

Multiple engines of growth



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Peter Sands, Group Chief Executive

2007 was my first full year as Chief Executive of Standard Chartered and I am delighted by our achievements. Despite the turbulence, financial shocks and uncertainties in the financial services industry, we have again delivered record profits.

We have invested in both our businesses at record levels and stepped up the pace of organic growth: underlying income growth reached 23 per cent. We have also announced six acquisitions since our last set of results.

We have not been unscathed by the financial crisis nor do we expect to be immune as it continues to unfold. But our disciplined approach to running the Group, focusing on our strategic priorities, has stood us in good stead, and will continue to do so.

We start 2008 confident but not complacent. The Group is in great shape and both businesses have begun the year well. It will be a testing year but it will also be exciting, with new opportunities emerging alongside new challenges.

Our performance in 2007 was underpinned by firm foundations in the way we manage our liquidity, capital, risk profile and costs.

Firm foundations

We are a bank with strong liquidity, a well-diversified retail funding base and a conservative balance sheet. We have a healthy A/D ratio – the ratio of customer loans to customer deposits – at 86 per cent; and 24 per cent of our assets are highly liquid.

Many years of managing in highly volatile markets mean we have always taken a proactive approach to managing our liquidity.

We are very well capitalised. The Group's capital ratios are well above our target ranges, reflecting deliberate and effective management of the capital base. In September 2007, we raised \$2 billion in Tier 2 capital which, despite stressed market conditions, was more than five times oversubscribed.

We are very disciplined in the risks we take. We have no direct exposure and very limited indirect exposure to US subprime assets. Our entire exposure to asset-backed securities ('ABS'), including collateralised debt obligations ('CDO'), is under \$6 billion.

We have faced challenges and taken some writedowns as a result of the financial turmoil. On Whistlejacket, the structured investment vehicle, and on our asset securitisation portfolio, the profit and loss account impact was \$300 million in total. On the other hand, we have had an outstanding performance on the corporate loan portfolio and kept a tight grip on consumer credit.

We have also had to take some very difficult decisions – such as on Whistlejacket. We worked very hard since August to find a viable way forward for Whistlejacket and are disappointed that we were ultimately unable to do so.

Overall, I am confident that our strategy for balancing risk and return and the systems and processes that underpin this are working well. We also take a very disciplined approach towards the management of our cost base. We continue to drive for greater efficiency in everything we do and manage our investment programme on a dynamic basis.

We are not going to stop investing for growth. The opportunities in our markets are hugely exciting and now is the time to seize them. But, as always, we will be prepared to pace and scale this investment, taking account of changes in our markets and in our own performance.

Challenges ahead

These firm foundations will prove critical to our continued success as we face the challenges ahead. The turmoil in financial markets is far from over.

We anticipate strains in the global economy, with the slowdown in the US having at least some effect on our markets in Asia, Africa and the Middle East. How profound that effect will be, we do not know.

We also see a range of political risks in our markets. Yet, as a bank that has grown up in emerging markets over more than 150 years, we have plenty of experience in dealing with such issues.

Alongside these external challenges, we also face one major internal challenge: that of managing extremely rapid growth. This is about attracting and developing exceptional talent, ensuring our culture and values remain robust, ensuring our control systems and infrastructure keep pace with the business.

2007: A rewarding year of growth and momentum

It has been a very busy year for the Bank and for me, personally, as I visited our markets around the world to meet our customers, regulators and colleagues to share our vision to become the world's best international bank.



Singapore – First visit as CEO

Visiting Singapore always feels like a homecoming for me as I grew up here. Singapore is also the hub for many of our Group's global businesses and home for many of our clients.



India – Continued growth in Chennai

Chennai, our biggest technology and operations hub, continued to grow. We have 5,500 people in this centre and this number will double over the next five years.

“We said we wanted to be the world's best international bank. That is still our aspiration and we are making good progress on that journey.”

Emerging opportunities

Alongside these challenges, new opportunities are emerging. We are hiring excellent talent from our competitors, attracted by our strength, brand and growth potential. We are seeing a flight to quality, with a good inflow of deposits. We are seeing better pricing and differentiation of risk: the return of more rational pricing for risk is undoubtedly good for us and for the industry.

And we are seeing opportunities to deepen our relationships with our customers.

At times like these, it is critically important to be clear on our strategy and priorities. Standard Chartered has a clear and consistent strategy, well understood by staff, customers and investors. In 2003, we said we wanted to be the world's best international bank, leading the way in Asia, Africa and the Middle East. That is still our aspiration and we are making good progress on that journey.

Organic growth

Our near-term priorities remain consistent. Last year the first item on our management agenda was 'Accelerating organic growth'. We achieved that with an increase of underlying income growth from 18 per cent to 23 per cent.

Our biggest single business, Consumer Banking in Hong Kong, delivered a 22 per cent increase in profits and a 17 per cent increase in income. This is the first time in six years that this business has achieved double-digit income growth.

This performance was driven by strong growth in wealth management, with income up 25 per cent, and in our Small and Medium Enterprise ('SME') Banking business, up 36 per cent. We have opened two dedicated SME Banking centres and now have nearly 40,000 SME customers.

Our investment in Consumer Banking in Hong Kong during 2007 has produced immediate results and we will continue to invest in this business.

Wholesale Banking in Hong Kong also had an outstanding year, with profits up 50 per cent on 46 per cent higher income. In fact, Hong Kong as a whole, with profits up 34 per cent to just under \$1.2 billion, made more than the entire Group did in 2001.

The individual business that contributed the biggest change in profits was Wholesale Banking in India, where profits increased by 91 per cent to \$626 million, on an 82 per cent increase in income. India is Wholesale Banking's largest business.

This is a superb franchise. We have added more than 1,000 clients over the last three years and have more than 100 clients generating income of more than \$1 million.

We are investing in front-line staff, in new products and in infrastructure, seizing the opportunities emerging from India's rapid economic growth and the dynamism of its corporate sector.

With 83 branches across the country, Standard Chartered has the largest network of branches among foreign banks in India. Including our Global Shared Service Centre in Chennai, which provides operational and technology support to our businesses across the world, we employ 18,000 people in India, making it by far our largest operation anywhere.

Overall, including Consumer Banking, India broke through \$1 billion in income for the first time in 2007, growing 60 per cent to \$1.3 billion, with profits up 71 per cent to \$690 million. India generated more profit in 2007 than in 2006 and 2005 together.

It is not only our biggest businesses and markets that saw accelerated growth in 2007.

We also saw the benefits from the investments made to build new engines of growth.



Taiwan – Setting the pace

I encouraged over 500 of our staff to be great ambassadors for the Group as we become a new force in Taiwan's banking industry.



New York – Well done Americas team!

I met all our staff in New York and took the opportunity to congratulate everyone for their success in building our Americas business.

In China, income was up 73 per cent to \$498 million. About three quarters of income was generated by the Wholesale Banking business. We have been investing significantly to build a business of scale and breadth.

In 2007, we more than doubled the number of permanent staff from 2,100 to over 4,300 and our local network expanded from 21 to 38 locations. Despite investing over \$60 million in the Consumer Banking business, profits from China increased by 72 per cent in 2007 and are now in excess of some \$180 million.

Nigeria is another example. It is a country with around six per cent GDP growth, 140 million people and a rapidly growing middle class. Over the past three years we have invested in building a full range of products in both Consumer Banking and Wholesale Banking.

In 2007, we doubled the number of branches to 12 and now employ about 350 people. As a result of this investment, our income in Nigeria increased by over 62 per cent to over \$140 million and profits increased by 87 per cent. In 2008, subject to approval, we plan to double again the size of our branch network in Nigeria.

Another new engine of organic growth is The Standard Chartered Private Bank. Launched just nine months ago, the Private Bank is making excellent progress. With 11 offices across seven markets and 118 relationship managers, the Private Bank has \$10 billion of assets under management ('AUM'), of which 28 per cent is from 1,300 clients who are entirely new to Standard Chartered.

Whilst it is still early days, we are already seeing that our unique combination of local heritage and international capability, our ability to offer a broad range of onshore and offshore wealth products and our distinctive

brand are proving enormously appealing to our customers.

The acquisition of American Express Bank, announced in September, will turbo-charge the growth of our private banking business, adding over \$22 billion in AUM, new booking centres, investment products and capabilities and another 120 experienced relationship managers.

Korea, Pakistan and Taiwan

In 2008, delivering on our acquisitions will remain a top priority. 2007 was undoubtedly a challenging year for our business in Korea. Whilst reported performance was adversely affected by a number of one-off items, we are still not satisfied with our performance, even after adjusting for these effects.

I have changed the management team in Korea and we are now executing a range of strategic initiatives to reshape the business – to accelerate income growth, to improve productivity and to enhance return on capital.

We are confident that SC First Bank is fundamentally a great business and a large growth platform in a very big, growing economy. It will be a powerful engine of sustained profit growth for the Group.

In Pakistan we have made rapid progress with the integration of Union Bank. Today we are the sixth largest bank in the country in terms of profits with over 170 branches in 39 cities. However, the political environment has had a negative impact, particularly on loan impairment, and we enter 2008 with a somewhat cautious stance.

In Taiwan, we have made good progress since amalgamating the businesses in June. We are on course to meet our target of delivering double-digit return on investment and earnings-per-share accretion in 2008.

2008 Management Agenda

- Sustain organic momentum
- Deliver growth from our acquisitions
- Continuously improve the way we work
- Build leadership
- Reinforce the brand



Hong Kong – Keeping busy

My Hong Kong visit was the busiest yet. I shared the Group's priorities with our staff and opened our newest branch and Priority Banking Centre.



China – Cultural highlights of the job

'Dotting the eye of the lion' in Tianjin as we celebrated the opening of our first Shared Service Centre in China. It was the cultural highlight of my trip.

“Over the last few years we have built a track record of consistent delivery, of superior financial performance. We are committed to build on that record.”

Capability acquisitions

While our acquisitions in Korea, Pakistan and Taiwan were primarily about achieving critical mass and distribution in key geographies, the rationale for the acquisition of American Express Bank was to reinforce our capabilities and scale in two key businesses across the world: private banking and financial institutions. I have already outlined the benefits to private banking.

In financial institutions, American Express Bank will double the size of our US dollar clearing business, give us direct yen- and euro-clearing capability, as well as a sophisticated sales and service model. American Express Bank will also extend our reach into a number of new countries. Following completion of the transaction, Standard Chartered will be represented in over 70 markets.

We expect to complete this transaction shortly and look forward to welcoming American Express Bank's 2,800 staff into Standard Chartered. Our detailed planning for the integration is going very well and has confirmed our initial view of both the scale and cost of the integration task as well as the magnitude of the synergies.

This is a highly complex integration, spanning 47 countries and involving the integration of high-volume transaction systems, but the prize is also very significant. We anticipate that 2008 integration costs are likely to be around \$150 million, so the acquisition is likely to be slightly dilutive this year, net of underlying earnings and early synergies.

We remain confident that American Express Bank will increase earnings per share in 2009 and will deliver a double-digit return on investment. This is a great deal, strategically compelling and financially attractive. We are bringing on board some highly talented international bankers and there is a strong cultural fit.

In the second half of 2007 we announced four other capability-driven acquisitions, all much smaller than American Express Bank:

- Pembroke, a specialist in aviation finance, which will reinforce our ability to play a part in the rapid growth of aviation across our markets
- Harrison Lovegrove, an oil and gas advisory boutique, which adds to our existing strengths in the energy business

- A Brain, a securities services company in Korea, which brings new capabilities and customers to our securities services business
- UTI Securities, an equity brokerage and advisory firm in India, which will enable us to provide a broader range of wealth management products to our retail and private banking clients

In January 2008, we also announced the acquisition of Yeahreum, a mutual savings bank in South Korea, which will enable us to broaden the current product offering.

The logic behind all these capability-driven acquisitions is to extend and deepen our product range and expertise, enabling us to serve our clients more effectively across a broader range of needs. They add fuel to our organic growth.

Sustainable business strategy

Building a sustainable business is an integral part of our long-term strategy to enhance shareholder value. At Standard Chartered, we are determined to lead by example within the markets in which we operate. As well as finding ways to drive economic growth, we also want to help protect the environment and to have a positive impact on the societies where we live and work.

We are constantly challenging ourselves on how we can contribute in a distinctive way in the countries where we operate. For example, at the Clinton Global Initiative in September, Standard Chartered committed \$8-10 billion financing over the next five years in renewable and clean energy projects in Asia, Africa and the Middle East. By making our commitment public, we hope to be a catalyst for change, influencing businesses to invest in the transition to a low-carbon and more sustainable future.



India – Helping communities grow

While in India I had the privilege to visit Goal, our pilot for a women's empowerment initiative which uses sport to help women become leaders in their communities.



South Korea – At the World Knowledge Forum

It was an honour to speak at the World Knowledge Forum in Seoul. I spoke about the drivers of change and Seoul's future as a global financial centre.

The year ahead

In the year ahead we will stick to our strategy. We will continue to focus on deepening our relationships with our clients. And we will continue to be proactive and disciplined in managing our liquidity, our capital, our risk profile and our costs.

We will keep investing to sustain our organic growth momentum. In China, for example, subject to regulatory approval, we anticipate having at least 60 locations by the end of this year. This year we celebrate 150 years of being in China and India: we have deep roots in these markets and they are a huge part of our future.

We will deliver on our acquisitions: make progress in Korea; deliver earnings-per-share growth from Taiwan; and complete the American Express Bank transaction and drive its integration.

Outlook

We ended 2007 with strong momentum in both businesses and the Group has had an excellent start to 2008, particularly in Wholesale Banking which had a record January. The Bank is in great shape. The foundations are firm. We are extraordinarily well-placed to capture the huge opportunities in our markets. There is more breadth and scale in the Group and our strong performance in 2007 is well spread across multiple products and multiple geographies.

The level of risk and uncertainty in the external environment makes the horizon more difficult to read. However, we know what our shareholders expect us to deliver: double-digit income growth, double-digit earnings growth and mid-to-high-teens return on equity ("ROE"). Over the last few years we have been building a track record of consistent delivery of superior financial performance. We are committed to keep building on that track record.

We will not stop investing given the opportunities we are seeing in our markets. But we will remain vigilant in our management of risk, and we will continue to flex the pace of investment to ensure costs grow broadly in line with income growth.

2007 was a year of strong performance, a year of delivery despite the external turmoil. We enter 2008 amid almost unprecedented market volatility and uncertainty, but in great shape and with great momentum.

Summary

2007 was a great year for the Group. We were not unscathed by the financial crisis, but we delivered record results. I thank all our customers and shareholders for their support and the Group's staff for playing their part in our growth story in 2007. Standard Chartered has never been in a better shape.

Peter Sands,
Group Chief Executive
26 February 2008



UK – My volunteering day

Volunteering is a hugely rewarding way to support our community. I volunteered at Terrence Higgins Trust, a leading HIV/AIDS charity in the UK, and encourage staff to volunteer their time for the community.



Singapore – Business Leadership Team meeting

My message to all 450 attending managers was that we can deliver our dream if we work together as a team and be courageous, creative, daring and disciplined.