**	1,505,589	–
Lapsed	**(101,878)**	**–**	(199,379)	–
Exercised	**(966,742)**	**–**	(453,441)	–
Outstanding at 31 December	**4,976,599**	**–**	3,919,726	–
Exercisable at 31 December	**405,798**	**–**	390,792	–

Range of exercise price	2006 Weighted average exercise price	2006 No. of shares	2006 Weighted average remaining contractual life	2005 Weighted average exercise price	2005 No. of shares	2005 Weighted average remaining contractual life
n/a	**–**	**4,976,599**	**8.3 years**	–	3,919,726	8.1 years

There are no vested 2001 PSP cash settled awards as at 31 December 2005 and 2006.

The weighted average share price at the time the options were exercised during 2006 was £14.69 (2005: £10.05).

40. Share Based Payments continued

1997/2006 Restricted Share Scheme ("1997/2006 RSS")

Valuation

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

	2006			2005		
Grant date	12 September	11 May	14 March	20 September	14 June	9 March
Share price at grant date	£13.17	£14.60	£14.35	£11.89	£10.395	£9.71
Shares under option as at 31 December	191,162	18,630	1,420,942	427,472	36,335	2,431,561
Vesting period (years)	2/3	2/3	2/3	2/3	2/3	2/3
Expected dividends (yield) (%)	3.2	3.0	3.0	3.5	3.5	3.5
Fair value (£)	12.00	13.34	13.12	10.72	9.55	8.92

The expected dividend yield is based on the historical dividend yield over the last three years or the three years prior to grant.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

	2006		2005	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	6,410,044	–	5,396,020	–
Granted	1,691,508	–	2,993,901	–
Lapsed	(312,453)	–	(235,377)	–
Exercised	(1,490,713)	–	(1,744,500)	–
Outstanding at 31 December	6,298,386	–	6,410,044	–
Exercisable at 31 December	1,330,250	–	1,613,044	–

The weighted average share price at the time the options were exercised during 2006 was £14.35 (2005: £10.71).

	2006			2005		
Range of exercise price	Weighted average exercise price	No. of shares	Weighted average remaining contractual life	Weighted average exercise price	No. of shares	Weighted average remaining contractual life
n/a	–	6,298,246	4.9 years	–	6,410,044	4.6 years

The intrinsic value of vested 1997/2006 RSS cash-settled awards as at 31 December 2006 was $5 million (2005: $4 million).

1994/1996 UK and International Sharesave Scheme

Grants made under these schemes which had not vested as at 7 November 2002 are fair valued under IFRS 2.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

	2006		2005	
	No. of Shares	Weighted average exercise price	No. of Shares	Weighted average exercise price
Outstanding at 1 January	3,167,779	£6.17	7,278,112	£5.90
Granted	–	–	–	–
Lapsed	(155,845)	£6.22	(597,340)	£5.92
Exercised	(1,468,150)	£6.22	(3,512,993)	£5.66
Outstanding at 31 December	1,543,784	£6.12	3,167,779	£6.17
Exercisable at 31 December	462,721	£6.63	442,038	£5.85

	2006			2005		
Range of exercise price	Weighted average exercise price	No. of shares	Weighted average remaining contractual life	Weighted average exercise price	No. of shares	Weighted average remaining contractual life
£3.34/£7.23	£6.12	1,543,784	1.2 years	–	–	–
£3.34/£7.23	–	–	–	£6.17	3,167,779	1.8 years

The intrinsic value of vested 1994/1996 UK and International Sharesave cash-settled awards as at 31 December 2006 was $6 million (2005: $2 million).

40. Share Based Payments continued

2004 UK and International Sharesave Scheme

Valuation

Options are valued using a binomial option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	2006		2005	
Grant date	12 September	8 September	20 September	8 September
Share price at grant date	£13.17	£13.03	£11.89	£12.25
Exercise price	£10.64	£10.64	£9.87	£9.87
Shares under option as at 31 December	3,761,478	269,114	5,537,252	307,238
Vesting period (years)	3/5	3/5	3/5	3/5
Expected volatility (%)	20.5/28.9	20.5/29.6	24.4/31.3	24.8/31.5
Expected option life (years)	3.33/5.33	3.33/5.33	3.33/5.33	3.33/5.33
Risk free rate (%)	4.9/4.8	4.8/4.7	4.2	4.1
Expected dividends (yield) (%)	3.1/3.5	3.1/3.5	3.7/3.5	3.7/3.5
Fair value (£)	3.35/4.07	3.31/4.05	2.88/3.03	2.99/3.77

The expected volatility is based on historical volatility over the last three to five years or three to five years prior to grant. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend yield over the last three years or three years prior to grant. Where two amounts are shown for volatility, risk free rates, expected dividends yield and fair values, the first relates to a three year vesting period and the second to a five year vesting period.

A reconciliation of option movements over the year to 31 December 2006 is shown below:

	2006		2005	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	7,892,513	£9.24	2,375,938	£7.43
Granted	4,035,972	£10.64	5,902,540	£9.87
Lapsed	(756,606)	£9.07	(382,193)	£7.80
Exercised	(15,968)	£7.95	(3,772)	£7.43
Outstanding at 31 December	11,155,911	£9.76	7,892,513	£9.24
Exercisable at 31 December	–	–	–	–

	2006			2005		
Range of exercise price	Weighted average exercise price	No. of shares	Weighted average remaining contractual life	Weighted average exercise price	No. of shares	Weighted average remaining contractual life
£7.43/£10.64	£9.76	11,155,911	3.0 years	–	–	–
£7.43/£9.87	–	–	–	£9.24	7,892,513	3.6 years

The weighted average share price at the time the options were exercised for all UK and International Sharesave schemes during 2006 was £13.90 (2005: £11.64).

41. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition. Restricted balances comprise minimum balances required to be held at central banks.

	Group		Company	
	2006 $million	2005 $million	**2006 $million**	2005 $million
Cash and balances at central banks	**7,698**	8,012	**–**	–
Less restricted balances	**(3,958)**	(4,269)	**–**	–
Treasury bills and other eligible bills	**6,233**	4,049	**–**	–
Loans and advances to banks	**16,084**	17,590	**–**	–
Trading securities	**12,104**	9,844	**–**	–
Amounts owed by and due to subsidiary undertakings	**–**	–	**2,028**	1,590
Total	**38,161**	35,226	**2,028**	1,590

42. Capital Commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

	2006 $million	2005* $million
Contracted	**19**	68

* Restated to present on a consistent basis.

43. Operating Lease Commitments

	2006		2005*	
	Premises $million	**Equipment $million**	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	**156**	**3**	110	4
Later than one year and less than five years	**358**	**4**	307	3
After five years	**529**	**–**	572	–
	1,043	**7**	989	7

* Restated to present on a consistent basis.

During the year $155 million (2005: $93 million) was recognised as an expense in the income statement in respect of operating leases.

The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2006 are $17 million (2005: $17 million).

44. Contingent Liabilities and Commitments

The table below shows the contract or underlying principal amounts, credit equivalent amounts and risk weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

The credit equivalent and risk weighted amounts have been calculated in accordance with the Financial Services Authority guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

	2006			2005		
	Contract or underlying principal amount $million	Credit equivalent amount $million	Risk weighted amount $million	Contract or underlying principal amount $million	Credit equivalent amount $million	Risk weighted amount $million
Contingent liabilities*						
Guarantees and irrevocable letters of credit	18,344	12,784	9,398	15,952	11,106	7,704
Other contingent liabilities	9,046	7,139	5,418	6,295	5,134	2,995
	27,390	19,923	14,816	22,247	16,240	10,699
Commitments*						
Documentary credits and short term trade-related transactions	5,029	1,006	845	3,730	746	572
Forward asset purchases and forward deposits placed	31	31	10	141	141	28
Undrawn formal standby facilities, credit lines and other commitments to lend:						
One year and over	14,083	7,042	3,693	11,128	5,564	3,956
Less than one year	20,543	–	–	18,690	–	–
Unconditionally cancellable	29,858	–	–	28,705	–	–
	69,544	8,079	4,548	62,394	6,451	4,556

* Includes amounts relating to the Group's share of its joint ventures.

45. Repurchase and Reverse Repurchase Agreements

The Group enters into collateralised reverse repurchase and repurchase agreements and securities borrowing and lending transactions. It also receives securities as collateral for commercial lending.

Balance sheet assets

	2006 Reverse repurchase agreements $million	2005 Reverse repurchase agreements $million
Banks	1,359	1,267
Customers	630	185
	1,989	1,452

Balance sheet liabilities

	2006 Repurchase agreements $million	2005 Repurchase agreements $million
Banks	1,449	961
Customers	681	964
	2,130	1,925

45. Repurchase and Reverse Repurchase Agreements continued

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	2006 $million	2005 $million
Securities and collateral which can be repledged or sold (at fair value)	1,379	1,434
Thereof repledged/transferred to others for financing activities or to satisfy commitments under short sale transactions (at fair value)	866	629

46. Interest Rate Risk

This table shows the extent to which the Group's interest rate exposures on assets and liabilities are matched, but does not take into account the currency of the exposure or the effect of interest rate options used by the Group to hedge these exposures. The Group and Company use derivatives to manage effective interest rates whether or not hedge accounting is achieved. In particular, interest rate swaps are used to exchange fixed rates of interest for floating rates of interest.

Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

The Risk Review on pages 34 to 48 explains the Group's and Company's risk management with respect to asset and liability management.

	2006							
	Effective interest rates %	Three months or less $million	Between three months and six months $million	Between six months and one year $million	Between one year and five years $million	More than five years $million	Non-interest bearing $million	Total $million
Assets								
Cash and balances at central banks	3.1	2,717	51	–	–	–	4,930	7,698
Derivative financial instruments	N/A	13,154	–	–	–	–	–	13,154
Loans and advances to banks*	5.0	16,017	1,908	794	791	66	1,488	21,064
Loans and advances to customers*	7.1	97,800	11,047	8,918	13,058	9,701	–	140,524
Investment securities*	4.7	28,422	7,266	11,689	11,144	2,477	1,670	62,668
Other assets	N/A	1,222	–	–	68	–	19,649	20,939
Total assets	6.1	159,332	20,272	21,401	25,061	12,244	27,737	266,047
Liabilities								
Deposits by banks*	4.4	21,392	2,058	1,872	308	290	2,202	28,122
Customer accounts*	3.8	115,498	7,886	7,664	2,994	407	14,839	149,288
Derivative financial instruments	N/A	13,703	–	–	–	–	–	13,703
Debt securities in issue*	4.8	14,235	2,437	5,143	4,912	72	–	26,799
Other liabilities	N/A	7,262	17	–	–	–	10,760	18,039
Subordinated liabilities and other borrowed funds*	4.7	–	–	1,326	3,316	8,057	–	12,699
Total liabilities	4.0	172,090	12,398	16,005	11,530	8,826	27,801	248,650
Off balance sheet items		(14)	(199)	139	58	16	–	–
Interest rate sensitivity gap		(12,772)	7,675	5,535	13,589	3,434	(64)	17,397
Cumulative gap		(12,772)	(5,097)	438	14,027	17,461	17,397	

* Includes balances subject to fixed rates of interest. Financial assets and liabilities with fixed interest total $74,151 million (2005: $59,678 million) and $116,852 million (2005: $105,385 million) respectively.

Note: Investment securities, Loans and advances to banks, and Loans and advances to customers within notes 46 and 48, include financial assets held at fair value.

46. Interest Rate Risk continued

	2005*							
	Effective interest rates %	Three months or less $million	Between three months and six months $million	Between six months and one year $million	Between one year and five years $million	More than five years $million	Non-interest bearing $million	Total $million
Assets								
Cash and balances at central banks	1.2%	841	–	–	–	–	7,171	8,012
Derivative financial instruments	N/A	9,370	–	–	–	–	–	9,370
Loans and advances to banks	3.3%	17,997	1,059	880	664	82	2,277	22,959
Loans and advances to customers	6.1%	84,343	8,575	5,685	8,351	5,223	–	112,177
Investment securities	4.0%	18,681	12,213	6,698	6,011	1,809	1,140	46,552
Other assets	N/A	894	–	–	87	–	15,045	16,026
Total assets	5.1%	132,126	21,847	13,263	15,113	7,114	25,633	215,096
Liabilities								
Deposits by banks	2.9%	13,612	4,293	690	441	16	1,221	20,273
Customer accounts	2.6%	93,811	6,082	6,268	1,564	141	13,073	120,939
Derivative financial instruments	N/A	9,864	–	–	–	–	–	9,864
Debt securities in issue	3.1%	10,541	6,835	6,478	3,065	495	–	27,414
Other liabilities	N/A	3,868	–	–	–	–	10,056	13,924
Subordinated liabilities and other borrowed funds	4.8%	–	–	142	2,345	7,862	–	10,349
Total liabilities	2.9%	131,696	17,210	13,578	7,415	8,514	24,350	202,763
Off balance sheet items		(494)	166	(372)	700	–	–	–
Interest rate sensitivity gap		(64)	4,803	(687)	8,398	(1,400)	1,283	12,333
Cumulative gap		(64)	4,739	4,052	12,450	11,050	12,333	

* Restated to present on a consistent basis.

The Company incurs interest rate risk on its subordinated liabilities and other borrowings. $1,594 million (2005: $1,558 million) is at floating rates maturing over five years. $367 million (2005: $343 million) is fixed rate maturing over five years. The effective yield is 5.8 per cent (2005: 4.8 per cent).

47. Credit Risk

At 31 December 2006, the maximum credit risk exposure of the Group in the event of other parties failing to perform their obligations is detailed below. No account has been taken of any collateral held and the maximum exposure to loss is considered to be the instruments' balance sheet carrying amount or, for non-derivative off-balance sheet transactions, their contractual nominal amounts.

	2006 $million	2005 $million
Financial assets held at fair value through profit or loss	**15,715**	10,333
Derivative financial instruments	**13,154**	9,370
Amounts available for offset*	**(6,425)**	(4,859)
	6,729	4,511
Loans and advances to banks and customers	**159,054**	133,492
Investment securities	**49,487**	37,863
Contingent liabilities	**27,390**	22,247
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	**34,626**	29,818
	293,001	238,264

* Amounts available for offset under master netting arrangements do not meet the criteria under IAS 32 to enable derivative balances to be presented on a net basis in the financial statements.

48. Liquidity Risk

This table analyses assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. Contractual maturities do not necessarily reflect actual repayments or cash flow.

The Risk Review on pages 34 to 48 explains the Group's and Company's risk management with respect to asset and liability management.

	2006				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Assets					
Cash and balances at central banks	3,740	–	–	3,958	7,698
Derivative financial instruments	2,710	4,178	4,190	2,076	13,154
Loans and advances to banks	16,214	2,305	2,403	142	21,064
Loans and advances to customers	44,062	23,590	28,771	44,101	140,524
Investment securities	19,311	20,141	18,207	5,009	62,668
Other assets	1,316	509	789	18,325	20,939
Total assets	87,353	50,723	54,360	73,611	266,047
Liabilities					
Deposits by banks	24,109	3,360	621	32	28,122
Customer accounts	125,790	19,061	3,233	1,204	149,288
Derivative financial instruments	2,766	5,278	4,006	1,653	13,703
Debt securities in issue	8,382	9,216	8,231	970	26,799
Other liabilities	2,533	523	887	14,096	18,039
Subordinated liabilities and other borrowed funds	–	501	2,440	9,758	12,699
Total liabilities	163,580	37,939	19,418	27,713	248,650
Net liquidity gap	(76,227)	12,784	34,942	45,898	17,397

	2005				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Assets					
Cash and balances at central banks	4,372	–	23	3,617	8,012
Derivative financial instruments	3,668	2,055	1,960	1,687	9,370
Loans and advances to banks	18,090	2,623	2,164	82	22,959
Loans and advances to customers	31,770	20,303	23,196	36,908	112,177
Investment securities	14,764	13,818	13,177	4,793	46,552
Other assets	2,295	360	690	12,681	16,026
Total assets	74,959	39,159	41,210	59,768	215,096
Liabilities					
Deposits by banks	16,597	2,740	879	57	20,273
Customer accounts	103,289	14,451	2,371	828	120,939
Derivative financial instruments	4,290	2,365	2,810	399	9,864
Debt securities in issue	7,246	14,168	5,064	936	27,414
Other liabilities	1,919	587	732	10,686	13,924
Subordinated liabilities and other borrowed funds	–	–	2,741	7,608	10,349
Total liabilities	133,341	34,311	14,597	20,514	202,763
Net liquidity gap	(58,382)	4,848	26,613	39,254	12,333

The Company has financial liabilities of $1,977 million (2005: $1,893 million) maturing in five years or more.

49. Currency Risk

The following tables show the extent of the Group's exposure to foreign currency risk (which is principally structured) at 31 December 2006.

The Risk Review on pages 34 to 48 explains the Group's and Company's risk management with respect to asset and liability management.

	2006 ($million)								
	US dollar	HK dollar	Korean won	Singapore dollar	Malaysian ringgit	Indian rupee	British pound	Other currencies	Total
Total assets	57,987	37,102	61,844	16,000	10,503	10,104	9,737	62,770	266,047
Total liabilities	57,215	34,062	56,754	14,838	9,837	9,099	9,573	57,272	248,650
Net position	772	3,040	5,090	1,162	666	1,005	164	5,498	17,397

	2005 ($million)								
	US dollar	HK dollar	Korean won	Singapore dollar	Malaysian ringgit	Indian rupee	British pound	Other currencies	Total
Total assets	52,970	31,890	55,801	13,801	7,880	8,535	6,606	37,613	215,096
Total liabilities	52,780	28,902	51,689	12,691	7,324	7,416	6,837	35,124	202,763
Net position	190	2,988	4,112	1,110	556	1,119	(231)	2,489	12,333

The Company's assets and liabilities are predominantly in US dollars. It has assets of $732 million (2005: $254 million) and liabilities of $738 million (2005: $282 million) other than US dollars.

The Group's main operations in non-US dollar units were Asia, Africa, India and the United Kingdom. The main operating (or 'functional') currencies of its overseas business units therefore include Hong Kong dollar, Malaysian ringgit, Singapore dollar, Indian rupee and British pound. The Group prepares its consolidated financial statements in US dollars, and the Group's equity is affected by movements in the exchange rates between functional currencies and US dollars.

The Risk Review on pages 34 to 48 explains the risk management with respect to the Group's hedging policies.

50. Fair Value of Financial Assets and Liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	2006		2005	
	Book amount $million	Fair value $million	Book amount $million	Fair value $million
Assets				
Cash and balances at central banks	**7,698**	**7,698**	8,012	8,012
Loans and advances to banks	**19,724**	**19,727**	21,671	21,671
Loans and advances to customers	**139,330**	**139,677**	111,686	111,863
Investment securities	**2,786**	**2,754**	1,479	1,470
Liabilities				
Deposits by banks	**26,233**	**26,184**	18,834	18,834
Customer accounts	**147,382**	**147,492**	119,931	119,922
Debt securities in issue	**23,514**	**23,518**	25,913	25,883
Subordinated liabilities and other borrowed funds	**12,699**	**12,877**	10,349	10,543

The following sets out the Group's basis of establishing fair values of the financial instruments shown above and those financial assets classified as available-for-sale and financial assets and liabilities held at fair value through profit and loss as disclosed within notes 13, 16, 17 and 21. The Group's basis for establishing the fair value of financial assets and liabilities held at fair value through profit or loss and of derivatives is set out in note 1.

Cash and balances at central banks

The fair value of cash and balances at central banks is their carrying amounts.

Loans and advances to banks

The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money-market rates for debts with a similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Investment securities

Investment securities with observable market prices, including debt and equity securities, are fair valued using that information. Equity instruments held that do not have observable market data are presented at cost. Debt securities that do not have observable market data are fair valued by either discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity or using quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

Debt securities in issue, subordinated liabilities and other borrowed funds

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity.

51. Market Risk

Trading book

	2006				2005			
	Average $million	High $million	Low $million	Actual $million	Average $million	High $million	Low $million	Actual $million
Daily value at risk:								
Interest rate risk	**3.5**	**5.3**	**2.5**	**3.9**	4.0	5.5	3.1	3.9
Foreign exchange risk	**2.6**	**4.1**	**1.4**	**1.5**	1.5	2.8	1.0	1.1
Total	**4.3**	**5.6**	**3.1**	**4.0**	4.3	5.9	3.3	3.9

This note should be read in conjunction with the market risk section of the Risk Review on page 46 which explains the Group's market risk management.

The Group measures the risk of losses arising from future potential adverse movements in interest and exchange rates, prices and volatilities using a VaR methodology. The Group uses historic simulation as its VaR methodology.

The total Group Trading book VaR shown in the table above is not a sum of the interest rate and exchange rate risks due to offset. The highest and lowest VaR are independent and could have occurred on different days.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

The historic simulation method is used with an observation period of one year and involves the revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio.

The Group recognises that there are limitations to the VaR methodology. These limitations include the fact that the historic data may not be the best proxy for future price movements, either because the observation period does not include representative price movements or, in some cases, because of incomplete market data.

The Group performs regular back-testing, where actual profits and losses are compared with VaR estimates to track the statistical validity of the VaR model.

VaR is calculated as the Group's exposure as at the close of business, London time. Intra-day risk levels may vary from those reported at the end of the day.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. To manage the risk arising from such events, which the VaR methodology does not fully capture, the Group regularly stress tests its main market risk exposures. Stress testing involves valuing portfolios at prices, which assume extreme changes in risk factors beyond the range of normal experience. Positions that would give rise to potentially significant losses under a low probability stress event are reviewed by the GRC.

52. Restatement of Prior Periods

Segmental analysis

The Group has refined its method of charging for and allocating capital and, as a consequence, the segmental result for the year ended 31 December 2005 has been restated. There has been no effect on the Group's total reported numbers but the effect on the business and geographic segments is set out below.

	2005			
	Consumer Banking $million	Wholesale Banking $million	Corporate items not allocated $million	Total $million
Operating income as previously reported	3,807	3,054	–	6,861
Restatement	(5)	5	–	–
Operating income as restated	3,802	3,059	–	6,861

	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	Total $million
Operating income as previously reported	1,512	510	333	954	1,054	590	808	551	549	6,861
Restatement	(28)	4	2	3	3	3	4	2	7	–
Operating income as restated	1,484	514	335	957	1,057	593	812	553	556	6,861

53. Related Party Transactions

Directors and Officers

Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 61 to 73.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises members of the Group Management Committee, which includes all executive directors.

	2006 $million	2005 $million
Salaries, allowances and benefits in kind	**14**	13
Pension contributions	**5**	1
Bonuses paid or receivable	**17**	17
Share based payments	**16**	12
	52	43

Transactions with directors, officers and others

At 31 December 2006, the total amounts to be disclosed under the Companies Act 1985 (the Act) and the HK Listing Rules about loans to directors and officers were as follows:

	2006		2005	
	Number	$000	Number	$000
Directors	**–**	**–**	2	22
Officers*	**2**	**203**	2	261

* For this disclosure, the term 'officers' means the members of the Group Management Committee, other than those who are directors of Standard Chartered PLC, and the company secretary.

As at 31 December 2006, Standard Chartered Bank had created a charge over $6 million of cash assets in favour of the independent trustees of its employer financial retirement benefit schemes.

Other than as disclosed in this Annual Report and Accounts, there were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the HK Listing Rules.

Joint ventures

During 2006 the Group made an additional investment in PT Bank Permata Tbk as disclosed in note 22 and has loans and advances from PT Bank Permata Tbk totalling $8 million at 31 December 2006 (2005: $28 million).

Associates

During 2006 the Group acquired interests in First Africa Holdings Limited and Flemings Family & Partners Limited as disclosed in note 22.

During 2005, the Group contributed $128 million to the establishment of China Bohai Bank Limited as disclosed in note 22. As at 31 December 2006 the Group has loans to China Bohai Bank Limited of $54 million.

On 30 June 2006 the Group sold a loan portfolio to China Bohai Bank Limited at net book value for a cash consideration of $92 million.

Company

The Company has received $85 million of interest income from Standard Chartered Bank. The Company issues debt externally and lends the proceeds to Group companies. At 31 December 2006 it has loans to and debt instruments issued by Standard Chartered Bank of $3,180 million (2005: $1,796 million), loans of $nil million (2005: $40 million) to Standard Chartered Holdings Limited and loans of $1 million (2005: $3 million) to other subsidiaries.

At 31 December 2006, the Company held an amount of $1,151 million owed to Standard Chartered Holdings Limited (2005: $nil million). This amount is repayable on demand and is non-interest bearing.

In 2005 the Company licensed intellectual property rights related to the Company's main brands to an indirect wholly owned subsidiary, Standard Chartered Strategic Brand Management Limited. At the year end $1,362 million (2005: $1,453 million) has been included as deferred income in the Company balance sheet in relation to this, with amortisation recognised as income by the Company.

During 2006 Standard Chartered Bank redeemed $1 billion of preference shares held by the Company, which in turn purchased $1,901 million of ordinary shares issued by Standard Chartered Holdings Limited.

The Company has an agreement with Standard Chartered Bank that in the event of the Bank defaulting on its debt coupon interest payments, the Company would grant the option to the Bank's debt holders to receive shares issued by the Company, as settlement for non-payment of the coupon interest.

54. Post Balance Sheet Events

On 26 January 2007, the Group announced the sale of its mutual funds manufacturing business in India to a subsidiary of UBS for a total cash consideration of approximately $120 million. The transaction is expected to complete in the second half of 2007, subject to regulatory approvals.

55. Significant Accounting Estimates and Judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgements in respect of measuring financial instruments. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes.

Loan loss provisioning

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the balance sheet date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

Goodwill impairment

An annual assessment is made, as set out in note 24, as to whether the current carrying value of goodwill is impaired. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement.

Acquired intangible assets

Acquired intangible assets are those that derive their value from contractual customer relationships or that can be separated and sold, and are amortised over their estimated useful lives. They comprise customer relationships, core deposits, brands and acquired licences. The valuation and estimated useful lives of customer relationships, core deposits and brands is dependent on a number of assumptions and judgements, such as expected cash flows, customer attrition, royalty rates and applicable costs, variations in which could produce different values and/or useful lives.

For example, if the royalty rates were increased by one per cent per annum (or decreased by one per cent per annum) the value of the brand names acquired in the acquisitions of Union and Hsinchu in 2006 would increase by approximately $18 million (or decrease by $19 million). Likewise, if the attrition rates were increased by one per cent per quarter (or decreased by one per cent per quarter) the value of the core deposits acquired in the acquisitions of Union and Hsinchu in 2006 would decrease by approximately $20 million (or increase by approximately $18 million).

Acquired licences are valued at their purchase price and amortised over the period of the licence.

Pensions

Actuarial assumptions are made in valuing future defined benefit pension obligations as set out in note 35 and are updated periodically. The principal assumptions relate to the rate of inflation and the discount rate. The assumed rate of inflation affects the rate at which salaries grow and therefore the size of the pensions that employees receive on retirement. The discount rate is equal to the yield on high-quality corporate bonds which have a term to maturity approximating that of the related liability, and is potentially subject to significant variation. As a result, there is uncertainty that these assumptions will continue in the future. For example, if the discount rate for the UK fund increased by one per cent, the liability would reduce by approximately $63 million, and vice versa.

Taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgements as to the probability of tax losses being available for offset at a later date.

Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

Share based payments

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models – which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life – and is expensed over the vesting period. Some of the inputs used, such as the expected option life, are not market observable and are based on estimates derived from available data, such as employee exercise behaviour. The models utilised, such as the binomial option pricing model, are intended to value options traded in active markets. The share options issued by the Group, however, have a number of features that make them incomparable to such traded options. Using different input estimates or models could produce different option values, which would result in the recognition of a higher or lower expense. For example, if the volatility assumption was increased by five per cent (or decreased by five per cent), the fair values for options granted under the Sharesave schemes in 2006 would increase by approximately £0.34 (or decrease by £0.32).

56. Recently Issued Accounting Pronouncements

The following pronouncements were issued as at 31 December 2006 but have effective dates for periods beginning after 31 December 2006. The use of IFRSs and certain IFRIC Interpretations that have yet to be endorsed by the European Union is not permitted. Those IFRSs and IFRIC Interpretations listed below that have been endorsed by the European Union, and whose use is therefore permitted, have not been applied in preparing these financial statements. The full impact of these IFRSs and IFRIC Interpretations is currently being assessed by the Group; none of these pronouncements are expected to result in any material adjustments to the financial statements.

Pronouncement	Description of impact	Latest effective date for the Group
IFRS 7 *Financial Instruments: Disclosures*	IFRS 7 supersedes IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and consolidates the current financial instruments disclosures together with additional, more detailed qualitative and quantitative disclosures about risks arising from financial instruments.	1 January 2007
Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*	This amendment introduces additional disclosures of the objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, and compliance with capital requirements.	1 January 2007
IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*	IFRIC 7 contains guidance on how an entity would restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency.	1 January 2007
IFRIC 8 *Scope of IFRS 2*	IFRIC 8 clarifies the scope of IFRS 2 for situations where the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred.	1 January 2007
IFRIC 9 *Reassessment of Embedded Derivatives*	Following initial recognition, subsequent reassessment of whether an embedded derivative should be separated or not is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.	1 January 2007
IFRIC 10 *Interim Financial Reporting and Impairment**	Impairment losses recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost cannot be reversed.	1 January 2007
IFRIC 11 *IFRS 2: Group and Treasury Share Transactions**	IFRIC 11 clarifies the treatment in the subsidiary's accounts for share awards made by the parent to the employees of a subsidiary.	1 January 2008**
IFRS 8 *Operating Segments**	IFRS 8 supersedes IAS 14 'Segment Reporting' and requires the reporting of operating segments on the same basis as is used internally for evaluating performance.	1 January 2009**

* This IFRS or IFRIC Interpretation has not yet been endorsed by the European Union.

The Group has not yet made a final decision as to whether it will apply in the 2007 financial statements those pronouncements marked (**) in the table above.

57. UK and Hong Kong Accounting Requirements

As required by the HK Listing Rules, an explanation of the differences in accounting practices between IFRS and Hong Kong Financial Reporting Standards is summarised below.

On 1 January 2005, the Group converted from UK GAAP to IFRS adopted for use by the EU. The consolidated financial statements for the Group for the year ended 31 December 2006, including 2005 comparatives, have been prepared accordingly. There are no material differences in accounting practices between IFRS and Hong Kong Financial Reporting Standards.