

## Group Summary

The Group has delivered another strong performance for the year ended 31 December 2007. Profit before taxation rose 27 per cent to \$4,035 million, with operating income increasing 28 per cent.

Normalised cost income ratio was 56.0 per cent compared to 55.2 per cent in 2006. Normalised earnings per share increased by 15.8 per cent to 197.6 cents. Further details of basic and diluted earnings per share are provided in note 13 on page 107.

The Group made a number of acquisitions in 2006 and 2007. It has owned Union Bank Limited ('Union') since 5 September 2006 and Hsinchu International Bank ('Hsinchu') since 19 October 2006.

On 30 December 2006, the assets and business of Union and the Standard Chartered Bank branches in Pakistan were amalgamated into Standard Chartered Bank (Pakistan) Limited. On 30 June 2007, the assets and business of the Standard

Chartered Bank branch in Taiwan were amalgamated into Hsinchu, and the combined entity was renamed Standard Chartered Bank (Taiwan) Limited.

On 5 September 2006, the Group acquired an additional stake of 12.96 per cent in PT Bank Permata Tbk ('Permata'). The Group completed the acquisitions of Pembroke Group Limited ('Pembroke'), Harrison Lovegrove & Co. Limited ('Harrison Lovegrove') and A Brain Co. Limited ('A Brain') on 5 October 2007, 3 December 2007 and 5 December 2007 respectively.

The underlying results of the Group exclude the results of the following:

Standard Chartered Bank (Pakistan) Limited, comprising the Standard Chartered Bank branches in Pakistan and Union; Hsinchu; the incremental stake in Permata; A Brain; Pembroke; and Harrison Lovegrove.

## Operating Income and Profit

	2007 \$million	2006 \$million	Increase %
<b>Net interest income</b>	<b>6,265</b>	5,328	18
Fees and commissions income, net	2,661	1,881	41
Net trading income	1,261	920	37
Other operating income	880	491	79
	<b>4,802</b>	3,292	46
<b>Operating income</b>	<b>11,067</b>	8,620	28
<b>Operating expenses</b>	<b>(6,215)</b>	(4,796)	30
<b>Operating profit before impairment losses and taxation</b>	<b>4,852</b>	3,824	27
Impairment losses on loans and advances and other credit risk provisions	(761)	(629)	21
Other impairment	(57)	(15)	280
Profit/(loss) from associates	1	(2)	N/A
<b>Profit before taxation</b>	<b>4,035</b>	3,178	27

See page 36 for analysis of the underlying results.

The external environment remained generally favourable in the Group's key markets despite difficulties experienced in the financial markets in the second half of the year.

Operating income grew \$2,447 million, or 28 per cent, to \$11,067 million. On an underlying basis, operating income grew 23 per cent.

Wholesale Banking had an excellent year, with very strong income growth across all client segments and product categories. In Consumer Banking, strong income growth was achieved in Wealth Management and the SME segment.

The key markets of the Group continued to perform very well, with over 20 per cent income growth achieved in Hong Kong, Singapore and the MESA region. In Hong Kong, operating income exceeded \$2 billion and operating profit exceeded \$1 billion for the first time. In India and China, operating income grew 60 per cent to \$1,308 million and 73 per cent to \$498 million, respectively. However, operating conditions remained challenging in Korea, and in the UK, income was adversely impacted by the market turmoil in the second half of the year.

Net interest income was up \$937 million, or 18 per cent, to \$6,265 million. The increase in net interest income was predominantly from higher average balances and increased volumes from transaction banking and cash management services, together with the growth in current and savings accounts balances across the geographies. Net interest income from trade and lending revenues also grew, particularly in the MESA region. Underlying net interest income grew 12 per cent. Net interest margin was 2.5 per cent, in line with last year.

Non-interest income grew \$1,510 million, or 46 per cent, to \$4,802 million, with underlying growth of 41 per cent.

Net fees and commissions income increased by \$780 million, or 41 per cent, to \$2,661 million. On an underlying basis, net fees and commissions income grew 35 per cent. Robust economic growth in the Group's key markets, underpinned by good economic fundamentals and firmer domestic demand drove stock markets higher. Strong investor sentiment resulted in increased demand for investment products and services. As a consequence, sales of wealth management products such as unit trusts, insurance and structured investment products increased significantly. Custody and securities services benefited from higher volumes in the regional equity markets. Moreover, the Group achieved an increase in deal flows which drove fee income growth in syndications, corporate finance and advisory. Trade finance commission income benefited from higher transaction volumes, and in transaction banking, payments and cash management services delivered strong performances, driven by the growth in commercial balances.

Net trading income increased \$341 million, or 37 per cent, to \$1,261 million. On an underlying basis, net trading income grew 32 per cent. A significant proportion of this growth was client driven, with particularly high growth in derivatives sales. Income from interest rates and foreign exchange derivatives sales grew 60 per cent as a result of an expansion in product capabilities, improved electronic channel functionality and a continued focus on cross-selling. Own account income was broadly unchanged, as gains in foreign exchange trading were offset by losses incurred on interest rate derivatives and debt securities trading, and a \$155 million mark-to-market loss incurred on economic hedges on mortgages in Korea.

Other operating income increased \$389 million, or 79 per cent, to \$880 million. On an underlying basis, other operating income increased 78 per cent, benefiting from higher dividend income received on structured finance transactions, gains realised from the sale of private equity investments and the disposal of debt securities, and a gain of \$107 million in relation to the shares received as a consequence of the restructuring of Visa. Also included in other operating income is a \$109 million foreign exchange gain realised on the repatriation of Singapore branch capital. These gains were offset, in part, by a loss of \$116 million on the exchange of capital notes invested in Whistlejacket Capital Limited ('Whistlejacket'), a structured investment vehicle sponsored by the Group, and \$87 million in relation to writedowns on asset backed securities ('ABS'). Other operating income also included \$98 million (2006: \$106 million) of recoveries in respect of assets that had been fair valued at acquisition in Korea.

Operating expenses increased \$1,419 million, or 30 per cent, to \$6,215 million. Underlying expenses grew 24 per cent. Expenses grew mainly due to the increase in staffing levels, particularly in sales staff, and higher performance related pay. Staff costs increased 36 per cent, or \$1,036 million, to \$3,949 million. Other investments were directed at enhancing the product suite and extending branch networks in China, Hong Kong, India, Pakistan and Korea. The Standard Chartered Private Bank was launched in 11 locations across seven markets. Further expenditure was incurred to upgrade and expand office premises and to strengthen regulatory compliance and control systems.

Operating profit before impairment increased \$1,028 million, or 27 per cent, to \$4,852 million. On an underlying basis, operating profit before impairment increased by 23 per cent.

The credit environment remained generally favourable during the period, notwithstanding the turbulent market conditions triggered by the sub-prime mortgage crisis in the US. Overall loan impairment charges increased by \$132 million, or 21 per cent, to \$761 million. The incremental impact from acquisitions of \$171 million was offset by a \$39 million reduction in the underlying loan impairment charges. In Taiwan, total net impairment charges fell \$96 million to \$159 million, with underlying impairment falling \$199 million due to the improved consumer credit environment, partially offset by a \$103 million increase in impairment charges due to the full year impact of the Hsinchu acquisition. In Pakistan, total impairment charges were \$65 million higher at \$94 million, in part due to the full year impact of the Union acquisition and also as a result of the deteriorating credit environment caused by political uncertainties. In Thailand and India, higher impairment charges were incurred due to a wider deterioration in the unsecured and consumer lending environment.

Other impairment charges increased to \$57 million, mainly due to \$35 million impairment in asset backed securities and \$17 million intangible asset impairment related to Whistlejacket.

### Underlying Results

To facilitate effective review of the Group's results, the table below shows the underlying results.

	2007			2006		
	Acquisitions \$million	Underlying \$million	As reported \$million	Acquisitions \$million	Underlying \$million	As reported \$million
Net interest income	521	5,744	6,265	218	5,110	5,328
Fees and commissions income, net	216	2,445	2,661	75	1,806	1,881
Net trading income	72	1,189	1,261	21	899	920
Other operating income	18	862	880	8	483	491
	306	4,496	4,802	104	3,188	3,292
<b>Operating income</b>	<b>827</b>	<b>10,240</b>	<b>11,067</b>	<b>322</b>	<b>8,298</b>	<b>8,620</b>
<b>Operating expenses</b>	<b>(480)</b>	<b>(5,735)</b>	<b>(6,215)</b>	<b>(170)</b>	<b>(4,626)</b>	<b>(4,796)</b>
<b>Operating profit before impairment losses and taxation</b>	<b>347</b>	<b>4,505</b>	<b>4,852</b>	<b>152</b>	<b>3,672</b>	<b>3,824</b>
Impairment losses on loans and advances and other credit risk provisions	(208)	(553)	(761)	(37)	(592)	(629)
Other impairment	–	(57)	(57)	–	(15)	(15)
Profit/(loss) from associates	–	1	1	–	(2)	(2)
<b>Profit before taxation</b>	<b>139</b>	<b>3,896</b>	<b>4,035</b>	<b>115</b>	<b>3,063</b>	<b>3,178</b>

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

	2007			2006		
	Acquisitions \$million	Underlying \$million	As reported \$million	Acquisitions \$million	Underlying \$million	As reported \$million
<b>Middle East &amp; Other S Asia</b>						
Operating income	361	1,067	1,428	226	844	1,070
Operating expenses	(189)	(505)	(694)	(113)	(401)	(514)
Loan impairment	(94)	(49)	(143)	(29)	(24)	(53)
<b>Profit before taxation</b>	<b>78</b>	<b>513</b>	<b>591</b>	<b>84</b>	<b>419</b>	<b>503</b>

	2007			2006		
	Acquisitions \$million	Underlying \$million	As reported \$million	Acquisitions \$million	Underlying \$million	As reported \$million
<b>Other Asia Pacific</b>						
Operating income	459	1,642	2,101	96	1,288	1,384
Operating expenses	(286)	(927)	(1,213)	(57)	(728)	(785)
Loan impairment	(114)	(204)	(318)	(8)	(376)	(384)
Other impairment	–	–	–	–	(3)	(3)
Profit/(loss) from associates	–	2	2	–	(4)	(4)
<b>Profit before taxation</b>	<b>59</b>	<b>513</b>	<b>572</b>	<b>31</b>	<b>177</b>	<b>208</b>

The acquisition of Pembroke and Harrison Lovegrove are included within the 'Americas, UK & Europe' segment. The acquisition of A Brain is included with the 'Korea' segment. Additional disclosures of the effect of these acquisitions for these segments have not been made as the impact is not significant.

## Consumer Banking

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

	2007										
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Underlying \$million	Consumer Banking Total \$million
Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million							
Operating income	1,188	471	274	1,142	1,167	408	751	310	95	5,125	5,806
Operating expenses	(478)	(191)	(116)	(907)	(760)	(268)	(395)	(224)	(54)	(3,003)	(3,393)
Loan impairment	(53)	(15)	(41)	(96)	(308)	(77)	(129)	(17)	–	(544)	(736)
Operating profit	657	265	117	139	99	63	227	69	41	1,578	1,677

  

	2006										
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Underlying \$million	Consumer Banking Total \$million
Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million							
Operating income	1,019	367	221	1,146	729	323	545	257	77	4,454	4,684
Operating expenses	(428)	(142)	(101)	(799)	(445)	(201)	(280)	(194)	(51)	(2,508)	(2,641)
Loan impairment	(53)	(36)	(36)	(88)	(390)	(46)	(61)	(12)	1	(686)	(721)
Operating profit/(loss)	538	189	84	259	(106)	76	204	51	27	1,260	1,322

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

	2007 \$million	2006 \$million
<b>Operating income by product</b>		
Cards, Personal Loans and Unsecured Lending	2,089	1,799
Wealth Management and Deposits	2,621	1,938
Mortgages and Auto Finance	906	780
Other	190	167
<b>Total operating income</b>	<b>5,806</b>	<b>4,684</b>

Consumer Banking's operating income increased by \$1,122 million, or 24 per cent, to \$5,806 million. Net interest income grew \$649 million, or 18 per cent, to \$4,194 million while non-interest income grew \$475 million, or 39 per cent, to \$1,689 million. Underlying income was up \$671 million, or 15 per cent.

In Hong Kong, income growth gained momentum with 17 per cent growth compared with four per cent last year. Elsewhere, income grew strongly in Singapore, Malaysia, the UAE and India. In Korea, operating income was flat year-on-year.

Operating expenses grew \$752 million, or 28 per cent, to \$3,393 million. Underlying expenses were up \$495 million, or 20 per cent. Significant investments were made in China, Hong Kong, Korea, Singapore and India. Investments were made to expand the sales force, with more than 4,000 branch sales consultants, customer relationship managers and direct sales agents recruited in the year. Over 70 new branches were opened and over 600 new ATMs installed or upgraded. The Standard Chartered Private Bank was launched in seven markets and 11 locations and the business in China was incorporated and approvals to conduct additional Renminbi businesses granted, providing further opportunities to grow the franchise.

Loan impairment increased marginally to \$736 million. The loan impairment charge in the Taiwan branch decreased by \$199 million as the credit environment continued to improve. In Pakistan, loan impairment was higher due to the full year impact of Union and political uncertainties which disrupted collection activities. In Thailand, higher loss rates were experienced due to a wider deterioration in the unsecured loan portfolio. Underlying

loan impairment charges fell 21 per cent, or \$142 million, to \$544 million.

Operating profit improved \$355 million, or 27 per cent, to \$1,677 million. Underlying operating profits grew \$318 million or 25 per cent, to \$1,578 million.

In Hong Kong, income grew \$169 million, or 17 per cent, to \$1,188 million. Expenses rose \$50 million, or 12 per cent. Higher average customer balances in current and savings accounts, and fixed deposits, complemented by improved spreads in current and savings accounts, contributed to the increase in net interest income. Net interest income in mortgages declined as higher new mortgage sales and average balances outstanding were more than offset by intense competition and rising funding costs which adversely affected net interest margins. Net interest income from credit cards, personal loans and other lending were largely unchanged. Higher average loan balances increased personal lending income while lower average balances and rollover rates reduced credit cards income. Against the backdrop of buoyant investor sentiment and ample liquidity, fee income grew significantly as a result of higher unit trust sales, higher insurance premiums and new structured investment products sold. Additional investments were made to expand the sales force, launch the private banking business, open five new branches and relocate and upgrade several other branches. Continued advertising expenditure and direct marketing campaigns were undertaken to support the increased sales initiatives during the period. Operating profit was up 22 per cent to \$657 million.

In Singapore, income was up 28 per cent to \$471 million. Net interest income from mortgages increased as a result of significantly higher new mortgage sales and average balances outstanding, against the backdrop of a vibrant domestic property market. Income also grew in credit cards and personal loans and the SME segment. Net interest income from deposit products was lower as the growth in average current and savings accounts balances was offset by a reduction in margins. Higher investment services fees from unit trust sales, structured investment products and foreign exchange services contributed to strong non-interest income growth. Expenses grew \$49 million, or 35 per cent, to \$191 million. Investments were made to expand the sales force, particularly in the SME segment and in private banking. Two new priority banking centres were opened and a customer service centre upgraded. Loan impairment fell 58 per cent to \$15 million, as provisions were reduced in line with improved credit experience. Operating profit increased \$76 million, or 40 per cent to \$265 million.

In Malaysia, income increased \$53 million, or 24 per cent, to \$274 million. Operating profit was up by 39 per cent to \$117 million. Improved rollover rates in credit cards and increased personal lending volumes, coupled with higher average credit card balances drove net interest income growth. Higher average balances of current and savings accounts compensated for the slight deterioration in savings accounts margin. Income from mortgages grew 11 per cent through tight margin management and anti-attrition efforts despite the stiff competition. Non-interest income was higher, driven by fees from unit trust and insurance sales. Operating expenses increased \$15 million, or 15 per cent, to \$116 million as investments were made to launch a new flagship branch and seven SME centres during the year, as well as increased personnel costs due to higher headcount and salary adjustments.

In Korea, operating income was marginally lower at \$1,142 million. Net interest income grew as income from current and savings accounts increased due to margin improvements, partly offset by lower average balances. Fixed deposit balances reduced during the period as changes to regulations enabled the use of lower cost alternative funding sources to meet statutory liquidity requirements. Strong income growth was achieved in commercial lending to the SME segment with income increasing 42 per cent. Credit cards and personal loan income grew nine per cent, whilst income from mortgages was seven per cent lower due to lower average mortgages outstanding and margin deterioration. While fee income from unit trust, investment and insurance products grew, total non-interest income fell as there were additional charges incurred in relation to dormant accounts and on economic hedges of the mortgage portfolios due to accounting asymmetry, partially offset by a release of \$67 million (2006: \$55 million) fair value provisions due to further recoveries made. After adjusting for these items, the operating income growth would have been 10 per cent for the year. Expenses grew \$108 million, or 14 per cent, to \$907 million, with significant investments in distribution channels, over 100 new relationship managers recruited, four additional new branches opened, two branches relocated and 23 priority banking branches upgraded. Loan impairment was \$8 million higher at \$96 million. Operating profit fell \$120 million, or 46 per cent, to \$139 million.

In Other Asia Pacific, income grew \$438 million, or 60 per cent, to \$1,167 million. Expenses grew \$315 million, or 71 per cent, to \$760 million. Operating profit for the year was \$99 million. Underlying income grew \$94 million, or 15 per cent, to \$742 million. Underlying expenses of the region grew \$115 million, or 29 per cent. Loan impairment for the region was \$82 million lower, at \$308 million. Underlying loan impairment fell by \$185 million primarily due to the improved credit environment in Taiwan, and lower impairment in the Philippines and Indonesia. Loan impairment in Thailand, however, increased by \$18 million as a result of a wider credit deterioration in the unsecured lending portfolio.

In China, operating income grew 95 per cent, with net interest income growth driven by increased trade and lending volumes, supplemented by a significant increase in income from structured deposits and higher average current and savings accounts balances. Over \$60 million of investments were made to customise retail banking products and services, to extend branches and ATM distribution infrastructure, and to increase sales, marketing and support staff. This high level of investment expenditure resulted in an operating loss for the year. In Taiwan, operating income grew by \$301 million to \$484 million reflecting the full year impact of the Hsinchu acquisition.

In India, income increased \$85 million, or 26 per cent, to \$408 million while operating expenses increased \$67 million, or 33 per cent, to \$268 million. Significantly higher average balances and improved margins on current and savings accounts contributed to a 28 per cent increase in overall net interest income. Investment in people, premises and private banking increased expenses. Other significant costs included investments in branches, service centre centralisation, ATMs and technology. Loan impairment increased \$31 million, due to a wider deterioration in the unsecured consumer lending environment and increased portfolio impairment provision in unsecured lending and credit cards as the portfolio size increased. Operating profit fell \$13 million, to \$63 million.

Operating income in the MESA region increased by \$206 million, or 38 per cent, to \$751 million. Underlying income grew \$99 million or 25 per cent. In the UAE, income grew 32 per cent to \$302 million. Net interest income increased driven by higher average balances in current and savings accounts. Investment services and insurance continued to drive non-interest income growth. Significant growth in trade finance, business instalment loans and cash management and treasury services resulted in the doubling of operating income from the SME segment. Income in Pakistan grew 72 per cent to \$256 million reflecting the full year impact of the Union acquisition. Expenses in the MESA region grew by \$115 million, or 41 per cent to \$395 million. Underlying expenses grew \$58 million, or 29 per cent. Investments were targeted at improving premises infrastructure, expanding distribution channels and increasing the sales force. Additional expenses were also incurred for the integration of the Union acquisition. Loan impairment increased \$68 million to \$129 million, reflecting higher impairment in Pakistan due to increased political uncertainties, and in the UAE, in relation to the credit cards and unsecured lending portfolios. Operating profit increased \$23 million to \$227 million for the region.

In Africa, operating profit grew \$18 million, or 35 per cent to \$69 million. Income grew 21 per cent, as higher volumes and improvements in margins drove deposit net interest income. Income from the SME segment improved as product capability was significantly upgraded to capture the increasing trade finance opportunities.

### Product Performance

Credit Cards, Personal Loans and Unsecured Lending grew operating income by \$290 million, or 16 per cent, to \$2,089 million. Underlying income grew nine per cent. This included a \$107 million gain in relation to the shares received from the restructuring of Visa, with approximately three quarters of this gain recorded in Hong Kong and Singapore. Asset growth was controlled with stricter credit underwriting and approval policies to ensure the balance between good growth and credit quality was maintained.

Wealth Management and Deposits grew operating income by \$683 million, or 35 per cent, to \$2,621 million. Underlying income

The Americas, UK & Europe saw an increase in operating profit of \$14 million to \$41 million. Income grew \$18 million, or 23 per cent, to \$95 million driven primarily by higher average deposit balances. Operating costs increased as additional expenses were incurred to launch the private banking business and additional recruitment of sales staff.

grew 18 per cent. The continued investment in the development of products and their wider distribution to more markets significantly enhanced the client proposition. Sales volumes of investment products increased over 50 per cent, driving a 38 per cent increase in non-interest income. Net interest income grew due to higher customer balances, with current and savings accounts now representing almost half of the deposit base.

Mortgages and Auto Finance income grew by \$126 million, or 16 per cent, to \$906 million. Underlying income grew three per cent. Mortgage balances outstanding were broadly unchanged, reflecting competitive pressures in a number of key markets.

**Wholesale Banking**

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

2007											
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 & Europe \$million	Underlying \$million	Wholesale Banking Total \$million
Operating income	870	421	184	418	933	899	676	485	357	5,097	5,243
Operating expenses	(347)	(239)	(69)	(239)	(445)	(260)	(299)	(244)	(672)	(2,724)	(2,814)
Loan impairment	3	(1)	3	2	(10)	(13)	(14)	(10)	15	(9)	(25)
Other impairment	-	-	-	-	-	-	-	(2)	(55)	(57)	(57)
Operating profit/(loss)	526	181	118	181	478	626	363	229	(355)	2,307	2,347

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 & Europe \$million	Underlying \$million	Wholesale Banking Total \$million
Operating income	596	255	150	380	655	494	525	383	485	3,831	3,923
Operating expenses	(292)	(152)	(63)	(173)	(336)	(174)	(234)	(219)	(508)	(2,114)	(2,151)
Loan impairment	46	(3)	7	(8)	6	7	8	(14)	43	94	92
Other impairment	-	-	-	-	(3)	-	-	(9)	(3)	(15)	(15)
Operating profit	350	100	94	199	322	327	299	141	17	1,796	1,849

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

	2007 \$million	2006 \$million
Operating Income by product		
Trade and Lending	1,236	1,006
Global Markets*	2,673	1,895
Cash Management and Custody	1,334	1,022
Total operating income	5,243	3,923

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

Wholesale Banking had a very strong year with significantly higher business volumes and income momentum. The key markets of the Group remained resilient in the midst of financial market turbulence. The investments made in a number of businesses and products have driven growth across key geographies.

Operating income grew \$1,320 million, or 34 per cent, to \$5,243 million. Net interest income was up 16 per cent to \$2,071 million while non-interest income increased 50 per cent to \$3,095 million. Operating profit increased \$498 million, or 27 per cent, to \$2,347 million. On an underlying basis, operating income grew 33 per cent.

Client revenues grew 37 per cent. Client income represented approximately four-fifths of total income and remained the key driver of growth. The focus on nurturing key client relationships, attracting new clients, improving product cross-sell and investing in higher-value and strategic products resulted in a broad based income momentum across all client segments.

Operating expenses grew \$663 million, or 31 per cent, to \$2,814 million. Underlying expenses grew 29 per cent. A large proportion of the cost growth was due to increased performance related pay and personnel costs. Further investments were targeted to expand product capabilities, such as in equity derivatives and in electronic foreign exchange dealing channels, and to broaden principal finance coverage to include the Middle East and Africa. Investments were also made to improve operational efficiencies and service levels, for example, investment in a new documentary

trade system which enables straight through processing as well as expenditure to strengthen the compliance and control systems.

The benign credit environment persisted through most of the year with the recent turmoil in the credit markets having limited impact on the results for the year. Low specific provisions reflected strong risk management discipline and portfolio quality. Loan impairment recoveries were significantly lower, resulting in a net loan impairment charge of \$25 million for the year. However, other impairment charges increased to \$57 million, mainly due to impairment in asset backed securities of \$35 million, and \$17 million intangible asset impairment relating to Whistlejacket.

In Hong Kong, income grew \$274 million, or 46 per cent, to \$870 million. Operating profit grew 50 per cent to \$526 million. Higher average client account balances resulting, in part, from strong equity market activities, drove overall net interest income up by \$70 million. Higher foreign exchange, options and other derivatives sales contributed significantly to non-interest income growth, with improved trading performance driving own account income. Increased volumes in securities services and higher average assets under management drove custodial services fees higher. In addition, there was strong growth in fees earned from corporate finance and structured finance transactions during the year. Expenses grew \$55 million, or 19 per cent, to \$347 million with this increase primarily directed towards building the sales force, improving sales and performance incentives and enhancing product capabilities.

Income in Singapore grew \$166 million, or 65 per cent, to \$421 million. Operating profit grew \$81 million, or 81 per cent, to \$181 million. Significant contributions from loan syndications, structured finance transactions and private equity gains added over \$100 million to overall income growth. Revenues were also higher from foreign exchange and interest rate derivative sales. Own account income was flat with higher ALM income offset by lower trading income from interest rates and foreign exchange derivatives. Expenses grew \$87 million, or 57 per cent, to \$239 million reflecting increased recruitment, higher salary and performance related incentives and continued investments in product capabilities.

In Malaysia, income increased \$34 million, or 23 per cent, to \$184 million. Expenses grew \$6 million, or 10 per cent, to \$69 million. Operating profit increased by 26 per cent to \$118 million. Higher average balances contributed to net interest income growth while the growth in non-interest income was principally due to higher fees from syndications, debt financing and corporate advisory. Custody and securities services benefited from higher stock market activities. Income from foreign exchange and derivatives sales grew strongly but this was partly offset by losses incurred on own account trading.

Income in Korea increased \$38 million, or 10 per cent, to \$418 million. Net interest income increased 11 per cent, as higher average balances drove interest income growth. Trade and lending revenues were broadly unchanged. Non-interest income increased as a result of higher income from foreign exchange and derivatives sales and private equity gains, offset by interest rate derivatives trading losses. During the period, there were \$32 million (2006: \$51 million) of recoveries on assets that had been fair valued at acquisition, offset by the loss arising from economic hedges due to accounting asymmetry. Excluding these items adjusted operating income growth would have been 31 per cent. Expenses grew \$66 million, or 38 per cent, to \$239 million. Operating income for the year was \$181 million.

Other Asia Pacific region delivered strong income growth of \$278 million, or 42 per cent, to \$933 million, with expenses rising 32 per cent, to \$445 million. Operating profit grew \$156 million, or 48 per cent, to \$478 million. Underlying income grew \$259 million, or 40 per cent, to \$899 million. Underlying profit was up 54 per cent.

In China, operating income grew 67 per cent to \$379 million. Interest income from cash management was significantly higher, as average deposit balances grew over 50 per cent. Higher utilisation of trade facilities more than compensated for regulatory restrictions which affected lending revenues. Custody and securities services income grew as the number of settled trades and assets under custody increased. Fee income from debt financing and syndications were higher and there was also a gain realised from a private equity investment. In Indonesia, Thailand and the Philippines, there was strong income growth, up 33 per cent, to \$345 million, on the back of strong foreign exchange and derivatives sales.

In India, income grew \$405 million, or 82 per cent, to \$899 million. Operating profit increased 91 per cent to \$626 million. A buoyant domestic economy drove capital market activities and improved investor sentiment. Assets under administration and settlement volumes increased significantly amidst a booming equity market. Higher average customer balances and improved liability margins drove interest income higher. In addition, income grew from increased lending to the commercial real estate sector, several large acquisition finance transactions, and higher trade

financing volumes. Fee income growth was generated from corporate finance and advisory, debt capital markets, structured finance transactions and private equity gains. Own account trading income increased with good performance in fixed income and foreign exchange trading. Expenses increased by \$86 million, or 49 per cent, to \$260 million, with increased hiring of product specialists and sales staff, increased performance related incentives, premises improvements and systems infrastructure expenditure.

Operating income in the MESA region rose \$151 million, or 29 per cent, to \$676 million. Operating profit grew \$64 million, or 21 per cent, to \$363 million. Income growth was broad based across the region with most countries generating high growth in operating income and profit. In the UAE, income grew 24 per cent to \$261 million. Client revenues grew across most products, notably in cash management and transaction banking, interest rate and foreign exchange derivatives sales, reflecting the benefits of investment in adding product capability and range in recent years. However, own account income was lower due to losses incurred in interest rate derivatives trading. In Bahrain and Qatar, the combined operating income was up over 51 per cent, to \$145 million. In Pakistan, income grew 36 per cent, to \$105 million, reflecting good underlying growth as well as the full year impact of the Union acquisition. Expenses in the region grew \$65 million, or 28 per cent, to \$299 million due to higher recruitment levels, premises and infrastructure costs as well as acquisition integration costs.

In Africa, income grew \$102 million, or 27 per cent, to \$485 million. In Nigeria, income was up 60 per cent to \$115 million. In Tanzania, Kenya and Uganda, the combined income grew \$36 million, or 34 per cent, to \$141 million. Operating income was driven by growth in transaction banking revenues, with average wholesale deposit balances increasing significantly, offsetting a small decline in margins. Higher fees were earned on corporate advisory and debt financing transactions. Expenses increased 11 per cent to \$244 million. Operating profit increased \$88 million, or 62 per cent, to \$229 million.

Operating income in the Americas, UK & Europe decreased by \$128 million, or 26 per cent, to \$357 million. Expenses grew by \$164 million, or 32 per cent, to \$672 million. Operating loss for the period was \$355 million.

In the Americas, income was up 33 per cent, or \$71 million, to \$289 million as revenues grew strongly in foreign exchange and derivatives sales, trade and cash management, as well as achieving higher corporate finance and ALM income. Operating expenses were up 15 per cent, or \$28 million, to \$212 million. Operating profit in the Americas was \$86 million, or 72 per cent higher than last year.

In the UK & Europe, income fell \$199 million, to \$68 million. Growth in client revenues was strong, particularly in foreign exchange and derivatives sales, trade finance and cash management. However this was offset by a loss of \$116 million incurred on the exchange of capital notes held in Whistlejacket, and \$131 million writedowns and trading losses in asset backed securities incurred in turbulent market conditions during the second half of the year. Operating expenses were up \$136 million, to \$460 million, reflecting continued investment in product development, new business initiatives, and higher salary costs, mainly performance related pay. Other impairment charges increased, due to a \$17 million intangible asset impairment related to Whistlejacket, and \$35 million impairment in asset backed securities held.

### Product Performance

Trade and Lending income increased 23 per cent to \$1,236 million, with underlying income growing 19 per cent. Trade income grew as volumes increased, driven in part by supply-chain financing and receivables services, partially offsetting the impact of tightening margins. While higher loan origination activities grew lending assets, this was offset by active loan sales and structured credit transactions to optimise capital deployment. Lending income was up 19 per cent.

Global Markets' income grew 41 per cent to \$2,673 million. Client revenues grew significantly on the back of improved product cross-selling efforts and higher client penetration. Derivatives and foreign exchange sales grew income by 60 per cent. Client income grew over 70 per cent in the debt capital markets and corporate finance units on the back of strong loan syndication and bond issuance volumes, combined with the

completion of several landmark cross-border corporate advisory and project finance transactions. Private equity investments have delivered high return on investments, with a number of realisations during the period. However, own account income was affected by losses due to writedowns and trading losses in asset backed securities of \$131 million and a \$116 million loss incurred on the exchange of capital notes held in Whistlejacket.

Cash Management and Custody income was up 31 per cent at \$1,334 million. Underlying income grew 26 per cent, as higher transaction volumes drove fee income growth, and higher cash balances increased net interest income. Securities assets under administration grew significantly as higher transaction volumes drove increased income in securities services.