The structured products involve derivatives. Do not invest in them unless you fully understand and are willing to assume the risks associated with them.

Issuer

STANDARD CHARTERED BANK

(incorporated in England with limited liability by Royal Charter 1853)

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange's Listing Rules**") for the purpose of giving information with regard to the issuer and the structured products referred to in this document. The issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement in this document misleading.

We, the issuer of our structured products, are publishing this base listing document in order to obtain a listing on the Stock Exchange of our warrants and our callable bull/bear contracts ("**CBBCs**"). We will refer to the warrants and the CBBCs as "**structured products**" in this document.

We will publish a supplemental listing document for each issue of structured products to set out the terms specific to that issue. If at that point the information in this base listing document and/or its addendum (if any) needs to be updated, we will either include the updated information in the relevant supplemental listing document or produce an addendum to this base listing document. You should read the relevant supplemental listing document together with this base listing document and its addendum (if any) before deciding whether to buy our structured products. Neither the delivery of this base listing document nor any sale of any structured products shall under any circumstances create any implication that there has been no change in our affairs since the date of this base listing document. You should ask us if any later base listing document or addendum has been issued. You must not assume that this base listing document contains the most recent information at any time after the date of this base listing document.

Investors are warned that the price of the structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the structured products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the structured products.

The structured products constitute general unsecured contractual obligations of the issuer and of no other person and if you purchase the structured products you are relying upon the creditworthiness of the issuer and have no rights under the structured products against (i) the company which has issued the underlying securities; (ii) the trustee or the manager of the underlying fund or trust; or (iii) the index compiler of any underlying index to which the structured products relate.

We are part of a large global financial institution and have many financial products and contracts outstanding at any given time. When purchasing the structured products, you will be relying on our creditworthiness and of no one else.

The distribution of this base listing document, any addendum and the offering, sale and delivery of structured products in certain jurisdictions may be restricted by law. You are required to inform yourselves about and to observe such restrictions. Please read Annex 3 "Purchase and Sale" in this base listing document. **The structured products have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and trading in the structured products has not been and will not be approved by the United States Commodity Futures Trading Commission under the United States Commodity Exchange Act. The structured products may not be offered or sold within the United States or to or for the account or benefit of U.S. Persons (as defined in Regulation S under the Securities Act).**

Base Listing Document dated 28 June 2010

IMPORTANT

If you are in doubt as to the contents of this base listing document, you should obtain independent professional advice.

Copies of this base listing document and its addendum (if any), the relevant supplemental listing document (together with a Chinese translation of each of these documents) and other documents listed under the section "Where can I read copies of the Issuer's documentation?" in this base listing document may be inspected at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

本基本上市文件及其增編（如有）及有關補充上市文件（及以上各份文件的中譯本）連同本基本上市文件之「何處可查閱發行人之文件？」一節所列之其餘文件，可於香港中環金融街八號國際金融中心二期十五樓供查閱。

We do not give you investment advice; you must decide for yourself, after reading the listing documents for the relevant structured products and, if necessary, seeking professional advice, whether our structured products meet your investment needs.

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SUMMARY OF OUR STRUCTURED PRODUCTS

The types of structured products that we may issue include, but are not limited to: cash-settled stock warrants, cash-settled barrier warrants (together, "**warrants over stock**"), cash-settled warrants relating to the units of a fund or trust, index warrants, currency warrants, CBBCs relating to a share, CBBCs relating to an index and CBBCs relating to the units of a fund or trust. Each type of our structured products will be subject to a separate set of master terms and conditions either as set out in Annex 1 or 2 (as applicable) to this base listing document (for the structured products listed above) or as set out in the relevant supplemental listing document (for other types of structured products). For each issue of our structured products, we will publish a supplemental listing document setting out the specific terms. The specific terms set out in the relevant supplemental listing document supplement and amend the applicable set of master terms and conditions to form the legally binding terms and conditions of that issue of structured products.

We describe below the main features of the different types of our structured products.

General features of our structured products:

Issuer:	Standard Chartered Bank ("**SCB**")
Issuer's long-term debt ratings as of the date of this document:	A+ by Standard and Poor's A2 by Moody's Investors Service
Ranking of our structured products:	Upon the occurrence of a mandatory call event (in the case of our CBBCs) or upon exercise, our structured products will become our direct, unconditional, unsecured and unsubordinated obligations ranking equally with all our other direct, unconditional, unsecured and unsubordinated obligations.
Liquidity provider:	We will describe in each supplemental listing document our obligations to provide liquidity in our structured products.
Form:	In registered form subject to and with the benefit of a deed poll made by us. Each issue will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors) as holder and deposited within the Central Clearing and Settlement System ("**CCASS**"). We will not issue any definitive certificates for our structured products.
Use of proceeds:	We will use the proceeds from the issue of our structured products for our general working capital or any other purposes permitted under the Royal Charter, Bye-Laws and Rules of Standard Chartered Bank.

Further issues:	We can issue further structured products to form a single series with an existing issue of our structured products.
Delisting of the company/companies, fund or trust underlying our structured products:	If the shares of the company/any of the companies or the units of the fund or trust (as the case may be) underlying a particular issue of our structured products are delisted from the Stock Exchange, we may adjust the terms of that issue as further detailed in the relevant terms and conditions of our structured products.
Adjustments upon certain events affecting the company/companies, fund, trust or the index underlying our structured products:	If certain corporate events occur in connection with the company/any of the companies, fund or trust underlying our structured products, or if certain events have occurred which materially modify the underlying index, we may make adjustments to the terms of that issue to account for the effect of such events. Please see the relevant terms and conditions of our structured products for further details. These events and the possible adjustments we may make are set out in detail in the applicable terms and conditions.
Governing law:	Our structured products are governed by the laws of Hong Kong Special Administrative Region of the People's Republic of China.

SPECIFIC FEATURES OF OUR STRUCTURED PRODUCTS

Warrants: Warrants are structured financial products, the value of which is derived from the price or value of another asset. The underlying asset may be a stock, units in funds or trusts, a basket of stocks and/or units in funds or trusts, an index, a basket of indices, currency, commodity or other asset or combination of such assets.

- Cash-settled stock warrants: The underlying asset of stock warrants is shares of a company. The shares may be listed in Hong Kong or overseas.

  Generally, a physically-settled stock call warrant gives its holders the right, but not the obligation, to purchase from the issuer, at a predetermined strike price, a specific number of shares issued by a company.

  Generally, a physically-settled stock put warrant gives its holders the right, but not the obligation, to sell to the issuer, at a predetermined strike price, a specific number of shares issued by a company.

  Our cash-settled stock warrants provide for cash settlement only, which means that physical delivery of the underlying shares will not be available as a method of settlement; instead, upon the exercise of a number of warrants with an aggregate entitlement of one share, we will pay the warrantholder upon exercise a cash amount equal to the final price of the underlying share less the strike price (in the case of call warrants) or the strike price less the final price of the underlying share (in the case of put warrants) and in each case less any exercise expenses, so long as such amount is greater than zero.

- Index warrants: The underlying asset of index warrants is an index published by an index sponsor.

  Our index call warrant gives its holders a right upon exercise to receive from us a cash amount equal to the excess (if any) of the level of an index on the date of exercise of the index call warrant over the predetermined strike level, times a predetermined amount, converting such amount in the trading currency of the constituent stocks of the index into the settlement currency of our warrants if necessary and less any exercise expenses.

  Our index put warrant gives its holders a right upon exercise to receive from us a cash amount equal to the excess (if any) of the predetermined strike level over the level of an index on the date of exercise of the index put warrant, times a predetermined amount, converting such amount in the trading currency of the constituent stocks of the index into the settlement currency of our warrants if necessary and less any exercise expenses.

  The level of the index on the date of exercise may be determined by reference to the official settlement price of an exchange traded contract relating to the index or some other means; please see the terms and conditions of our warrants for further details.

- Cash-settled warrants relating to the units of a fund or trust: The underlying asset of warrants relating to the units of a fund or trust is units of the fund or trust (as the case may be). The units may be listed in Hong Kong or overseas.

  Generally, a physically-settled call warrant relating to the units of a fund or trust gives its holders the right, but not the obligation, to purchase from the issuer, at a predetermined strike price, a specific number of units issued by the fund or trust.

  Generally, a physically-settled put warrant relating to the units of a fund or trust gives its holders the right, but not the obligation, to sell to the issuer, at a predetermined strike price, a specific number of units issued by the fund or trust.

  Our cash-settled warrants relating to the units of a fund or trust provide for cash settlement only, which means that physical delivery of the underlying units will not be available as a method of settlement; instead, upon the exercise of a number of warrants with an aggregate entitlement of one unit, we will pay the warrantholder upon exercise a cash amount equal to the final price of the underlying unit less the strike price (in the case of call warrants) or the strike price less the final price of underlying unit (in the case of put warrants) and in each case less any exercise expenses, so long as such amount is greater than zero.

The master terms and conditions for each of the different types of warrants are included in Annex 1 to this base listing document. If we issue any warrants which are not cash-settled stock warrants, index warrants or cash-settled warrants relating to the units of a fund or trust, we will include a summary of their features in the relevant supplemental listing document.

The supplemental listing document will set out the following terms specific to our warrants to supplement the applicable set of master terms and conditions in this base listing document:

Board lot	Minimum number at which our warrants trade
Shares of the company	Name and par value of underlying share (for our warrants over stock only)
Fund/Trust	Name of the underlying fund or trust (for our warrants relating to the units of a fund or trust only)
Index	Name of the underlying index (for our index warrants only)
Index sponsor	Name of company that maintains the index and calculates and publishes the index levels (for our index warrants only)
Strike price	Predetermined strike price of the underlying share/unit (for our warrants over stock and warrants relating to the units of a fund or trust only) or the underlying currency (for our currency warrants only)
Strike level	Predetermined level of the underlying index (for our index warrants only)
Exercise amount	Number of our warrants, which is the unit reference we will use to calculate the amount we deliver to you in cash (the cash settlement amount). The exercise amount is usually one board lot
Expiry date/exercise date	Date on which the life of our warrants expires or on which our warrants are exercised
Entitlement	Number of shares/units to which a specified number of warrants relates (for our warrants over stock and warrants relating to the units of a fund or trust only)
Index currency amount	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount payable upon the exercise of an exercise amount of our warrants (for our index warrants only)
Barrier strike price	A knock-out event occurs in relation to our warrants if the price of the underlying share reaches the predetermined barrier strike price (for our barrier warrants only)

Barrier period	Predetermined period of time during which the occurrence of a knock-out event would affect the cash settlement amount of our warrants (for our barrier warrants only)
Rebate	Predetermined amount (or predetermined method of calculating such amount) payable to the warrantholder if a knock-out event occurs (for our barrier warrants only)
American/European style	American style warrants can be exercised over a period beginning at 10:00 a.m. (Hong Kong time) on the dealing commencement date and ending at 10:00 a.m. (Hong Kong time) on the expiry date European style warrants can only be exercised at 10:00 a.m. (Hong Kong time) on the expiry date
Dealing commencement date	Listing date or date on which our warrants commence trading

CBBC:

- CBBCs relating to a share: The underlying asset of CBBCs relating to a share is shares of a company. The shares may be listed in Hong Kong or overseas.

  CBBCs relating to a share are issued either as Bull CBBCs or Bear CBBCs:

  Bull CBBCs relating to a share

  Generally for a series of Bull CBBCs relating to a share, when certain price of the underlying share as reported by the relevant exchange is at or below the predetermined call price for the first time during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon expiry, for each number of CBBCs with an aggregate entitlement of one underlying share, we will pay the holder on the settlement date of such CBBCs an amount equal to the final price of the underlying share less the strike price and less any expenses, so long as such amount is greater than zero. If the amount is equal to or less than zero, the CBBCs will expire worthless.

  If a mandatory call event has occurred, whether the holder of our CBBCs may receive a cash settlement amount depends on whether the CBBCs are Category N Bull CBBCs or Category R Bull CBBCs.

For Category N Bull CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bull CBBCs (where the call price is above the strike price), the holder of a number of CBBCs with aggregate entitlement of one underlying share will receive from us a residual cash settlement amount, which will be the lowest price to which the underlying share has traded on the exchange in the trading session in which the mandatory call event occurred and the immediately following trading session, less the strike price. However, if this resultant amount less any expenses is a negative number then no amount is payable. On the occurrence of a mandatory call event, we may at our sole and absolute discretion elect to pay an additional amount to be determined by us at our sole and absolute discretion for each series of CBBCs, which may be zero. If we so elect, such discretionary additional amount shall be deemed to be included in the residual cash settlement amount at mandatory call termination as set out above.

Please note that during the life of a Bull CBBC relating to a share, a given percentage change in the underlying share price may not result in the same percentage change in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying share, for a given change in the underlying share price. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

Bear CBBCs relating to a share

Generally for a series of Bear CBBCs relating to a share, when certain price of the underlying share as reported by the relevant exchange is at or above the predetermined call price for the first time during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon expiry, for each number of CBBCs with an aggregate entitlement of one underlying share, we will pay the holder on the settlement date of such CBBCs an amount equal to the strike price less the final price of the underlying share and less any expenses, so long as such amount is greater than zero. If the amount is equal to or less than zero, the CBBCs will expire worthless.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a cash settlement amount depends on whether the CBBCs are Category N Bear CBBCs or Category R Bear CBBCs.

For Category N Bear CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bear CBBCs (where the call price is below the strike price), the holder of a number of CBBCs with aggregate entitlement of one underlying share will receive from us a residual cash settlement amount, which will be the strike price less the highest price to which the underlying share has traded on the exchange in the trading session in which the mandatory call event occurred and the immediately following trading session However, if this resultant amount less any expenses is a negative number then no amount is payable. On the occurrence of a mandatory call event, we may at our sole and absolute discretion elect to pay an additional amount to be determined by us at our sole and absolute discretion for each series of CBBCs, which may be zero. If we so elect, such discretionary additional amount shall be deemed to be included in the residual cash settlement amount at mandatory call termination as set out above.

Please note that during the life of a Bear CBBC relating to a share, a given percentage change in the underlying share price may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying share, for a given change in the underlying share price. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

For both our Bull CBBCs and Bear CBBCs relating to a share, the final price of an underlying share will be determined by reference to the market closing price on the valuation date, please see the terms and conditions of our CBBCs for further details.

- CBBCs relating to an index: The underlying asset of CBBCs relating to an index is an index published by an index sponsor.

CBBCs relating to an index are issued either as Bull CBBCs or Bear CBBCs:

Bull CBBCs relating to an index

Generally for a series of Bull CBBCs relating to an index, when the level of the underlying index as published by the index sponsor is at or below the predetermined call level for the first time during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon the expiry of a CBBC, we will pay the holder on the settlement date of such CBBC an amount equal to the final level of the underlying index less the strike level, multiplied by a predetermined amount and less any expenses. If this amount is equal to or less than zero, the CBBCs will expire worthless.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a cash settlement amount depends on whether the CBBCs are Category N Bull CBBCs or Category R Bull CBBCs.

For Category N Bull CBBCs (where the call level is equal to the strike level), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bull CBBCs (where the call level is above the strike level), the holder of each board lot of the CBBC will receive from us a residual cash settlement amount, which will be an amount equal to (i) the lowest level of the underlying index as published by the index sponsor in the trading session in which the mandatory call event occurred and the immediately following trading session, less the strike level, times (ii) the index currency amount. However, if this resultant amount less any expenses is a negative number then no amount is payable. On the occurrence of a mandatory call event, we may at our sole and absolute discretion elect to pay an additional amount to be determined by us at our sole and absolute discretion for each series of CBBCs, which may be zero. If we so elect, such discretionary additional amount shall be deemed to be included in the residual cash settlement amount at mandatory call termination as set out above.

Please note that during the life of a Bull CBBC relating to an index, a given percentage change in the underlying index level may not result in the same percentage change in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the index, for a given change in the index level. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

Bear CBBCs relating to an index

Generally for a series of Bear CBBCs relating to an index, when the level of the underlying index as published by the index sponsor is at or above the predetermined call level for the first time during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon the expiry of a CBBC, we will pay the holder on the settlement date of such CBBC an amount equal to the strike level less the final level of the underlying index, multiplied by a predetermined amount and less any expenses. If this amount is equal to or less than zero, the CBBCs will expire worthless.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a cash settlement amount depends on whether the CBBCs are Category N Bear CBBCs or Category R Bear CBBCs.

For Category N Bear CBBCs (where the call level is equal to the strike level), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bear CBBCs (where the call level is below the strike level), the holder of a CBBC will receive from us a residual cash settlement amount, which will be an amount equal to (i) the strike level, less the highest level of the underlying index as published by the index sponsor in the trading session in which the mandatory call event occurred and the immediately following trading session, times (ii) index currency amount. However, if this resultant amount less any expenses is a negative number then no amount is payable. On the occurrence of a mandatory call event, we may at our sole and absolute discretion elect to pay an additional amount to be determined by us in our sole and absolute discretion for each series of CBBCs, which may be zero. If we so elect, such discretionary additional amount shall be deemed to be included in the residual cash settlement amount at mandatory call termination as set out above.

Please note that during the life of a Bear CBBC relating to an index, a given percentage change in the underlying index level may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the index, for a given change in the index level. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

For both our Bull CBBCs and Bear CBBCs relating to an index, the final index level will be determined by reference to the index level calculated for the purpose of final settlement of the applicable futures contract specified in the relevant supplemental listing document, please see the terms and conditions of our CBBCs for further details.

- CBBCs relating to the units of a fund or trust:

The underlying asset of CBBCs relating to the units of a fund or trust is units of the fund or trust (as the case may be).

CBBCs relating to the units of a fund or trust are issued as either Bull CBBCs or Bear CBBCs:

Bull CBBCs relating to the units of a fund or trust

Generally for a series of Bull CBBCs relating to the units of a fund or trust, when certain price of the underlying unit as reported by the relevant exchange is at or below the predetermined call price for the first time during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon expiry, for each number of CBBCs with an aggregate entitlement of one unit, we will pay the holder on the settlement date of such CBBCs an amount equal to the final price of the underlying unit less the strike price and less any expenses, so long as such amount is greater than zero. If the amount is equal to or less than zero, the CBBCs will expire worthless.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a cash settlement amount depends on whether the CBBCs are Category N Bull CBBCs or Category R Bull CBBCs.

For Category N Bull CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bull CBBCs (where the call price is above the strike price), the holder of a number of CBBCs with aggregate entitlement of one unit will receive from us a residual cash settlement amount, which will be the lowest price to which the underlying unit has traded on the exchange in the trading session in which the mandatory call event occurred and the immediately following trading session, less the strike price. However, if this resultant amount less any expenses is a negative number then no amount is payable. On the occurrence of a mandatory call event, we may at our sole and absolute discretion elect to pay an additional amount to be determined by us at our sole and absolute discretion for each series of CBBCs, which may be zero. If we so elect, such discretionary additional amount shall be deemed to be included in the residual cash settlement amount at mandatory call termination as set out above.

Please note that during the life of a Bull CBBC relating to the units of a fund or trust, a given percentage change in the underlying unit price may not result in the same percentage change in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying unit, for a given change in the underlying unit price. Please refer to the "Risk Factors" section of this base listing document and the relevant supplemental listing document.

Bear CBBCs relating to the units of a fund or trust

Generally for a series of Bear CBBCs relating to the units of a fund or trust, when certain price of the underlying unit as reported by the relevant exchange is at or above the predetermined call price for the first time during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon expiry, for each number of CBBCs with an aggregate entitlement of one unit, we will pay the holder on the settlement date of such CBBCs an amount equal to the strike price less the final price of the underlying unit and less any expenses, so long as such amount is greater than zero. If the amount is equal to or less than zero, the CBBCs will expire worthless.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a cash settlement amount depends on whether the CBBCs are Category N Bear CBBCs or Category R Bear CBBCs.

For Category N Bear CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bear CBBCs (where the call price is below the strike price), the holder of a number of CBBCs with aggregate entitlement of one unit will receive from us a residual cash settlement amount, which will be the strike price, less the highest price to which the underlying unit has traded on the exchange in the trading session in which the mandatory call event occurred and the immediately following trading session. However, if this resultant amount less any expenses is a negative number then no amount is payable. On the occurrence of a mandatory call event, we may at our sole and absolute discretion elect to pay an additional amount to be determined by us in our sole and absolute discretion for each series of CBBCs, which may be zero. If we so elect, such discretionary additional amount shall be deemed to be included in the residual cash settlement amount at mandatory call termination as set out above.

Please note that during the life of a Bear CBBC relating to the units of a fund or trust, a given percentage change in the underlying unit price may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying unit, for a given change in the underlying unit price. Please refer to the "Risk Factors" section of this base listing document and the relevant supplemental listing document.

For both our Bull CBBCs and Bear CBBCs relating to the units of a fund or trust, the final price of an underlying unit will be determined by reference to the market closing price on the valuation date, please see the terms and conditions of our CBBCs for further details.

The supplemental listing document will set out the following terms specific to our CBBCs to supplement the applicable set of master terms and conditions in Annex 2 to this base listing document:

Category	The category of our CBBCs: Category N or Category R, Bull or Bear
Board lot	Minimum number at which our CBBCs trade
Shares of the company	Name and par value of the underlying share (for our CBBCs relating to a share only)
Fund/Trust	Name of the underlying fund or trust (for our CBBCs relating to the units of a fund or trust only)
Index	Name of the underlying index (for our CBBCs relating to an index only)
Index sponsor	Name of company that maintains the index and calculates and publishes the index levels (for our CBBCs relating to an index only)
Call price	Predetermined call price of the underlying share/unit (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)
Strike price	Predetermined strike price of the underlying share/unit (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)
Call level	Predetermined call level of the underlying index (for our CBBCs relating to an index only)
Strike level	Predetermined strike level of the underlying index (for our CBBCs relating to an index only)
Expiry date	Date on which the life of our CBBCs expires
Valuation date	Date on which the closing price or the closing level of the underlying asset is determined for calculation of the cash settlement amount upon automatic exercise on expiry
Entitlement	Number of shares/units to which a specified number of CBBCs relates (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)
Number of CBBC(s) per Entitlement	Number of CBBCs to which one entitlement relates (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)

Index currency amount	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount (if any) payable upon the occurrence of a mandatory call event or automatic exercise on expiry (for our CBBCs relating to an index only)
Observation period	The period during which the price or the level of the underlying asset is observed to determine whether a mandatory call event has occurred
Dealing commencement date	Listing date or date on which our CBBCs commence trading on the Stock Exchange

MORE INFORMATION ABOUT OUR STRUCTURED PRODUCTS AND OUR LISTING DOCUMENTS

WHAT ARE THE LISTING DOCUMENTS?

The listing documents consist of this base listing document (including its addendum, if any) and for each series of structured products, its supplemental listing document. If the information in this base listing document needs to be updated, we will either include the updated information in the relevant supplemental listing document or publish an addendum to this base listing document.

None of the listing documents constitutes an offer, advertisement, recommendation or invitation to the public to subscribe for or to acquire any structured products.

WHO IS RESPONSIBLE FOR THE LISTING DOCUMENTS?

We accept full responsibility for the accuracy of the information contained in the listing documents.

We have included references to one or more websites in this base listing document and we may include references to one or more websites (including any third party website) in the supplemental listing document for each series of structured products to guide you to sources of freely available information. The information on these websites does not form part of our listing document. We are not responsible for information on these websites. Such information has not been prepared for the purposes of our structured products.

Our base listing document is accurate at the date stated on the cover. You must not assume, however, that information in this base listing document is accurate at any time after the date of this base listing document.

The liquidity provider is not responsible in any way for ensuring the accuracy of our listing documents.

WHAT ARE OUR CREDIT RATINGS?

The structured products are not rated. Our long-term debt ratings (as of the day immediately preceding the date of this base listing document) are as set out on page 1 of this base listing document.

Rating agencies usually receive a fee from the companies that they rate.

When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

(a) a credit rating is not a recommendation to buy, sell or hold the structured products;

(b) ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence; and

(c) a high credit rating is not necessarily indicative of low risk.

Our credit ratings as of the day immediately preceding the date of this base listing document are for reference only. Any subsequent changes to our ratings may result in changes to the value of the structured products.

IS THE ISSUER REGULATED BY THE HONG KONG MONETARY AUTHORITY OR AN OVERSEAS REGULATORY AUTHORITY OR THE SECURITIES AND FUTURES COMMISSION OF HONG KONG (SFC)?

Other than being regulated by the Hong Kong Monetary Authority as a licensed bank, we are also regulated by the United Kingdom Financial Services Authority.

WHERE CAN I FIND MORE INFORMATION ABOUT THE ISSUER AND THE STRUCTURED PRODUCTS?

Information on us and our structured products is described in the listing documents.

Please read the listing documents carefully before you decide whether to buy our structured products.

Additional and more up-to-date information about us may be available on the website www.standardchartered.com. You are cautioned that this information (if available) will be of a general nature and cannot be relied upon as being accurate and/or correct and will not have been prepared exclusively for the purposes of our structured products.

We have not authorised anyone to give you any information about our structured products other than the information in the listing documents.

WHEN WERE THE STRUCTURED PRODUCTS AUTHORISED?

The issue of our structured products was authorised on 29 April 2010.

WHERE CAN I READ COPIES OF THE ISSUER'S DOCUMENTATION?

You can read copies of the documents set out below by going to 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. These offices are open only during normal business hours and not on Saturdays, Sundays or public holidays.

These are the documents, copies of which may be inspected upon request while any of our structured products are in issue:

- Royal Charter, Bye-Laws and Rules of Standard Chartered Bank;
- our 2009 annual report which contains our financial statements for the year ended 31 December 2009;
- as they become available, the unaudited interim consolidated accounts of our group;
- the letter from our auditors, KPMG Audit Plc, consenting to the reproduction of their reports in this base listing document;
- the Instrument pertaining to the issue of structured products; and
- this base listing document (and its addendum, if any) and the relevant supplemental listing document for a series of structured products as long as the structured products are listed on the Stock Exchange (together with a Chinese translation of each of these documents).

A reasonable fee will be charged if you want to take photocopies of any of the documents while they are on display.

DEALING IN THE STRUCTURED PRODUCTS

Settlement of transactions between members of the Stock Exchange on any business day must take place on or before the second settlement day (as defined in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time) thereafter. Securities executed on the Stock Exchange would normally be settled under the continuous net settlement system in CCASS. Dealings in the structured products will take place in relevant board lots in Hong Kong dollars. For further details on transfers of structured products and their exercise or settlement, see the terms and conditions of the relevant series of structured products.

DO I HAVE TO PAY STAMP DUTY OR OTHER LEVIES ON THE STRUCTURED PRODUCTS?

There is no stamp duty on issue or transfer of our cash-settled structured products. The levy for the investor compensation fund is currently suspended.

However, the SFC charges a transaction levy at the rate of 0.004 per cent. on the value of the transaction of structured products and this amount is payable by each of the buyer and seller. Additionally, the Stock Exchange charges a trading fee on every purchase and sale of listed securities calculated at a rate of 0.005 per cent. of the amount of the transaction and is payable by each of the buyer and seller.

You should be aware that you may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the structured products are transferred. If you are in any doubt as to your tax position, you should consult your own independent tax advisers. You should also be aware that tax regulations and their application by the relevant taxation authorities change from time to time.

HOW DO I HOLD MY STRUCTURED PRODUCTS?

Our structured products will be issued in global registered form, represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors).

We will make all necessary arrangements to enable our structured products to be admitted for deposit, clearing and settlement in CCASS. We will not issue any definitive certificates for our structured products. Our structured products will be deposited within CCASS.

If you are a CCASS investor participant, you may hold your structured products in your account with CCASS. If you do not have a CCASS account, your broker or agent (as a CCASS participant) will arrange to hold your structured products for you in an account at CCASS. We will make all payments on our structured products to CCASS: you will have to check your CCASS account or rely on your broker to ensure that payments on your structured products are credited to your account with your broker. Once we have made the relevant payments in this way to CCASS, we will have no further obligations for that payment, even if CCASS or your broker fails to transmit to you your share of the payment or if it was transmitted late. Any notices we give in relation to our structured products will be given in the same way: you will have to rely on CCASS and/or your broker to ensure that those notices reach you.

RISK FACTORS

You should carefully consider the following information together with the other information contained in the listing documents (including the relevant supplemental listing document) before purchasing our structured products of any series.

This section highlights only some of the risks of dealing in the structured products but their inclusion in this document does not mean these are the only significant or relevant risks of dealing in our structured products.

There are risks associated with investing in our structured products; our structured products are volatile instruments

Our structured products are structured financial instruments, their value may fall as rapidly as they may rise and you may sustain a total loss in your investment. Your investment in our structured products involves risks. Before investing in any of our structured products, you should consider whether our structured products are suitable for you in light of your own financial circumstances and investment objectives. Not all of these risks are described in this base listing document or a supplemental listing document. You should consider taking independent professional advice prior to making an investment in our structured products.

Structured products are complex and volatile instruments

Your investment in our structured products will be worthless if you are holding our structured products when they expire out-of-the-money – meaning that the final price or level of the underlying asset, determined in accordance with the terms and conditions of our structured products, is greater (for our put warrants or bear CBBCs) or less (for our call warrants or bull CBBCs) than the strike price or strike level (as the case may be) of our structured products.

Our structured products are complex instruments and their values at any time prior to expiry are governed by a number of factors, including but not limited to the time left till expiry, the price or level of the underlying asset compared with the strike price/level or all price/level (in the case of our CBBCs) of our structured products, the volatility of price or level of the underlying asset, market interest rate movements, our financial condition and the market's view of our credit quality. The values of our structured products may rise or fall rapidly over a short time due to changes in one or more factors. The interplay of these different factors also means that the effect on the value of our structured products from the change in one factor may offset or accentuate the effect from the change in another factor. The value or level of the underlying assets (and some of the other relevant factors) can also be unpredictable: it may change suddenly and in large magnitude or not change at all. You may risk losing your entire investment if the price or level of the underlying assets do not move in your anticipated direction. You should also note that, assuming all other factors are held constant, the value of structured products will decline over time.

The cash settlement amount of our structured products if calculated at any time prior to expiry may typically be less than the market price of such structured products at that time. The difference will reflect, among other things, a "time value" for the structured products which depends on a number of interrelated factors including those specified above.

Your ability to realise your investment in our structured products is dependent on the trading market for our structured products

Where our structured products are not exercisable prior to the expiry date, the only way you may be able to realise the value of your investment in our structured products is to dispose of them either in the on-exchange market or over-the-counter market. If you dispose of your investment in our structured products before expiry in this way, the amount you will receive will depend on the price you are able to obtain from the market for our structured products. That price may depend on the quantity of our structured products you are trying to sell. The market price of our structured products may not be equal to the value of our structured products, and changes in the price of our structured products may not correspond (in direction and/or magnitude) with changes in the value of our structured products.

The liquidity provider appointed for our structured products will upon request provide bid and/or offer prices for our structured products on the Stock Exchange and may (but is not obliged to) provide such prices at other times too, but under certain circumstances it may not provide bid and/or offer prices even if requested. You should refer to the section regarding liquidity provider in the relevant supplemental listing document for further details. The prices provided by our liquidity provider are influenced by, among other things, the supply and demand of our structured products for a particular series in the market, and may not correspond with the values of such structured products or changes in such values.

You should note that the prices available in the market for our structured products may also come from other participants in the market, although we cannot predict if and to what extent a secondary market may develop for our structured products or whether that market will be liquid or illiquid. The fact that a particular series of structured products is listed does not necessarily lead to greater liquidity. In addition, no assurance can be given that the listing of any particular series of our structured products will be maintained. If our structured products of a particular series cease to be listed, they will not be transacted through the Stock Exchange, and they may even be terminated early. Off-exchange transactions may involve greater risks than on-exchange transactions. You may be unable to find any buyer for your holdings of our structured products on the Stock Exchange if the value of the structured products falls below HK$0.01.

Only the liquidity provider appointed for our structured products is obliged to provide bid and/or offer prices for our structured products (subject to the terms set out in the relevant supplemental listing document), and at times it may be the only source of bid and/or offer prices for our structured products.

The liquidity of any series of our structured products may also be affected by restrictions on offers and sales of our structured products in some jurisdictions including the restrictions described in Annex 3 "Purchase and Sale" to this base listing document.

If trading in the underlying asset is suspended, trading in our structured products may also be suspended for a similar period.

In view of the limited trading market of our structured products, you may need to hold our structured products until expiry.

You must rely on our creditworthiness; our obligations are not deposit liability or debt obligations

Our structured products are not secured on any assets. Our structured products represent our general contractual obligations and will rank equally with our other general unsecured obligations. The number of structured products outstanding at any given time may be substantial. When purchasing our structured products, you will be relying upon our creditworthiness and of no one else. Any downgrading of our rating by a rating agency could result in a reduction in the value of the structured products. There is no assurance of protection against a default by us in respect of our obligations under the structured products. You may lose all or substantially all of your investment if we become insolvent or if we default on our obligations under the structured products. We do not intend to create upon ourselves a deposit liability or a debt obligation by issue of any structured products.

You have no rights in the underlying assets and the market price for our structured products may fluctuate differently from that of the underlying assets

Our structured products are financial instruments issued by us and are separate from the underlying assets. You have no rights under our structured products against (i) any company, trust or fund which issues or comprises the underlying assets of the relevant series of structured products or (ii) the trustee or the manager of any underlying asset that is a trust or a fund or (iii) the sponsor of any underlying asset that is an index. In addition, buying our structured products is not the same as buying the underlying assets or having a direct investment in the underlying assets or shares comprising any underlying asset that is an index. You will not be entitled to have voting rights, rights to receive dividends or distributions or any other rights under the underlying asset or shares comprising any underlying asset that is an index. As mentioned, there are many factors influencing the value and/or market price of structured products, which are leveraged instruments. For example, increases in the price or level of the underlying assets may not lead to an increase in the value and/or market price of our call warrants or bull CBBCs by a proportionate amount or even any increase at all; however, a decrease in the price or level of the underlying assets may lead to a greater than proportionate decrease in the value and/or market price of our call warrants or bull CBBCs. There is no assurance that a change in value and/or market price of our structured products will correspond in direction and/or magnitude with the change in price or level of the underlying assets. You should recognise the complexities of utilising our structured products to hedge against the market risk associated with investing in an underlying asset or shares comprising any underlying asset that is an index.

Unless otherwise specified, the issuer, the trustee, the manager or the sponsor of the underlying assets will have no involvement in the offer and sale of our structured products and no obligation to you as investors in our structured products. The decisions made by them on corporate actions, such as a merger or sale of assets, or adjustment of the method for calculation of an index may also have adverse impact on the value and/or market price of our structured products.

There could be conflicts of interest arising out of our other activities which may affect our structured products

We and any of our subsidiaries and affiliates may engage in transactions (whether for their proprietary accounts, including hedging, or trading for accounts under management or otherwise) involving, as well as provide investment banking and other services to, any company or to any trustee or manager of a trust or a fund underlying our structured products or their securities and may enter into transactions with the substantial shareholders of the underlying company. Those transactions may have a positive or negative impact on the price or level of the underlying asset and in turn the value and/or market price of our structured products.

For example, in the case of CBBCs, these transactions may result in the price or level of the underlying asset moving closer to, or even reaching or going beyond the call price or call level of our CBBCs thus causing a mandatory call event. These transactions may also influence the price or level of the underlying asset after the occurrence of the mandatory call event and adversely impact on the residual cash amount payable (if any, for a category R CBBC). The mandatory call event may be triggered by a single trade in the underlying asset, regardless of the size of the trade. In addition, the unwinding of hedges at any time or after the occurrence of a mandatory call event may affect the price or level of the underlying asset and consequently affect the cash settlement amount of our CBBCs. We and any of our subsidiaries and affiliates may have officers who serve as directors of any of the companies underlying our structured products. Our proprietary trading activities (which include hedging of our structured products) in the underlying securities or related structured products may affect the value and/or market price of the structured products. We may issue other competing financial products which may affect the value and/or market price of our structured products. You should also note that potential conflicts of interest may arise from the different roles played by us and any of our subsidiaries and affiliates in connection with our structured products and the economic interests in each role may be adverse to your interests in our structured products. We owe no duty to you to avoid such conflicts.

We may early terminate our structured products due to illegality, or in certain circumstances, force majeure or extraordinary reasons

If we determine that our obligations under any structured products has become unlawful or in certain circumstances, impractical, we may decide to terminate that series of structured products early. If this happens, we will pay the holder of those structured products an amount determined by us in our sole and absolute discretion to be the fair market value of the structured products immediately prior to such termination minus any hedging cost or otherwise as specified in the relevant supplemental listing document. Such amount could be substantially less than the amount you invested and can be as low as zero.

Structured products relating to an index involve valuation risks

You should note that, in the case of structured products relating to an index, an investment involves valuation risks in relation to the index. The level of the index may vary over time and may increase or decrease due to various factors including changes in the formula for or the method of calculating the index. In addition, a level for the index may be published by the index sponsor at a time when one or more securities comprising the index are not trading. If this occurs on the valuation date and there is no market disruption event called under the terms of the relevant structured products, then the value of such securities used in calculating the closing level of the index will not be their up-to-date market price. Certain (but not all) events relating to the index underlying our structured products require or, as the case may be, permit us to make certain adjustments or amendments to the conditions (including, but not limited to, determining the level of the index). However, we are not required to make an adjustment for every event that can affect the index. If an event occurs that does not require us to adjust the terms and conditions, the market price of our structured products and the return upon mandatory call event or expiry of our structured products may be affected.

Risks associated with our structured products relating to the units of a fund or trust

For our structured products relating to the units of a fund or trust, neither we nor any of our affiliates have the ability to control or predict the actions of the trustee or the manager of the fund or trust. Neither the trustee nor the manager of the fund or trust (i) is involved in the offer of any structured products in any way, or (ii) has any obligation to consider the interest of the holders of any structured products in taking any corporate actions that might affect the value of any structured products. We have no role in the fund or trust. The trustee or the manager of the fund or trust is responsible for making investment and other trading decisions with respect to the management of the fund or trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the fund or trust. The manner in which the fund or trust is managed and the timing of actions may have a significant impact on the performance of the units. Hence, the price which is used to calculate the performance of the units is also subject to these risks.

You should note that our structured products relating to the units of a fund or trust reference the units of the fund or trust and the cash settlement amount payable upon exercise will be calculated using the official closing prices of the units on the stock exchange on the valuation dates. If the fund or trust is designed to track the performance of an index, you should note that our structured products do not reference the index tracked by the fund or trust. Changes in the price of the units on the Stock Exchange may not correspond with changes in the level of such index, and such price at any given time may differ from the net asset value per unit of the fund or trust.

Liquidation of underlying company or termination of underlying trust or fund

In the event of liquidation, dissolution, winding up or termination of the company, trust or fund that issues the underlying shares or units or the appointment of a receiver or administrator or analogous person to the company, trust or fund, the relevant structured products shall lapse and we, as the issuer, shall pay an amount equal to our good faith estimate (made in our sole discretion) of the value of our structured products to the holders, which may be as low as zero.

Time lag between the time of exercise or the occurrence of a mandatory call event (in the case of CBBCs) and the time of determination of the settlement amount may affect the settlement amount

There may be a time lag between the time or date (i) when you exercise our structured products (or when our structured products are automatically exercised) or (ii) (in the case of our CBBCs only) when a mandatory call event occurs and the time of determination of the settlement amount. Such delay could be significantly longer in the case of a market disruption event, delisting of the company that issues the underlying assets or shares comprising any underlying asset that is an index, termination of the trust or fund that issues the underlying unit or other adjustment events. The settlement amount may change significantly during any such period and may result in such settlement amount being zero.

We may adjust the terms and conditions of our structured products upon the occurrence of certain corporate events or extraordinary events affecting the underlying assets

We may determine that certain corporate events or extraordinary events affecting the underlying assets have occurred and may make corresponding adjustments to the terms and conditions of our structured products, including adjustments to the value or level of the underlying assets or changing the composition of the underlying assets. Such events and/or adjustments (if any) may have adverse impact on the value and/or market price of our structured products. We may also in our sole discretion adjust the entitlement of our structured products for dilution events such as stock splits and stock dividends.

However, we have no obligation to make an adjustment for every event that can affect the underlying asset. The value and/or market price of our structured products may be adversely affected by such events in the absence of an adjustment by us. If adjustments were made, we do not assure that such adjustments can negate any adverse impact of such events on the value and/or market price of our structured products.

Our determination of the occurrence of a market or settlement disruption event may affect the value and/or market price of our structured products

We may determine that a market or settlement disruption event has occurred. Such determination may affect the value and/or market price of our structured products, and may delay settlement in respect of our structured products.

If we determine that a market disruption event exists, the valuation of the underlying assets for the purpose of calculating the cash settlement amount of our structured products may be postponed. Under certain circumstances, we may determine the good faith estimate of the value or level of the underlying assets that would have prevailed on the relevant valuation date or postponed valuation date (as the case may be) but for such market disruption event.

The implied volatility of our structured products may not reflect the actual volatility of the underlying asset

The market price of our structured products is determined among other factors by the supply and demand of the structured products. This price "implies" a level of volatility in the underlying asset in the sense that such level of volatility would give a theoretical value for the structured product which is equal to that price; but such level of volatility may not be equal to the actual level of volatility of the underlying asset in the past or future.

The implied volatility of our structured products may change without notice throughout the life of our structured products.

Investment in our structured products may involve exchange rate risks and interest rate risks

An investment in our structured products may involve exchange rate risks. For example, the underlying asset may be denominated in a currency other than that of our structured products, our structured products may be denominated in a currency other than the currency of your home jurisdiction and our structured products may settle in a currency other than the currency in which you wish to receive funds. Changes in the exchange rate(s) between the currency of the underlying asset, the currency in which our structured products settle and/or the currency of your home jurisdiction may adversely affect the return of your investment in our structured products. We cannot assure that exchange rates on the issue date of our structured products will be representative of the future exchange rates used in computing the value of our structured products. Fluctuations in exchange rates may therefore affect the value of our structured products.

An investment in our structured products may also involve interest rate risk as the intrinsic value of a structured product may be sensitive to fluctuations in interest rates. Fluctuations in the short term or long term interest rates of the currency in which our structured products are settled or the currency in which the underlying asset is denominated may affect the value and/or market price of our structured products.

Please consult your tax advisers if you are in any doubt of your tax position

You may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where our structured products are transferred and such laws and practices may change from time to time. If you are in any doubt of your tax position, you should consult your own independent tax advisers.

Our structured products are issued in global registered form; you have to rely on your brokers to evidence title to your investment and to receive notices and the cash settlement amount

Our structured products are issued in global registered form and held on your behalf within a clearing system. This means that evidence of title to your interests, as well as the efficiency of ultimate delivery of the cash settlement amount, will be governed by the CCASS Rules.

Our structured products in global registered form will be registered in the name of HKSCC Nominees Limited (or its successors), which shall be treated by us as the holder of our structured products for all purposes. This means that you will not receive definitive certificates and the register will record at all times that our structured products are being held by HKSCC Nominees Limited (or its successors). You will have to rely solely upon your brokers and the statements received from your brokers to evidence title to your investments. You will also have to rely on your brokers to effectively inform you of any notices, announcements and/or meetings issued or called by us (upon receipt by those brokers as CCASS participants of the same from CCASS and ultimately from us). The Stock Exchange's Listing Rules also provide that our obligations to deliver notices, announcements and/or meetings will be complied with by a posting on the Stock Exchange website. Our obligations to deliver any cash settlement amount to you will be duly performed by the delivery of any such amount to HKSCC Nominees Limited (or its successors) as the holder. You will therefore have to check your CCASS account (if any) or rely on your brokers for the ultimate delivery of any cash settlement amount to you as the investor.

There may be limitations on the number of structured products exercisable for a particular series

We may specify for a particular series of structured products the maximum number of structured products exercisable (in the case of American style structured products) or the minimum number of structured products exercisable. You may not be able to exercise all the structured products that you may wish to exercise if the specified maximum number is exceeded, or you will have to sell your structured products or purchase additional structured products of the same series if the number of structured products you hold is fewer than the specified minimum number.

We do not give you any advice or credit analysis

We are not responsible for the lawfulness of your acquisition of our structured products. We are not giving you any advice or credit analysis of the underlying assets. You shall be deemed to have made a representation to such effect for each purchase of our structured products of any series.

We are not the holding company of the group to which we belong

We are not the ultimate holding company of the group to which we belong and with which our name is identified. The ultimate holding company of the group to which we belong is Standard Chartered PLC.

The effect of the combination of risk factors may be unpredictable

Two or more risk factors may simultaneously have an effect on the value of our structured products such that the effect of any individual risk factor may not be predictable. No assurance can be given as to the effect any combination of risk factors may have on the value of our structured products.

Risks associated with our CBBCs

You may lose all or substantially all your investment at expiry

If you hold your CBBCs until expiry and no mandatory call event occurs during the observation period, the cash settlement amount payable upon exercise at expiry will depend on how much the closing price or level of the underlying asset is above (in the case of bull CBBCs) or below (in the case of bear CBBCs) the strike price or level. The cash settlement amount may be substantially less than your initial investment in the CBBCs, and may even be zero.

You may lose all or substantially all of your investment upon the occurrence of the mandatory call event

You may lose all or substantially all of your investment in our CBBCs if the mandatory call event occurs during the observation period of our CBBCs – meaning that the price or level of the underlying asset is for the first time during the observation period at or below (for our Bull CBBCs) or at or above (for our Bear CBBCs) the predetermined call price or call level. The mandatory call event may be triggered by a single, small trade in the underlying share or security comprised in the underlying index, regardless of the size of the trade. The trade that triggers the mandatory call event may only be the result of a temporary fall (or rise, as the case may be) in the price or level of the underlying asset caused by a number of factors. Subsequent to the occurrence of the mandatory call event, the price or level of the underlying asset may recover to above (or below, as the case may be) the call price or call level.

Upon the occurrence of a mandatory call event, a Category N CBBC will become worthless while a Category R CBBC will be settled by the payment of a residual cash amount (if any) by us. Such residual amount is determined by reference to the amount by which the minimum trade price or index level of the underlying asset in the trading session in which the mandatory call event occurs and the immediately following trading session exceeds the strike price or strike level (for our Category R Bull CBBCs) or the amount by which the strike price or strike level exceeds the maximum trade price or index level of the underlying asset in the trading session in which the mandatory call event occurs and the immediately following trading session (for our Category R Bear CBBCs). This resultant amount may be as low as zero. On the occurrence of a mandatory call event, we may at our sole and absolute discretion elect to pay an additional amount determined at our sole and absolute discretion for the particular series of CBBCs, and such amount may be as low as zero.

Where the mandatory call event occurs in a continuous trading session of the Stock Exchange, all trades of CBBCs concluded in that continuous trading session after the time at which the mandatory call event occurs will be cancelled. Where the mandatory call event occurs in a pre-opening session or a closing auction session (if any) of the Stock Exchange, all auction trades of CBBCs concluded in that pre-opening session or closing auction session (if any) (as the case may be) and all manual trades of CBBCs concluded after the end of the relevant pre-order matching period will be cancelled. We will announce the occurrence of the mandatory call event in accordance with the requirements of the Stock Exchange but the announcement of the same can be delayed by among other reasons, technical errors or system failures beyond our control. Your gain or loss from a trade that is subsequently cancelled will be reversed. If in the meantime you have entered into transactions with our CBBCs as a hedge, then upon cancellation of trades in our CBBCs, you will need to find a replacement hedge and may incur losses in doing so.

Under the terms and conditions of our CBBCs, none of the Stock Exchange, us, the issuer or sponsor of the underlying asset or any of our or their affiliates or agents shall be responsible for any losses suffered as a result of the determination of the price or level of the underlying asset, any adjustments involved in determining the occurrence of the mandatory call event, the calculation of any cash settlement amount and the suspension of trading in connection with the mandatory call event, notwithstanding that such adjustments, calculation or suspension may have occurred as a result of an error.

The payment of the additional amount is at our sole and absolute discretion

The payment of the additional amount is at our sole and absolute discretion, as is the quantity of the additional amount, if we choose to pay it. In exercising such discretion, we may (but are not obliged to) take into account any factors that we consider relevant, and we are not bound by any exercise of the discretion in respect of previous mandatory call events of other CBBCs issued by ourselves or others. Accordingly, you should not form any expectations regarding the exercise of such discretion upon the occurrence of mandatory call event in respect of any series of CBBCs. You should note that the cash settlement amount per board lot at mandatory call event may be zero, and in any event will never exceed, in the case of CBBCs relating to an index, an amount equal to (i) the index currency amount times (ii) the difference between the maximum trade level and the strike level for Bull CBBCs relating to an index or the difference between the strike level and the minimum trade level for Bear CBBCs relating to an index; or, in the case of CBBCs relating to a share or the units of a fund or trust, an amount equal to (i) the difference between the maximum trade price and the strike price for Bull CBBCs or the strike price and the minimum trade price for Bear CBBCs times (ii) board lot divided by (iii) number of CBBC(s) per entitlement.

A CBBC is different from a margin trading position over the same underlying asset

An investment in CBBC is similar to but not the same as a corresponding margin trading position. Both are different from an actual position in the underlying asset in that an investor does not have to pay an amount equal to the maximum potential exposure of the position upon entry. Because the initial payment is small by comparison, a given change in the price or level of the underlying asset can result in a greater percentage change in the value of the investment.

Whilst the total gain or loss of investing in a CBBC upon exercise at expiry may be similar to that of an equivalent margin trading position (of same size and strike price or level) on the same underlying asset, at other times a CBBC differs from an equivalent margin trading position in many ways.

Generally a margin trading position will be marked-to-market at the end of every trading day so that the holder would realise the day's gain or loss immediately, unless a mandatory call event or expiry occurs the gain or loss of a CBBC is realised only when it is sold. One can maintain a margin trading position even if the underlying asset price or level continues to move against the direction anticipated, so long as the holder continues to put up additional margin, with the CBBC when the underlying asset price or level reaches the call level it is immediately terminated. Once the call level is reached, a CBBC investor would lose his entire investment (for a category N CBBC) or would only receive the residual cash amount (if any, for a category R CBBC) and due to the call termination, he would not benefit from the reversal of direction of the underlying asset price or level subsequent to the mandatory call event (for a category N CBBC) or the determination of residual cash amount (for a category R CBBC).

This call termination feature of CBBCs (among other reasons) also means that the theoretical value of a CBBC at a time prior to its expiry will be different from that of an equivalent margin trading position. A given percentage change in the price or level of the underlying asset may not result in the same percentage change (in the same direction for a bull CBBC or in the opposite direction for a bear CBBC) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller (or may be zero), in the same or opposite direction.

The theoretical value of a CBBC at any time will also contain an amount which reflects our cost of maintaining the corresponding hedge position in the underlying asset (e.g. the cost of funding a long position in shares, the net cost of borrowing shares for short sale, or the cost of margin in maintaining the futures position). The purchase price of a CBBC you pay may include all or part of such cost and when the mandatory call event occurs, the cash settlement amount (if any) will not contain a refund of such cost.

Other than at expiry (assuming mandatory call event does not occur prior to expiry) when the cash settlement amount will be set by the closing price or level of the underlying asset, at any time prior to the expiry you may sell your holding of CBBCs in the market and the price realised may or may not be the same as the theoretical value of the CBBCs, as the price will be determined by the levels of supply and demand in the market.

The funding costs of our CBBCs will fluctuate during the term of our CBBCs

The issue price of our CBBCs is set by reference to the difference between the initial reference spot price of the underlying asset and the strike price or strike level, plus the applicable funding cost. The initial funding cost applicable to our CBBCs is specified in the relevant supplemental listing document. It will fluctuate during the term of our CBBCs as the funding rate changes from time to time. The initial funding cost is an amount determined by us based on one or more factors, including but not limited to the strike price or strike level (as the case may be), the prevailing interest rate, the expected term of our CBBCs, any expected notional dividends in respect of the underlying asset and the margin financing provided by us (if any).

TAXATION

We have based this summary of Hong Kong tax on current law and practice. It is intended to give you an overview of what Hong Kong tax you might have to pay if you hold our structured products. It is not complete and we are not giving you any tax advice. You should consult your own tax adviser about the tax consequences of investing in our structured products, particularly if you are subject to special tax rules (for example, if you are a bank, dealer, insurance company or a tax-exempt entity).

HONG KONG

Withholding Tax

We are not required under current law to make any withholding on account of Hong Kong tax from payments in respect of our structured products.

Capital Gains Tax

No capital gains tax is payable in Hong Kong on any capital gains arising from a sale or disposal of our structured products.

Profits Tax

Hong Kong profits tax may be chargeable on any gains arising from a sale or disposal of our structured products where the sale or disposal is or forms part of a trade, profession or business carried on in Hong Kong and the gains are of a Hong Kong source.

Stamp Duty

Our cash-settled structured products are not subject to Hong Kong stamp duty or bearer instrument duty either when issued or on any subsequent transfer.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 commenced operation on 11 February 2006. Estates of persons who pass away on or after the commencement date of that ordinance are not subjected to estate duty.

INFORMATION ABOUT SCB AND THE GROUP

You should read this base listing document (and its addendum, if any) in conjunction with the relevant supplemental listing document for updated information about us.

Standard Chartered PLC ("**SCPLC**"), the ultimate holding company of SCB, was incorporated and registered in England and Wales on 18 November 1969 as a company limited by shares. Its ordinary shares and preference shares are listed on the Official List and traded on the London Stock Exchange. SCPLC's ordinary shares are also listed on the Hong Kong Stock Exchange. SCPLC operates under the Companies Acts 1985 and 2006 and its registered number is 966425. SCPLC's registered office is at 1 Aldermanbury Square, London EC2V 7SB, and its principal place of business in the United Kingdom is at 1 Basinghall Avenue, London EC2V 5DD. SCPLC's telephone number is +44 (0)20 7885 8888. SCPLC adopted new articles of association on 7 May 2009.

SCB was incorporated in England with limited liability by Royal Charter in 1853. SCB's issued share capital comprises ordinary shares, all of which are owned by Standard Chartered Holdings Limited, a company incorporated in England and Wales and a wholly-owned subsidiary of SCPLC, non-cumulative irredeemable preference shares of US$0.01 each, all of which are owned by Standard Chartered Capital Investments LLC, a company incorporated in the United States, and non-cumulative redeemable preference shares of US$5.00 each, all of which are owned by SCPLC. SCB's principal office is at 1 Aldermanbury Square, London EC2V 7SB and its principal place of business in the United Kingdom is at 1 Basinghall Avenue, London EC2V 5DD. SCB's reference number is ZC18.

SCPLC and its subsidiaries (the "**Group**") is an international banking and financial services group particularly focused on the markets of Asia, Africa and the Middle East. As at 31 December 2009, the Group has a network of over 1,600 branches and outlets in over 71 markets and approximately 77,000 employees worldwide.

The Group, through SCB and its subsidiaries, operates two business divisions: Consumer Banking and Wholesale Banking.

Business Divisions

Consumer Banking

Consumer Banking serves the needs of personal, premium, small and medium enterprise and private banking customers, offering a full suite of innovative products and services to meet their borrowing, wealth management and transacting needs. A customer focused approach enables deeper understanding of customers' evolving needs and in providing customised financial solutions. Building on a rich history of over 150 years, Consumer Banking has a strong track record and deep understanding of fast-growing markets across Asia, Africa and the Middle East.

Wholesale Banking

Wholesale Banking provides a wide range of solutions to help corporate and institutional clients facilitate trade and finance across some of the fastest growing markets and trade corridors in today's global economy. Its focus is on building a client-driven business, being the bank of choice for and in Asia, Africa and the Middle East and leveraging its in-depth local knowledge and extensive cross-border network.

With a solid 150-year track record and on-the-ground expertise, Wholesale Banking provides clients with trade finance, cash management, securities services, foreign exchange, risk management, capital raising and corporate finance solutions.

Geographic Markets

The Group's network covers Asia Pacific, the Middle East, South Asia, Africa, the Americas, the United Kingdom and Europe.

Hong Kong

For the year ended 31 December 2009, Hong Kong-based activities contributed US$2,370 million operating income and US$1,062 million profit before tax to the Group. For the year ended 31 December 2008, Hong Kong-based activities contributed US$2,255 million operating income and US$989 million profit before tax to the Group.

Singapore, Malaysia and Other Asia Pacific Regions

For the year ended 31 December 2009, Singapore, Malaysia and other Asia Pacific business contributed US$4,480 million operating income and US$1,484 million profit before tax to the Group. For the year ended 31 December 2008, Singapore, Malaysia and other Asia Pacific business contributed US$4,277 million operating income and US$1,313 million profit before tax to the Group.

Singapore is one of the Group's top five markets by profits before tax and SCB was among the first four foreign banks in Singapore to be awarded a Qualifying Full Bank ("**QFB**") licence in October 1999.

The Group continues to be well positioned in a range of fast-expanding markets in the Asia Pacific region. In China in 2009, the Group has a network of 54 outlets. Income in China increased 17 per cent. to US$738 million in 2009.

The acquisition of Hsinchu International Bank in 2006 (subsequently renamed Standard Chartered Bank (Taiwan) Limited) made the Group the largest international bank in Taiwan. In Indonesia, SCB increased its stake in PT Bank Permata in 2006, reinforcing its position as the country's largest international bank.

Korea

The Group acquired Korea First Bank, a major banking group in the Republic of Korea (South Korea) in April 2005 and completed the rebranding as SC First Bank in September 2005. In November 2005, SCB's branch business in South Korea was integrated with SC First Bank. For the year ended 31 December 2009, Korea contributed operating income of US$1,554 million and profit before tax of US$322 million to the Group. For the year ended 31 December 2008, Korea contributed operating income of US$1,547 million and profit before tax of US$329 million to the Group.

India

In India (including Nepal), the Group operates one of the country's largest foreign banks in terms of branch network, with over 90 branches in 37 cities.

For the year ended 31 December 2009, India contributed operating income of US$1,813 million and profit before tax of US$1,060 million to the Group, making it the Group's second largest contributor of income and profits after Hong Kong. For the year ended 31 December 2008, India contributed operating income of US$1,694 million and profit before tax of US$891 million to the Group.

Middle East and other South Asia

For the year ended 31 December 2009, Middle East and other South Asia contributed operating income of US$2,078 million and profit before tax of US$366 million to the Group. For the year ended 31 December 2008, Middle East and other South Asia contributed operating income of US$1,658 million and profit before tax of US$652 million to the Group. In the United Arab Emirates, as at 31 December 2009, Standard Chartered has the largest network among international banks, with 11 branches and over 130 ATMs.

Standard Chartered Bank (Pakistan) Limited is the largest international bank in Pakistan with 174 branches spread over 41 cities as at 31 December 2009.

Africa

As at 31 December 2009, the Group has a presence in 13 countries in Africa, of which Nigeria and Kenya contributed around 32% of total Africa income in 2009. The Group's core African markets are Botswana, Ghana, Kenya, Nigeria, Zambia, Tanzania and Uganda. For the year ended 31 December 2009, Africa contributed operating income of US$1,089 million and profit before tax of US$482 million to the Group. For the year ended 31 December 2008, Africa contributed operating income of US$910 million and profit before tax of US$313 million to the Group.

Americas, United Kingdom and Europe

In the Americas, the United Kingdom and Europe, the Group is focused on serving clients with needs in Asia, Africa and the Middle East, offering specialised products to multinational organisations. For the year ended 31 December 2009, operating income was US$1,800 million and operating profit before tax was US$375 million. For the year ended 31 December 2008, the Group's operations in Americas, the United Kingdom and Europe contributed operating income of US$1,627 million and a profit before tax of US$81 million to the Group.

The Group's head office is based in London, along with the majority of Group functions. The Group's Wholesale Banking team in London plays a key role in serving corporate and financial institutional clients doing business in its markets. The acquisitions of Pembroke, Harrison Lovegrove and AEB have added specialist capabilities to the Group and helped expand its Private Banking network and transaction banking capabilities.

The Group has had a presence in New York since 1902 and its US dollar clearing business is based there.

Subsidiaries

As at 31 December 2009, the principal subsidiary undertakings of SCB and principally engaged in the business of banking and provision of other financial services, were as follows: Standard Chartered Bank (Hong Kong) Limited, Standard Chartered First Bank Korea Limited, Standard Chartered Bank Malaysia Berhad, Standard Chartered Bank (Thai) Public Company Limited, Standard Chartered Bank (China) Limited, Standard Chartered Bank (Taiwan) Limited, Standard Chartered Bank (Pakistan) Limited, Standard Chartered Bank Nigeria Limited, Standard Chartered Kenya Limited, and Standard Chartered Private Equity Limited.

All the above are directly or indirectly wholly owned subsidiaries of SCB, except Standard Chartered Bank (Thai) Public Company Limited, which is 99.99 per cent. owned by SCB and Standard Chartered Bank (Pakistan) Limited, which is 98.99 per cent. owned by SCB.

Recent developments

On 11 June 2010, SCPLC listed a total of 240,000,000 Indian Depository Receipts ("**IDRs**") on the Bombay Stock Exchange Limited and National Stock Exchange of India Limited. Every 10 IDRs represents one SCPLC ordinary share of US0.50 each. The underlying 24,000,000 SCPLC ordinary shares were admitted to the Official List of the United Kingdom Listing Authority and trading on the main market of the London Stock Exchange on 7 June 2010 and listed on The Stock Exchange of Hong Kong Limited on 8 June 2010.

Directors

As at 1 May 2010, the directors of SCB and their respective principal outside activities, where significant to SCB, are as follows:

P A Sands *Chairman, and Group Chief Executive of SCPLC*

J S Bindra *Director, Group Executive Director of SCPLC and Chief Executive Officer, Asia*

S P Bertamini *Director, Group Executive Director of SCPLC, and Chief Executive, Consumer Banking*

R H Meddings *Director, and Group Finance Director of SCPLC*

Non-executive Director of 3i Group plc

T J Miller *Director Property, Research and Assurance*

Non-Executive Director of Michael Page International plc

A M G Rees *Director, Group Executive Director of SC PLC and Chief Executive, Wholesale Banking*

V Shankar *Director, CEO Middle East, Africa, Europe and Americas.*

STATUTORY AND GENERAL INFORMATION ABOUT US

NO MATERIAL ADVERSE CHANGE AND LITIGATION

Save for any that has been disclosed in this base listing document, there has been no material adverse change in our financial or trading position since the date of our most recently published audited financial statements that would have a material adverse effect on our ability to perform our obligations in the context of any issue of structured products.

Save for any that has been disclosed in this base listing document, we are not aware, to the best of our knowledge and belief, of any claims, litigation or arbitration proceedings pending or threatened against SCB Group (being SCB and its subsidiaries) or that SCB Group is involved in, which in our opinion could have a material adverse effect on our ability to perform our obligations in the context of any issue of structured products.

FINANCIAL INFORMATION ABOUT THE ISSUER

SCB publishes its directors' report and the audited financial statements of Standard Chartered Bank Group and SCB following the end of each of its financial year. Its financial year end is 31 December.

KPMG Audit Plc, our independent accountants and auditors, have given and have not withdrawn their written consent to the inclusion of their report dated 3 March 2010 (which relates to our financial statements for the year ended 31 December 2009) attached to our accounts into this base listing document in the form and context in which they are included. Their report was not prepared for the purposes of this base listing document.

KPMG Audit Plc do not have any shareholding in us or any of our subsidiaries nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of any of our subsidiaries.

ANNEX 1

TERMS AND CONDITIONS OF THE CASH-SETTLED STOCK WARRANTS

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of Warrants. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the Instrument made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 10 from time to time. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligations of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

(F) The term "Warrants" refers to the Warrants set out in the Supplemental Listing Document, and may be "European style" or "American style", as specified in the Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)), if any, minus the determined Exercise Expenses (as defined in Condition 2(B)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period.

(i) In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants in accordance with these Conditions.

(ii) In the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business.

4 Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Subject to Condition 3(B),

(i) In order to exercise a Warrant, the Warrantholder shall deliver to the specified office of the transfer agent (the "**Transfer Agent**") a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised, mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Transfer Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Transfer Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer to debit any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Issuer on the Exercise Date shall be notified as soon as practicable after determination thereof by the Issuer to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid Exercise Expenses.

(D) Following the Expiry Date the Global Certificate will be cancelled.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are exercised before the Expiry Date) the Valuation Date (the "Settlement Date") in accordance with these conditions procure payment of the aggregate Cash Settlement Amounts minus the determined Exercise Expenses for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In the case of a series of Call Warrants:

$$\text{"}\textbf{Cash Settlement Amount}\text{" per Board Lot} = \frac{\text{Entitlement x (Average Price – Strike Price) x One Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{“}\textbf{Cash Settlement Amount}\text{” per Board Lot} = \frac{\text{Entitlement x (Strike Price – Average Price) x One Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**Entitlement**" means the number of Shares to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

"**Average Price**" shall be:

(i) the arithmetic mean of the Closing Prices for each Valuation Date, provided that:

(ii) in the case of American style Warrants only, (a) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Exercise Date or (b) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the first succeeding Business Day following the Exercise Date.

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for the relevant Valuation Date.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that already is or is deemed to be a Valuation Date, provided that (in the case of (i) European style Warrants and (ii) American style Warrants exercised on the Expiry Date) if the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (a) the Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (b) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of such price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence of any suspension of, or limitation imposed on, trading on the Stock Exchange in the Shares or any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material. For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

"**Valuation Date**" means, subject as provided above in relation to a Market Disruption Event:

(i) each of the five Days immediately preceding the Expiry Date relating to such exercise; or

(ii) in the case of American style Warrants only, (a) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Exercise Date or (b) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the first succeeding Day following the Exercise Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Shares on that first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than 5 closing prices to determine the Average Price, provided that (in the case of American style Warrants only) if the American style Warrants are exercised on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be one closing price in any event.

For the purposes of Condition 4(F), a "**Day**" shall mean a day (excluding Saturday) on which the Stock Exchange and banks are usually open in Hong Kong for business.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent (including the Transfer Agent) or nominee and the Warrantholder and neither the Issuer nor its agent (including the Transfer Agent) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

The Issuer shall not have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Transfer Agent

(A) Unless another entity is specified as Transfer Agent in the Supplemental Listing Document, the Transfer Agent of the Warrants is set out below. The Transfer Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Transfer Agent and to appoint another transfer agent provided that it will at all times maintain a transfer agent with a transfer office in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment and any change in the Transfer Agent will be given to the holder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Issuer to the terms of the Warrants (including, but not limited to, the Strike Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Strike Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor: } \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

X: Existing Strike Price immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Strike Price (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 6(A) and 6(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.

(B) (i) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement and the Strike Price will be adjusted, subject to Condition 6(A)(iii), on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

Adjustment Factor: 1 + M

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Strike Price immediately prior to the Bonus Issue

M: Number of new Shares (whether a whole or a fraction) each holder of an existing Share is entitled to have.

(ii) The Adjusted Strike Price (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Strike Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Strike Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect. The adjusted Strike Price shall be rounded to the nearest Hong Kong dollar 0.001.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company. However, the Issuer reserves the right, at its sole discretion and without any obligation whatsoever, to make such adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Issuer believes (in its sole discretion and notwithstanding any adjustment previously made by the Issuer) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Issuer to be beneficial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practice.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Strike Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\begin{array}{l}\text{Adjusted Strike Price} \\ \text{(which shall be rounded to the} \\ \text{nearest Hong Kong dollar 0.001)}\end{array} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor:} \quad \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Strike Price immediately prior to the relevant Cash Distribution

S: The closing price of a Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Share (applicable only if the date on which trading in the Shares becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Share

(F) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Certificate

A global certificate (the "**Global Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Warrantholder, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholder or (ii) of a formal, minor or technical nature, (iii) made to correct an obvious error or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) or such other jurisdiction where the Shares are listed or the issuer of the Shares is incorporated or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. Any such modification shall be binding on the Warrantholder and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEX website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the Warrants to the Warrantholder.

12 Delisting of Company

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Early Termination for Illegality

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal for it to maintain its hedging arrangements with respect to the Warrants (i) due to the adoption of or any change in any applicable law or regulation, or (ii) due to the promulgation of or any change in the interpretation of any applicable law or regulation, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholders in accordance with Condition 10.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by any applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

15 Governing Law

The Warrant and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Transfer Agent
Standard Chartered Bank (Hong Kong) Limited
15th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

TERMS AND CONDITIONS OF THE INDEX WARRANTS

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of Warrants. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Index as published by the Index Sponsor are issued in registered form subject to and with the benefit of the Instrument made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 10 from time to time. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligations of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

(F) The term "Warrants" refers to the Warrants set out in the Supplemental Listing Document, and may be "European style" or "American style", as specified in the Supplemental Listing Document.

2 **Warrant Rights and Exercise Expenses**

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)), if any, minus the determined Exercise Expenses (as defined in Condition 2(B)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payments, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 **Exercise Period**

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period.

(i) In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants in accordance with these Conditions.

(ii) In the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 **Exercise of Warrants**

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Subject to Condition 3(B),

(i) In order to exercise a Warrant, the Warrantholder shall deliver to the specified office of the transfer agent (the "**Transfer Agent**") a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Transfer Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Transfer Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer to debit any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Issuer on the Exercise Date shall be notified as soon as practicable after determination thereof by the Issuer to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid Exercise Expenses.

(D) Following the Expiry Date the Global Certificate will be cancelled.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Exercise Date or (in the case of Automatic Exercise) the Expiry Date (the "**Settlement Date**") in accordance with these Conditions procure payment of the aggregate Cash Settlement Amounts minus the determined Exercise Expenses for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In respect of Index Call Warrants:

"**Cash Settlement Amount**" means for every Exercise Amount, an amount calculated by the Issuer equal to the excess of the Closing Level on the Valuation Date over the Strike Level, multiplied by the Index Currency Amount, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate.

In respect of Index Put Warrants:

"**Cash Settlement Amount**" means for every Exercise Amount, an amount calculated by the Issuer equal to the excess of the Strike Level over the Closing Level on the Valuation Date, multiplied by the Index Currency Amount, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or other agent in Hong Kong (if any) as is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on the Valuation Date but for the Market Disruption Event, provided that the Issuer may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

"**Index Business Day**" means a day on which the Index is published by the Index Sponsor or, as the case may be, the Successor Index Sponsor.

"**Market Disruption Event**" means the occurrence or existence, on the Valuation Date, of any of:

(i) the suspension or material limitation of the trading of a material number of securities that comprise the Index; or

(ii) the suspension or material limitation of the trading of securities (a) on the Stock Exchange or (b) generally; or

(iii) the suspension or material limitation of the trading of (a) options or futures relating to the Index or (b) options or futures generally on any options and/or future exchanges on which options relating to the Index are traded; or

(iv) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

For the purposes of this definition, (i) the limitation on the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange, and (ii) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event.

"**Valuation Date**" means the date specified as such in the Supplemental Listing Document.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent (including the Transfer Agent) or nominee and the Warrantholder and neither the Issuer nor its agent (including the Transfer Agent) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

The Issuer shall not have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Transfer Agent

(A) Unless another entity is specified as Transfer Agent in the Supplemental Listing Document, the Transfer Agent of the Warrants is set out below. The Transfer Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Transfer Agent and to appoint another transfer agent provided that it will at all times maintain a transfer agent with a transfer office in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment and any change in the Transfer Agent will be given to the holder in accordance with Condition 10.

6 Adjustments

(A) If the Index is (i) not calculated and announced by the Index Sponsor but is calculated and published by a successor to the Index Sponsor (the "**Successor Index Sponsor**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Sponsor or that successor index, as the case may be.

(B) If (i) on or prior to the Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events), or (ii) on the Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and publish the Index, then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) Adjustments will not be made in any other circumstances including, without limitation, the payment of a cash or scrip dividend by any of the issuers of the securities constituting the Index. However, the Issuer reserves the right, at its sole discretion and without any obligation whatsoever, to make such adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Issuer believes (in its sole discretion and notwithstanding any adjustment previously made by the Issuer) should, in the context of the issue of the Warrants and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Issuer to be beneficial to the Warrantholders generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practice or is approved by the Stock Exchange.

(D) All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 10.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Certificate

A global certificate (the "**Global Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Warrantholder, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholder or (ii) of a formal, minor or technical nature, (iii) made to correct an obvious error or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) or such other jurisdiction where any securities included in the Index are listed, or the issuer(s) of any securities included in the Index is/are incorporated or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. Any such modification shall be binding on the Warrantholder and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEX website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

12 Early Termination for Illegality

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal for it to maintain its hedging arrangements with respect to the Warrants (i) due to the adoption of or any change in any applicable law or regulation, or (ii) due to the promulgation of or any change in the interpretation of any applicable law or regulation, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholders in accordance with Condition 10.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by any applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

13 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

14 Language

In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Transfer Agent
Standard Chartered Bank (Hong Kong) Limited
15th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

TERMS AND CONDITIONS OF THE CASH-SETTLED BARRIER WARRANTS

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of Warrants. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the Instrument made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 10 from time to time. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

(F) The term "Warrants" refers to the Warrants set out in the Supplemental Listing Document, and may be "European style" or "American style", as specified in the Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)), if any, minus the determined Exercise Expenses (as defined in Condition 2(B)), provided that the Cash Settlement Amount (if any) is only payable if no Knock-out Event occurs during the Barrier Period.

"**Knock-out Event**" means:

(i) in respect of a series of Barrier Call Warrants, the closing price of the Shares (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on any day during the Barrier Period is equal to, or greater than, the Barrier Strike Price (subject to adjustments as provided in Condition 6); and

(ii) in respect of a series of Barrier Put Warrants, the closing price of the Shares (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on any day during the Barrier Period is equal to, or less than, the Barrier Strike Price (subject to adjustments as provided in Condition 6).

For the avoidance of doubt, if a Market Disruption Event occurs on any day during the Barrier Period no adjustment or modification will be made to the Barrier Period or the closing price of the Shares and the day on which a Market Disruption Event has occurred will be ignored for the purposes of determining whether a Knock-out Event occurs during the Barrier Period;

"**Barrier Period**" has the meaning ascribed to it in the relevant Supplemental Listing Document.

If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

(C) *Rebate.* The Issuer shall pay the Rebate (net of any taxation and other withholdings) to each Warrantholder shown in the register kept by the Issuer on the Record Date if a Knock-out Event occurs. The Issuer will notify the Warrantholder of the occurrence of the Knock-out Event on the day on which a Knock-out Event has occurred in accordance with the provisions of Condition 10. Trading in the Warrants will cease at the close of business on the day on which a Knock-out Event has occurred. The Warrants will expire worthless immediately upon the payment of the Rebate and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrants shall cease.

For the purpose of this Condition 2(C), "**Record Date**" means the date and time as determined by the Issuer by which a Warrantholder must be registered on the register kept by the Issuer in order to be entitled to the Rebate. As at the Record Date, the Issuer shall have the sole and absolute discretion to determine the identity of the Warrantholders. Such determination is final and conclusive. No person who becomes registered on the register at any time following the Record Date is entitled to receive the Rebate.

The Rebate to which the Warrantholder is entitled shall be paid by no later than five Business Days following the day on which the Knock-out Event first occurs during the Barrier Period (the "**Rebate Payment Date**"). The Rebate will be credited in accordance with the CCASS Rules, to the relevant bank account designated by the Warrantholder as appearing in the register kept by or on behalf of the Issuer. The provisions in respect of "Settlement Disruption Event" set out in Condition 4(F) apply to payment of the Rebate. Any payment made pursuant to this Condition 2(C) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) is recorded on the register.

"**Rebate**" has the meaning ascribed to it in the relevant Supplemental Listing Document.

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period.

(i) In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants in accordance with these Conditions.

(ii) In the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business.

4 Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Subject to Condition 3(B),

(i) In order to exercise a Warrant, the Warrantholder shall deliver to the specified office of the transfer agent (the "**Transfer Agent**") a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised, mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Transfer Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Transfer Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer to debit any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Issuer on the Exercise Date shall be notified as soon as practicable after determination thereof by the Issuer to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid Exercise Expenses.

(D) Following the Expiry Date or the Rebate Payment Date (as the case may be) the Global Certificate will be cancelled.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are exercised before the Expiry Date) the Valuation Date (the "**Settlement Date**") in accordance with these conditions procure payment of the aggregate Cash Settlement Amounts minus the determined Exercise Expenses for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer. The Cash Settlement Amount is payable only if no Knock-out Event occurs during the Barrier Period. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In the case of a series of Call Warrants:

$$\text{"}\textbf{Cash Settlement Amount}\text{" per Board Lot} = \frac{\text{Entitlement x (Average Price – Strike Price) x One Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{"}\textbf{Cash Settlement Amount}\text{" per Board Lot} = \frac{\text{Entitlement x (Strike Price – Average Price) x One Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**Entitlement**" means the number of Shares to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

"**Average Price**" shall be:

(i) the arithmetic mean of the Closing Prices for each Valuation Date, provided that:

(ii) in the case of American style Warrants only, (a) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Exercise Date, or (b) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the first succeeding Business Day following the Exercise Date.

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for the relevant Valuation Date.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that already is or is deemed to be a Valuation Date, provided that (in the case of (i) European style Warrants and (ii) American style Warrants exercised on the Expiry Date) if the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (a) the Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (b) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of such price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence of any suspension of, or limitation imposed on, trading on the Stock Exchange in the Shares or any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material. For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

"**Valuation Date**" means, subject as provided above in relation to a Market Disruption Event:

(i) each of the five Days immediately preceding the Expiry Date relating to such exercise; or

(ii) in the case of American style Warrants only, (a) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Exercise Date, or (b) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the first succeeding Day following the Exercise Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Shares on that first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than 5 closing prices to determine the Average Price, provided that (in the case of American style Warrants only) if the American style Warrants are exercised on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be one closing price in any event.

For the purposes of Condition 4(F) a "**Day**" shall mean a day (excluding Saturday) on which the Stock Exchange and banks are usually open in Hong Kong for business.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent (including the Transfer Agent) or nominee and the Warrantholder and neither the Issuer nor its agent (including the Transfer Agent) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

The Issuer shall not have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Transfer Agent

(A) Unless another entity is specified as Transfer Agent in the Supplemental Listing Document, the Transfer Agent of the Warrants is set out below. The Transfer Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Transfer Agent and to appoint another transfer agent provided that it will at all times maintain a transfer agent with a transfer office in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment and any change in the Transfer Agent will be given to the holder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Issuer to the terms of the Warrants (including, but not limited to, the Strike Price, the Barrier Strike Price (if applicable) and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Strike Price, the Barrier Strike Price (if applicable) and the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Barrier Strike Price (if applicable) will be adjusted to:

$$\text{Adjusted Barrier Strike Price} = \frac{1}{\text{Adjustment Factor}} \times B$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

B: Existing Barrier Strike Price immediately prior to the relevant event giving rise to the adjustment

X: Existing Strike Price immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Strike Price and the Adjusted Barrier Strike Price (if applicable) (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 6(A) and 6(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.

(B) (i) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement, the Strike Price and the Barrier Strike Price (if applicable) will be adjusted, subject to Condition 6(A)(iii), on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Barrier Strike Price (if applicable) will be adjusted to:

$$\text{Adjusted Barrier Strike Price} = \frac{1}{\text{Adjustment Factor}} \times B$$

Where:

Adjustment Factor: $1 + M$

E: Existing Entitlement immediately prior to the Bonus Issue

B: Existing Barrier Strike Price immediately prior to the Bonus Issue

X: Existing Strike Price immediately prior to the Bonus Issue

M: Number of new Shares (whether a whole or a fraction) each holder of an existing Share is entitled to have.

(ii) The Adjusted Strike Price and the Adjusted Barrier Strike Price (if applicable) (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased, and the Strike Price and the Barrier Strike Price (if applicable) shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased, and the Strike Price and the Barrier Strike Price (if applicable) shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect. The adjusted Strike Price and the adjusted Barrier Strike Price shall be rounded to the nearest Hong Kong dollar 0.001.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company. However, the Issuer reserves the right, at its sole discretion and without any obligation whatsoever, to make such adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Issuer believes (in its sole discretion and notwithstanding any adjustment previously made by the Issuer) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Issuer to be beneficial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practice.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Strike Price, the Barrier Strike Price (if applicable) and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price (which shall be rounded to the nearest Hong Kong dollar 0.001)} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Barrier Strike Price (if applicable) will be adjusted to:

$$\text{Adjusted Barrier Strike Price (which shall be rounded to the nearest Hong Kong dollar 0.001)} = \frac{1}{\text{Adjustment Factor}} \times B$$

Where:

$$\text{Adjustment Factor: } \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

B: Existing Barrier Strike Price immediately prior to the relevant Cash Distribution

X: Existing Strike Price immediately prior to the relevant Cash Distribution

S: The closing price of a Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Share (applicable only if the date on which trading in the Shares becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Share

(F) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Certificate

A global certificate (the "**Global Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Warrantholder, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholder or (ii) of a formal, minor or technical nature, (iii) made to correct an obvious error or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) or such other jurisdiction where the Shares are listed or the issuer of the Shares is incorporated or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. Any such modification shall be binding on the Warrantholder and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEX website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the Warrants to the Warrantholder.

12 Delisting of Company

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Early Termination for Illegality

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal for it to maintain its hedging arrangements with respect to the Warrants (i) due to the adoption of or any change in any applicable law or regulation, or (ii) due to the promulgation of or any change in the interpretation of any applicable law or regulation, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholders in accordance with Condition 10.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by any applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

15 Governing Law

The Warrant and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Transfer Agent
Standard Chartered Bank (Hong Kong) Limited
15th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

TERMS AND CONDITIONS OF THE CASH-SETTLED WARRANTS RELATING TO THE UNITS OF A FUND OR TRUST

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of Warrants. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Units of the Fund or Trust are issued in registered form subject to and with the benefit of the Instrument made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 10 from time to time. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

(F) The term "Warrants" refers to the Warrants set out in the Supplemental Listing Document, and may be "European style" or "American style", as specified in the Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)), if any, minus the determined Exercise Expenses (as defined in Condition 2(B)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 Exercise Period

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period.

(i) In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants in accordance with these Conditions.

(ii) In the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business.

4 Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Subject to Condition 3(B),

(i) In order to exercise a Warrant, the Warrantholder shall deliver to the specified office of the transfer agent (the "**Transfer Agent**") a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an **"Exercise Date"**, which reference shall, in the case of Warrants that are deemed exercised, mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Transfer Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Transfer Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer to debit any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Issuer on the Exercise Date shall be notified as soon as practicable after determination thereof by the Issuer to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid Exercise Expenses.

(D) Following the Expiry Date the Global Certificate will be cancelled.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are exercised before the Expiry Date) the Valuation Date (the "**Settlement Date**") in accordance with these conditions procure payment of the aggregate Cash Settlement Amounts minus the determined Exercise Expenses for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

Subject to adjustment as provided in Condition 6, **"Cash Settlement Amount"** means:

In the case of a series of Call Warrants:

$$\text{"}\textbf{Cash Settlement Amount}\text{" per Board Lot} = \frac{\text{Entitlement x (Average Price – Strike Price) x One Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{"}\textbf{Cash Settlement Amount}\text{" per Board Lot} = \frac{\text{Entitlement x (Strike Price – Average Price) x One Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"Entitlement" means the number of Units to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

"**Average Price**" shall be:

(i) the arithmetic mean of the Closing Prices for each Valuation Date, provided that:

(ii) in the case of American style Warrants only, (a) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the Exercise Date, or (b) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be the Closing Price on the first succeeding Business Day following the Exercise Date.

"**Closing Price**" means the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for the relevant Valuation Date.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a day that already is or is deemed to be a Valuation Date, provided that (in the case of (i) European style Warrants and (ii) American style Warrants exercised on the Expiry Date) if the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (a) the Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (b) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of such price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence of any suspension of, or limitation imposed on, trading on the Stock Exchange in the Units or any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material. For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event.

"**Valuation Date**" means, subject as provided above in relation to a Market Disruption Event:

(i) each of the five Days immediately preceding the Expiry Date relating to such exercise; or

(ii) in the case of American style Warrants only (a) if the American style Warrants are exercised prior to 10:00 a.m. on an Exercise Date other than the Expiry Date, the Exercise Date, or (b) if the American style Warrants are exercised after 10:00 a.m. on an Exercise Date other than the Expiry Date, the first succeeding Day following the Exercise Date.

In the event that a Market Disruption Event has occurred and a Valuation Date is postponed in accordance with Condition 4(F), the closing price of the Units on that first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount, so that in no event shall there be less than 5 closing prices to determine the Average Price, provided that (in the case of American style Warrants only) if the American style Warrants are exercised on an Exercise Date other than the Expiry Date, the Average Price shall be deemed to be one closing price in any event.

For the purposes of Condition 4(F) a "**Day**" shall mean a day (excluding Saturday) on which the Stock Exchange and banks are usually open in Hong Kong for business.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent (including the Transfer Agent) or nominee and the Warrantholder and neither the Issuer nor its agent (including the Transfer Agent) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

The Issuer shall not have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Transfer Agent

(A) Unless another entity is specified as Transfer Agent in the Supplemental Listing Document, the Transfer Agent of the Warrants is set out below. The Transfer Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Transfer Agent and to appoint another transfer agent provided that it will at all times maintain a transfer agent with a transfer office in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment and any change in the Transfer Agent will be given to the holder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Issuer to the terms of the Warrants (including, but not limited to, the Strike Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Fund or Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Strike Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor:} \quad \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

X: Existing Strike Price immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Unit price, being the closing price of an existing Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Right

M: Number of new Unit(s) per existing Unit (whether a whole or a fraction) each holder of an existing Unit is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Strike Price (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 6(A) and 6(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.

(B) (i) If and whenever the Fund or Trust shall make an issue of Units credited as fully paid to holders of Units generally by way of capitalisation of profits or reserves (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Fund or Trust or otherwise in lieu of a cash distribution) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement and the Strike Price will be adjusted, subject to Condition 6(A)(iii), on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

Adjustment Factor: 1 + M

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Strike Price immediately prior to the Bonus Issue

M: Number of new Units (whether a whole or a fraction) each holder of an existing Unit is entitled to have.

(ii) The Adjusted Strike Price (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(C) If and whenever the Fund or Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units or consolidate the Units or any class of its outstanding Units into a smaller number of units, the Entitlement shall be increased and the Strike Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Strike Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect. The adjusted Strike Price shall be rounded to the nearest Hong Kong dollar 0.001.

(D) If it is announced that the Fund or Trust is to or may merge or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Fund or Trust is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) or fund(s) as the case may be resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Fund or Trust, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Fund or Trust. However, the Issuer reserves the right, at its sole discretion and without any obligation whatsoever, to make such adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Issuer believes (in its sole discretion and notwithstanding any adjustment previously made by the Issuer) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Issuer to be beneficial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practice.

If and whenever the Fund or Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Strike Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price (which shall be rounded to the nearest Hong Kong dollar 0.001)} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor:} \quad \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Strike Price immediately prior to the relevant Cash Distribution

S: The closing price of a Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Unit (applicable only if the date on which trading in the Units becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Unit

(F) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Certificate

A global certificate (the "**Global Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Warrantholder, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholder or (ii) of a formal, minor or technical nature, (iii) made to correct an obvious error or (iv) which is necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) or such other jurisdiction where the Units are listed or where the Fund or Trust is established or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. Any such modification shall be binding on the Warrantholder and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEX website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Fund or Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Fund or Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the Warrants to the Warrantholder.

For the purpose of this Condition 11, "**Termination**" means (i) the Fund or Trust is terminated, or the Trustee or the manager of the Fund or Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Fund or Trust under the trust deed ("**Trust Deed**") constituting the Fund or Trust or applicable law, or the termination of the Trust commences; (ii) the Fund or Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Fund or Trust to hold the property of the Fund or Trust in its name and perform its obligations under the Trust Deed; or (iv) the Fund or Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

12 Delisting of Fund or Trust

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Early Termination for Illegality

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal for it to maintain its hedging arrangements with respect to the Warrants (i) due to the adoption of or any change in any applicable law or regulation, or (ii) due to the promulgation of or any change in the interpretation of any applicable law or regulation, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholders in accordance with Condition 10.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by any applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

15 Governing Law

The Warrant and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Transfer Agent
Standard Chartered Bank (Hong Kong) Limited
15th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

TERMS AND CONDITIONS OF THE CASH-SETTLED CURRENCY WARRANTS

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of Warrants. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 10) are issued in registered form subject to and with the benefit of the Instrument made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 9 from time to time. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

(F) The term "Warrants" refers to the Warrants set out in the Supplemental Listing Document, and may be "European style" or "American style", as specified in the Supplemental Listing Document.

2 **Warrant Rights and Exercise Expenses**

(A) Every Exercise Amount entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(E)), if any, minus the determined Exercise Expenses (as defined in Condition 2(B)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(E).

3 **Exercise Period**

(A) The Warrants may be exercised by delivery of an Exercise Notice (as defined in Condition 4) on any Business Day during the Exercise Period.

(i) In the case of an exercise of American style Warrants, the Exercise Period is the period beginning at (and including) 10:00 a.m. (Hong Kong time) on the Dealing Commencement Date (or, if later, the first day of dealing in the Warrants on the Stock Exchange) ending at (and including) 10:00 a.m. (Hong Kong time) on the Expiry Date subject to prior termination of the Warrants in accordance with these Conditions.

(ii) Subject In the case of an exercise of European style Warrants, a reference to Exercise Period shall mean 10:00 a.m. on the Expiry Date only.

(B) Any Warrant with respect to which an Exercise Date (as defined in Condition 4) has not occurred during the Exercise Period, and in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**"), so that the Warrantholders shall not be required to serve an Exercise Notice.

(C) Any Warrant with respect to which an Exercise Date has not occurred or which has not been automatically exercised in accordance with Condition 3(B) shall expire immediately at the conclusion of the Exercise Period without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(D) In these Conditions, "**Business Day**" means a day (excluding Saturdays or Sundays) on which the Stock Exchange is open for dealings in Hong Kong and banks are open for business and for carrying on foreign exchange transactions in Hong Kong.

4 **Exercise of Warrants**

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Subject to Condition 3(B),

(i) In order to exercise a Warrant, the Warrantholder shall deliver to the specified office of the transfer agent (the "**Transfer Agent**") a duly completed exercise notice in accordance with the Instrument (an "**Exercise Notice**"), such delivery to be made not later than 10:00 a.m. (Hong Kong time) on the Expiry Date.

(ii) The date upon which the Warrants are exercised (an "**Exercise Date**", which reference shall, in the case of Warrants that are deemed exercised, mean the date on which such Warrants are deemed exercised) shall be the Business Day on which an Exercise Notice is delivered to the Transfer Agent and in respect of which there is a valid exercise of Warrants in accordance with the requirements set out herein, provided that any Exercise Notice received by the Transfer Agent after 10:00 a.m. (Hong Kong time) on any Business Day (other than the Expiry Date) shall be deemed to have been delivered on the next following Business Day.

(C) Delivery of an Exercise Notice in accordance with Condition 4(B) shall constitute an irrevocable election and undertaking by the Warrantholder specified in such Exercise Notice to exercise the number of Warrants specified in such Exercise Notice and an irrevocable authorisation (which is deemed to be given in the case of Automatic Exercise) to the Issuer to debit any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Issuer on the Exercise Date shall be notified as soon as practicable after determination thereof by the Issuer to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid Exercise Expenses.

(D) Following the Expiry Date the Global Certificate will be cancelled.

(E) Subject to a valid exercise of Warrants or an Automatic Exercise in accordance with Condition 3(B), the Issuer will as soon as practicable and not later than three Business Days following the Expiry Date or (in the case where the American style Warrants are exercised before the Expiry Date) the Valuation Date (the "**Settlement Date**") in accordance with these conditions procure payment of the aggregate Cash Settlement Amounts minus the determined Exercise Expenses for all Warrants exercised or deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means:

In the case of a series of Call Warrants, in respect of every Exercise Amount, an amount calculated by the Issuer equal to the excess of the Spot Price on the Valuation Date over the Strike Price, converted into Hong Kong dollars at the Hong Kong Dollar Price.

In the case of a series of Put Warrants, in respect of every Exercise Amount, an amount calculated by the Issuer equal to the excess of the Strike Price over the Spot Price on the Valuation Date, converted into Hong Kong dollars at the Hong Kong Dollar Price.

Any payment made pursuant to this Condition 4(E) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) is recorded on the register.

(F) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the Spot Price or the Hong Kong Dollar Price on the basis of its good faith estimate of the Spot Price or the Hong Kong Dollar Price, as the case may be, that would have prevailed on that day but for the occurrence of the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence, on the Valuation Date of any event, circumstance or cause which would result in:

(i) the Issuer being unable to determine the Spot Price or the Hong Kong Dollar Price in the manner set out in these Conditions or in such other manner as the Issuer may believe appropriate at such time after taking into account all the relevant circumstances; or

(ii) Hong Kong Dollars not being freely available to the Issuer for any reason, provided that if Hong Kong Dollars are not freely available the Issuer may express and pay the Cash Settlement Amount in any currency which is freely available and convertible on the international foreign exchange market.

"**Valuation Date**" means the Exercise Date or the Expiry Date, as the case may be.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent (including the Transfer Agent) or nominee and the Warrantholder and neither the Issuer nor its agent (including the Transfer Agent) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

The Issuer shall not have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 4(E) above.

5 Transfer Agent

(A) Unless another entity is specified as Transfer Agent in the Supplemental Listing Document, the Transfer Agent of the Warrants is set out below. The Transfer Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Transfer Agent and to appoint another transfer agent provided that it will at all times maintain a transfer agent with a transfer office in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment and any change in the Transfer Agent will be given to the holder in accordance with Condition 9.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

7 Global Certificate

A global certificate (the "**Global Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder*. Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting, save, in the case of Warrants which are expressed to be American Style, for those Warrants remaining unexercised but for which an Exercise Notice shall have been submitted prior to the date of the meeting.

In the case of Warrants which are expressed to be American Style, Warrants which have not been exercised but in respect of which an Exercise Notice has been submitted will not confer the right to attend or vote at, or join in convening, or be counted in quorum for, any meeting of the Warrantholders.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholder, effect any modification of the provisions of the Warrants or the Instrument which is (i) not materially prejudicial to the interests of the Warrantholder or (ii) of a formal, minor or technical nature, (iii) made to correct an obvious error or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. Any such modification shall be binding on the Warrantholder and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the HKEX website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

10 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

11 Foreign Currency Controls

If exchange control or other laws, regulations, directives or guidelines are imposed by the central banking authority or other governmental or regulatory body of Hong Kong which (i) require the Issuer to obtain permission from such authority or regulatory body to purchase Hong Kong dollars, (ii) otherwise restrict the Issuer's ability to obtain Hong Kong dollars or (iii) otherwise adversely regulates the purchase or holding of Hong Kong dollars such that additional costs are imposed in obtaining Hong Kong dollars which would not be imposed in the absence of such laws, regulations, directives or guidelines or if the cost of obtaining Hong Kong dollars at the Hong Kong Dollar Price is determined by the Issuer to be excessive because of a disruption in the Hong Kong dollar foreign exchange market, then, upon notice from the Issuer to Warrantholders in accordance with Condition 9 to such effect, Warrantholders who have exercised their Warrants in accordance with Condition 4 (or who are deemed to have exercised their Warrants in accordance with Condition 3(B)) shall receive, at the option of the Issuer, in lieu of Hong Kong dollars, an amount equal to the Cash Settlement Amount in any currency which is freely available and convertible on the international foreign exchange market.

12 Adjustments

The Issuer reserves the right, at its sole discretion and without any obligation whatsoever, to make adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Issuer believes (in its sole discretion and notwithstanding any adjustment previously made by the Issuer) should, in the context of the issue of Warrants and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Issuer to be beneficial to the Warrantholder generally (without considering the individual circumstances of any Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practice or is approved by the Stock Exchange.

13 Early Termination for Illegality

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal for it to maintain its hedging arrangements with respect to the Warrants (i) due to the adoption of or any change in any applicable law or regulation, or (ii) due to the promulgation of or any change in the interpretation of any applicable law or regulation, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by any applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 9.

14 Governing Law

The Warrant and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15 Language

In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Transfer Agent
Standard Chartered Bank (Hong Kong) Limited
15th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

ANNEX 2

TERMS AND CONDITIONS OF THE CBBCs RELATING TO A SHARE

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of CBBCs. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The callable bull/bear contracts or "CBBCs" (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the Instrument made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 9 from time to time. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the Issuer nor any of its affiliates shall have any responsibility towards the Holder for any losses suffered in connection with the determination of a Mandatory Call Event, whether or not such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Expenses

(A) Every Board Lot of the CBBCs entitles the Holder to payment of the Cash Settlement Amount (if any) less the determined Expenses in accordance with Condition 3. If the Cash Settlement Amount is equal to or less than the determined Expenses, no amount is payable by the Issuer.

(B) The Holder will be required to pay the Expenses in respect of the Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D). Any Expenses which have not been determined by the Issuer on the Price Determination Date or the Valuation Date (as the case may be) shall be notified as soon as practicable after determination thereof by the Issuer to the Holder and shall be paid by the Holder forthwith in immediately available funds no later than 3 Business Days after the Holder receives notice of any unpaid Expenses.

(C) An irrevocable authorisation is deemed to be given to the Issuer to debit any determined Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

(A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the Mandatory Call Event Date ("**Mandatory Call Termination**") and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Where the Mandatory Call Event occurs in a continuous trading session of the Stock Exchange, all trades of CBBCs concluded in that continuous trading session after the time at which the Mandatory Call Event occurs will be cancelled. Where the Mandatory Call Event occurs in a pre-opening session or a closing auction session (if any) of the Stock Exchange, all auction trades of CBBCs concluded in that pre-opening session or closing auction session (if any) (as the case may be) and all manual trades of CBBCs concluded after the end of the relevant pre-order matching period will be cancelled.

Whereas:

"**Business Day**" means a day (other than a Saturday or Sunday) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business;

"**Mandatory Call Event**" occurs when, subject to any adjustment as provided in Condition 5, the Spot Price of the Shares at any time on a Trading Day during the Observation Period is for the first time in the Observation Period (in the case of a series of Bull CBBCs) at or below the Call Price or (in the case of a series of Bear CBBCs) at or above the Call Price;

"**Mandatory Call Event Date**" means the date on which the Mandatory Call Event occurs;

"**Observation End Date**" means the Business Day immediately before the Expiry Date;

"**Observation Period**" means the period from and including the Observation Start Date to and including the Observation End Date;

"**Observation Start Date**" means the date on which dealings in the CBBCs on the Stock Exchange first commence;

"**Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

"**Spot Price**" means:

(i) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during a continuous trading session of the Stock Exchange in accordance with the Rules and Regulations of the Exchange ("**Trading Rules**"), excluding direct business (as defined in the Trading Rules); and

(ii) in respect of a pre-opening session or a closing auction session (if any) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if any), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time.

"**Trading Day**" means any day on which the Stock Exchange is scheduled to be open for trading for its regular trading sessions.

(B) Any CBBCs with respect to which a Mandatory Call Event has not occurred on or prior to the Observation End Date shall be deemed automatically exercised at 10 a.m. (Hong Kong time) on the Expiry Date ("**Automatic Exercise**").

(C) Following the Mandatory Call Event Date or the Expiry Date, the Global Certificate will be cancelled.

(D) Following a Mandatory Call Termination or an Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will on a date no later than the third Settlement Day following the Price Determination Date or the Valuation Date, as the case may be (the "**Settlement Date**") in accordance with these Conditions procure payment of the aggregate Cash Settlement Amounts for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

"**Cash Settlement Amount**" per Board Lot means, subject to adjustment as provided in Condition 5:

(i) In the case of a series of Bull CBBCs:

(a) If no Mandatory Call Event has occurred, an amount determined by the Issuer in accordance with the following formula:

$$\begin{array}{c}\text{Cash Settlement Amount}\\ \text{per Board Lot}\end{array} = \frac{\text{Entitlement x (Closing Price - Strike Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

In respect of Category N CBBCs

(b) If a Mandatory Call Event has occurred and the Bull CBBCs are terminated following a Mandatory Call Event, zero.

In respect of Category R CBBCs

(c) If a Mandatory Call Event has occurred and the Bull CBBCs are terminated following a Mandatory Call Event, an amount determined by the Issuer in accordance with the following formula:

$$\begin{array}{c}\text{Cash Settlement Amount at}\\ \text{Mandatory Call Termination}\\ \text{per Board Lot}\end{array} = \frac{\text{Entitlement x (Minimum Trade Price - Strike Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) In the case of a series of Bear CBBCs:

(a) If no Mandatory Call Event has occurred, an amount determined by the Issuer in accordance with the following formula:

$$\begin{array}{c}\text{Cash Settlement Amount}\\ \text{per Board Lot}\end{array} = \frac{\text{Entitlement x (Strike Price - Closing Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

In respect of Category N CBBCs

(b) If a Mandatory Call Event has occurred and the Bear CBBCs are terminated following a Mandatory Call Event, zero.

In respect of Category R CBBCs

(c) If a Mandatory Call Event has occurred and the Bear CBBCs are terminated following a Mandatory Call Event, an amount determined by the Issuer in accordance with the following formula:

$$\text{Cash Settlement Amount at Mandatory Call Termination per Board Lot} = \frac{\text{Entitlement x (Strike Price - Maximum Trade Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

provided that if the relevant formula above produces an amount that is equal to or less than the determined Expenses, then no amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency and shall be rounded up to the nearest two decimal places in the Settlement Currency.

On the occurrence of a Mandatory Call Event, the Issuer may, at its sole and absolute discretion, elect to pay the Additional Amount and if the Issuer so elects, the Additional Amount shall be deemed to be included in the Cash Settlement Amount at Mandatory Call Termination as set out above.

"**Additional Amount**" means an amount determined by the Issuer in its absolute and sole discretion separately for each series of CBBCs if a Mandatory Call Event occurs, which amount may be zero. The Additional Amount shall be zero unless the Issuer has notified the Holder of the amount of such Additional Amount in accordance with Condition 9 at the same time notification is made as to the Cash Settlement Amount in accordance with the requirements of the Stock Exchange. Notwithstanding any provisions herein and any notification to be made, the Cash Settlement Amount payable per Board Lot shall never exceed an amount equal to: (i) the difference between the Strike Price and the Maximum Trade Price (in the case of Bull CBBCs) or the Minimum Trade Price (in the case of Bear CBBCs) times (ii) one Board Lot divided by (iii) Number of CBBC(s) per Entitlement;

"**Closing Price**" shall be the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) as of the Valuation Date;

"**Entitlement**" means such number of Shares as specified in the relevant Supplemental Listing Document;

"**Expenses**" means all taxes, duties and/or expenses, including all applicable depository, transaction or exercise charges, stamp duties, stamp duty reserve tax, issue, registration, securities transfer and/or other taxes or duties, arising in connection with (i) the Mandatory Call Termination (not applicable in the case of Category N CBBCs) or Automatic Exercise of such CBBC and/or (ii) any payment due following Mandatory Call Termination or Automatic Exercise in respect of such CBBC;

"**Maximum Trade Price**" means the highest Spot Price of the Share on the Stock Exchange in the trading session in which the Mandatory Call Event has occurred and the immediately following trading session, provided that for this purpose, (i) the pre-opening session and the morning trading session of the Stock Exchange shall be considered as one trading session; (ii) the afternoon trading session and the afternoon closing auction session (if any) of the Stock Exchange shall be considered as one trading session; (iii) in the case of half day trading, the pre-opening session, the morning trading session and the morning closing auction session (if any) of the Stock Exchange shall be considered as one trading session; and (iv) if, in the determination of the Issuer, a Market Disruption Event occurs in such trading session, the determination of the Maximum Trade Price shall be postponed in accordance with Condition 3(E);

"**Minimum Trade Price**" means the lowest Spot Price of the Share on the Stock Exchange in the trading session in which the Mandatory Call Event has occurred and the immediately following trading session, provided that for this purpose, (i) the pre-opening session and the morning trading session of the Stock Exchange shall be considered as one trading session; (ii) the afternoon trading session and the afternoon closing auction session (if any) of the Stock Exchange shall be considered as one trading session; (iii) in the case of half day trading, the pre-opening session, the morning trading session and the morning closing auction session (if any) of the Stock Exchange shall be considered as one trading session; and (iv) if, in the determination of the Issuer, a Market Disruption Event occurs in such trading session, the determination of the Minimum Trade Price shall be postponed in accordance with Condition 3(E);

"**Price Determination Date**" means the date on which the Maximum Trade Price or the Minimum Trade Price, as the case may be, is determined by the Issuer;

"**Settlement Currency**" means Hong Kong dollars unless otherwise specified in the relevant Supplemental Listing Document; and

"**Valuation Date**" means, subject to Condition 3(E), the Trading Day immediately before the Expiry Date.

(E) If the Issuer determines, in its sole discretion, that on the date originally scheduled to be the Valuation Date or during the trading session immediately following the trading session in which the Mandatory Call Event occurs, which is originally scheduled to determine the Maximum Trade Price or the Minimum Trade Price (the "**Price Determination**"), a Market Disruption Event has occurred, then the Valuation Date or the Price Determination, as the case may be, shall be postponed until the first succeeding Scheduled Trading Day or trading session, as the case may be, on or in which there is no Market Disruption Event (notwithstanding that such Scheduled Trading Day may fall on or after the Expiry Date), provided that if the postponement of the Valuation Date or the Price Determination, as the case may be, as aforesaid would result in such date or determination falling on or after the fourth Scheduled Trading Day following the scheduled Valuation Date or Price Determination Date, as the case may be, (the "**Final Valuation Date**"), then (i) the Final Valuation Date shall be deemed to be the Valuation Date or the Price Determination Date, as the case may be, notwithstanding the Market Disruption Event; and (ii) the Issuer shall determine the Closing Price or Maximum Trade Price or Minimum Trade Price, as the case may be, of the Shares on the basis of its good faith estimate of such prices that would have prevailed on the Final Valuation Date but for the Market Disruption Event, provided that if during any period (for at least one hour) in the relevant trading session the Market Disruption Event does not subsist, the Price Determination shall not be postponed in accordance with the above and the prices of trades available during such period(s) shall be used for the Price Determination. For the avoidance of doubt, no postponement will be made in respect of any Market Disruption Event occurring during the trading session in which the Mandatory Call Event occurs, and a postponement of Price Determination to a later trading session would not result in the prices of trades that occurred after the Mandatory Call Event but before the occurrence of the Market Disruption Event being excluded from the determination of Maximum Trade Price or Minimum Trade Price (as the case may be).

"**Market Disruption Event**" means the occurrence or existence of any suspension of, or limitation imposed on, trading on the Stock Exchange in the Shares or any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material. For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory; and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event in respect of the day on which it happened;

"**Scheduled Trading Day**" means any day on which the Stock Exchange is scheduled to be opened for trading for its regular trading sessions.

(F) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be under any circumstances be liable for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Issuer or its agent (including the Transfer Agent) or nominee and the Holder and neither the Stock Exchange, the Issuer nor its agent (including the Transfer Agent) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 3(D) above.

4 Transfer Agent

(A) Unless another entity is specified as Transfer Agent in the Supplemental Listing Document, the Transfer Agent of the CBBCs is set out below. The Transfer Agent will be acting as agent of the Issuer in respect of the CBBCs and will not assume any obligation or duty to or any relationship or agency or trust for the Holder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Transfer Agent and to appoint another transfer agent provided that it will at all times maintain a transfer agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the holder in accordance with Condition 9.

5 Adjustments

Adjustments may be made by the Issuer to the terms of the CBBCs (including, but not limited to (i) the Strike Price, (ii) the Call Price and/or (iii) the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Company shall, by way of Rights, offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Strike Price, the Call Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Whereas:

$$\text{Adjustment Factor:} \quad \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

X: Existing Strike Price immediately prior to the relevant event giving rise to the adjustment

Y: Existing Call Price immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have.

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Strike Price and the Adjusted Call Price (in each case rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 5(A) and 5(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.

(B) (i) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement, the Strike Price and the Call Price will be adjusted, subject to Condition 5(A)(iii), on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

Adjustment Factor: 1 + M

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Strike Price immediately prior to the Bonus Issue

Y: Existing Call Price immediately prior to the Bonus Issue

M: Number of new Shares (whether a whole or a fraction) each holder of an existing Share is entitled to have.

(ii) The Adjusted Strike Price and the Adjusted Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Strike Price and the Call Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Strike Price and the Call Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect and in any event no later than the next Business Day following the day on which the relevant subdivision or consolidation shall have taken effect. The adjusted Strike Price and the adjusted Call Price shall be rounded to the nearest Hong Kong dollar 0.001.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company. However, the Issuer reserves the right, at its sole discretion and without any obligation whatsoever, to make such adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Issuer believes (in its sole discretion and notwithstanding any adjustment previously made by the Issuer) should, in the context of the issue of CBBCs and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Issuer to be beneficial to the Holder generally (without considering the individual circumstances of any Holder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practice.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Strike Price, the Call Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\begin{array}{l}\text{Adjusted Strike Price} \\ \text{(which shall be rounded to the} \\ \text{nearest Hong Kong dollar 0.001)}\end{array} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001)} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{Adjustment Factor:} \quad \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Strike Price immediately prior to the relevant Cash Distribution

Y: Existing Call Price immediately prior to the relevant Cash Distribution

S: The closing price of a Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Share (applicable only if the date on which trading in the Shares becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Share

(F) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Any such adjustment or amendment shall be set out in a notice, which shall be given to the Holder in accordance with Condition 9 as soon as practicable after the determination thereof.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

7 Global Certificate

A global certificate (the "**Global Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holder; Modification

(A) *Meetings of Holder*. Notices for convening meetings to consider any matter affecting the Holder's interests will be given to the Holder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by the Holder holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holder) being or representing Holder whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holder shall be binding on all the holders of the CBBCs, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holder being held if passed unanimously.

Where the Holder is a clearing house recognised by the Laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder of the CBBC.

(B) *Modification*. The Issuer may, without the consent of the Holder, effect any modification of the provisions of the CBBCs or the Instrument which is (i) not materially prejudicial to the interests of the Holder or (ii) of a formal, minor or technical nature, (iii) made to correct an obvious error or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong or such other jurisdiction where the Shares are listed or the issuer of the Shares is incorporated or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. Any such modification shall be binding on the Holder and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holder will be validly given if published on the HKEX website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

10 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all CBBCs will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the CBBCs to the Holder.

11 Delisting of Company

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 11(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any such adjustment or amendment and determination made by the Issuer pursuant to this Condition 11 shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with Condition 9 as soon as practicable after they are determined.

12 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holder, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

13 Early Termination for Extraordinary Reasons, Illegality and Force Majeure

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the CBBCs has become illegal or impractical in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the CBBCs for any reason, the Issuer may at its discretion and without obligation terminate the CBBCs early by giving notice to the Holders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the CBBCs early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Holder in respect of each CBBC held by such holder equal to the fair market value of a CBBC notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

14 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15 Language

In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Transfer Agent
Standard Chartered Bank (Hong Kong) Limited
15th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

TERMS AND CONDITIONS OF THE CBBCs RELATING TO AN INDEX

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of CBBCs. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The callable bull/bear contracts or "CBBCs" (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 10) relating to the Index as published by the Index Sponsor are issued in registered form subject to and with the benefit of the Instrument, made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 9 from time to time. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the Issuer, the Index Sponsor nor any of its affiliates shall have any responsibility towards the Holder for any losses suffered in connection with the determination of a Mandatory Call Event, whether or not such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Expenses

(A) Every Board Lot of the CBBCs entitles the Holder to payment of the Cash Settlement Amount (if any) less the determined Expenses in accordance with Condition 3. If the Cash Settlement Amount is equal to or less than the determined Expenses, no amount is payable by the Issuer.

(B) The Holder will be required to pay the Expenses in respect of the Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D). Any Expenses which have not been determined by the Issuer on the Level Determination Date or the Valuation Date (as the case may be) shall be notified as soon as practicable after determination thereof by the Issuer to the Holder and shall be paid by the Holder forthwith in immediately available funds no later than 3 Business Days after the Holder receives notice of any unpaid Expenses.

(C) An irrevocable authorisation is deemed to be given to the Issuer to debit any determined Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

(A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the Mandatory Call Event Date ("**Mandatory Call Termination**") and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Where the Mandatory Call Event occurs in a continuous trading session of the Stock Exchange, all trades of CBBCs concluded in that continuous trading session after the time at which the Mandatory Call Event occurs will be cancelled. Where the Mandatory Call Event occurs in a pre-opening session or a closing auction session (if any) of the Stock Exchange, all auction trades of CBBCs concluded in that pre-opening session or closing auction session (if any) (as the case may be) and all manual trades of CBBCs concluded after the end of the relevant pre-order matching period will be cancelled.

Whereas:

"**Business Day**" means a day (other than a Saturday or Sunday) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business;

"**Mandatory Call Event**" occurs when, subject to any adjustment as provided in Condition 5, the level of the Index at any time on a Trading Day during the Observation Period as published by the Index Sponsor is for the first time in the

Observation Period (in the case of a series of Bull CBBCs) at or below the Call Level or (in the case of a series of Bear CBBCs) at or above the Call Level, the time assigned to the relevant published Index level being the time of the occurrence of the Mandatory Call Event;

"**Mandatory Call Event Date**" means the date on which the Mandatory Call Event occurs;

"**Observation End Date**" means the Business Day immediately before the Expiry Date;

"**Observation Period**" means the period from and including the Observation Start Date to and including the Observation End Date;

"**Observation Start Date**" means the date on which dealings in the CBBCs on the Stock Exchange first commence;

"**Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

"**Trading Day**" means any day that is (or, but for the occurrence of a Market Disruption Event, would have been) a trading day on the Stock Exchange; and

"**Valuation Date**" means the date specified as such in the Supplemental Listing Document.

(B) Any CBBCs with respect to which a Mandatory Call Event has not occurred on or prior to the Observation End Date shall be deemed automatically exercised at 10 a.m. (Hong Kong time) on the Expiry Date ("**Automatic Exercise**").

(C) Following the Mandatory Call Event Date or the Expiry Date, the Global Certificate will be cancelled.

(D) Following a Mandatory Call Termination or an Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a date no later than the third Settlement Day following the Level Determination Date or the Valuation Date, as the case may be (the "**Settlement Date**") in accordance with these Conditions procure payment of the aggregate Cash Settlement Amounts, for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

"**Cash Settlement Amount**" per Board Lot means, subject to adjustment as provided in Condition 5:

(i) In the case of a series of Bull CBBCs:

(a) If no Mandatory Call Event has occurred, an amount determined by the Issuer in accordance with the following formula:

$$\text{Cash Settlement Amount per Board Lot} = (\text{Closing Level} - \text{Strike Level}) \times \text{Index Currency Amount}$$

In respect of Category N CBBCs

(b) If a Mandatory Call Event has occurred and the Bull CBBCs are terminated following a Mandatory Call Event, zero.

In respect of Category R CBBCs

(c) If a Mandatory Call Event has occurred and the Bull CBBCs are terminated following a Mandatory Call Event, an amount determined by the Issuer in accordance with the following formula:

$$\text{Cash Settlement Amount at Mandatory Call Termination per Board Lot} = (\text{Minimum Trade Level} - \text{Strike Level}) \times \text{Index Currency Amount}$$

(ii) In the case of a series of Bear CBBCs:

(a) If no Mandatory Call Event has occurred, an amount determined by the Issuer in accordance with the following formula:

$$\text{Cash Settlement Amount per Board Lot} = (\text{Strike Level} - \text{Closing Level}) \times \text{Index Currency Amount}$$

In respect of Category N CBBCs

(b) If a Mandatory Call Event has occurred and the Bear CBBCs are terminated following a Mandatory Call Event, zero.

In respect of Category R CBBCs

(c) If a Mandatory Call Event has occurred and the Bear CBBCs are terminated following a Mandatory Call Event, an amount determined by the Issuer in accordance with the following formula:

$$\text{Cash Settlement Amount at Mandatory Call Termination per Board Lot} = (\text{Strike Level} - \text{Maximum Trade Level}) \times \text{Index Currency Amount}$$

provided that if the relevant formula above produces an amount that is equal to or less than the determined Expenses, then no amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency and shall be rounded up to the nearest two decimal places in the Settlement Currency.

On the occurrence of a Mandatory Call Event, the Issuer may, at its sole and absolute discretion, elect to pay the Additional Amount and if the Issuer so elects, the Additional Amount shall be deemed to be included in the Cash Settlement Amount at Mandatory Call Termination as set out above.

"**Additional Amount**" means an amount determined by the Issuer in its absolute and sole discretion separately for each series of CBBCs if a Mandatory Call Event occurs, which amount may be zero. The Additional Amount shall be zero unless the Issuer has notified the Holder of the amount of such Additional Amount in accordance with Condition 9 at the same time notification is made as to the Cash Settlement Amount in accordance with the requirements of the Stock Exchange. Notwithstanding any provisions herein and any notification to be made, the Cash Settlement Amount payable per Board Lot shall never exceed an amount equal to: (i) the Index Currency Amount times (ii) the difference between the Strike Level and the Maximum Trade Level (in the case of Bull CBBCs) or the Minimum Trade Level (in the case of Bear CBBCs);

"**Closing Level**" means the level of the Index calculated for the purpose of final settlement of the Futures Contract as specified in the relevant Supplemental Listing Document;

"**Expenses**" means all taxes, duties and/or expenses, including all applicable depository, transaction or exercise charges, stamp duties, stamp duty reserve tax, issue, registration, securities transfer and/or other taxes or duties, arising in connection with (i) the Mandatory Call Termination (not applicable in the case of Category N CBBCs) or Automatic Exercise of such CBBC and/or (ii) any payment due following Mandatory Call Termination or Automatic Exercise in respect of such CBBC;

"**Level Determination Date**" means the date on which the Maximum Trade Level or the Minimum Trade Level, as the case may be, is determined by the Issuer;

"**Maximum Trade Level**" means the highest level of the Index published by the Index Sponsor in the trading session in which the Mandatory Call Event has occurred and the immediately following trading session, provided that for this purpose, (i) the pre-opening session (if any) and the morning trading session of the Stock Exchange shall be considered as one trading session; (ii) the afternoon trading session and the afternoon closing auction session (if any) of the Stock Exchange shall be considered as one trading session; (iii) in the case of half day trading, the pre-opening session (if any), the morning trading session and the morning closing auction session (if any) of the Stock Exchange shall be considered as one trading session; and (iv) if, in the determination of the Issuer, a Market Disruption Event occurs in such trading session, the determination of the Maximum Trade Level shall be postponed in accordance with Condition 3(E);

"**Minimum Trade Level**" means the lowest level of the Index published by the Index Sponsor in the trading session in which the Mandatory Call Event has occurred and the immediately following trading session, provided that for this purpose, (i) the pre-opening session (if any) and the morning trading session of the Stock Exchange shall be considered as one trading session; (ii) the afternoon trading session and the afternoon closing auction session (if any) of the Stock Exchange shall be considered as one trading session; (iii) in the case of half day trading, the pre-opening session (if any), the morning trading session and the morning closing auction session (if any) of the Stock Exchange shall be considered as one trading session; and (iv) if, in the determination of the Issuer, a Market Disruption Event occurs in such trading session, the determination of the Minimum Trade Level shall be postponed in accordance with Condition 3(E); and

"**Settlement Currency**" means Hong Kong dollars unless otherwise specified in the relevant Supplemental Listing Document.

(E) If the Issuer determines, in its sole discretion, that during the trading session immediately following the trading session in which the Mandatory Call Event occurs, which is originally scheduled to determine the Maximum Trade Level or the Minimum Trade Level (the "**Level Determination**"), a Market Disruption Event has occurred, then the Level Determination shall be postponed until the first succeeding trading session in which there is no Market Disruption Event, provided that if the postponement of the Level Determination as aforesaid would result in such determination falling on or after the fourth Scheduled Trading Day following the scheduled Level Determination Date (the "**Final Valuation Date**"), then (i) the Final Valuation Date shall be deemed to be the Level Determination Date notwithstanding the Market Disruption Event; and (ii) the Issuer shall determine the Maximum Trade Level or Minimum Trade Level, as the case may be, on the basis of its good faith estimate of the Index levels that would have prevailed on the Final Valuation Date but for the Market Disruption Event, provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Index levels by having regard to the manner in which futures contracts relating to the Index are calculated, provided that if during any period (for at least one hour) in the relevant trading session the Market Disruption Event does not subsist, the Level Determination shall not be postponed in accordance with the above and the published Index levels during such period(s) shall be used for the Level Determination. For the avoidance of doubt, no postponement will be made in respect of any Market Disruption Event occurring during the trading session in which the Mandatory Call Event occurs, and a postponement of Level Determination to a later trading session would not result in the Index levels that were published after the Mandatory Call Event but before the occurrence of the Market Disruption Event being excluded from the determination of Maximum Trade Level or Minimum Trade Level (as the case may be).

(F) If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on the Valuation Date but for the Market Disruption Event, provided that the Issuer may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

"**Market Disruption Event**" means the occurrence or existence, of any of:

(i) the suspension or material limitation of the trading of a material number of securities that comprise the Index; or

(ii) the suspension or material limitation of the trading of securities on the Stock Exchange; or

(iii) the suspension or material limitation of the trading of (a) options or futures relating to the Index or (b) options or futures generally on any options and/or future exchanges on which options relating to the Index are traded; or

(iv) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory; and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event in respect of the day on which it happened.

For the purposes of this definition, (i) the limitation on the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange, and (ii) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event.

"**Scheduled Trading Day**" means any day on which the Stock Exchange is scheduled to be opened for trading for its regular trading sessions.

(G) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be under any circumstances be liable for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(H) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Issuer, the Index Sponsor, or its agent (including the Transfer Agent) or nominee and the Holder and neither the Stock Exchange, the Issuer, the Index Sponsor, nor its agent (including the Transfer Agent) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange, the Issuer, or the Index Sponsor shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as to the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 3(D) above.

4 Transfer Agent

(A) Unless another entity is specified as Transfer Agent in the Supplemental Listing Document, the Transfer Agent of the CBBCs is set out below. The Transfer Agent will be acting as agent of the Issuer in respect of the CBBCs and will not assume any obligation or duty to or any relationship or agency or trust for the Holder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Transfer Agent and to appoint another transfer agent provided that it will at all times maintain a transfer agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the holder in accordance with Condition 9.

5 Adjustments

(A) If the Index is (i) not calculated and announced by the Index Sponsor but is calculated and published by a successor to the Index Sponsor (the "**Successor Index Sponsor**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Sponsor or that successor index, as the case may be.

(B) If (i) on or prior to the Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events), or (ii) on the Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and publish the Index, then the Issuer shall determine the Closing Level using, in lieu of the level of the Index calculated for the purpose of final settlement of the contract specified in the Supplemental Listing Document, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) Adjustments will not be made in any other circumstances including, without limitation, the payment of a cash or scrip dividend by any of the issuers of the securities constituting the Index. However, the Issuer reserves the right, at its sole discretion and without any obligation whatsoever, to make such adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Issuer believes (in its sole discretion and notwithstanding any adjustment previously made by the Issuer) should, in the context of the issue of the CBBCs and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Issuer to be beneficial to the Holders generally (without considering the individual circumstances of any Holder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practice or is approved by the Stock Exchange.

(D) All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 9.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

7 Global Certificate

A global certificate (the "**Global Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holder; Modification

(a) *Meetings of Holder*. Notices for convening meetings to consider any matter affecting the Holder's interests will be given to the Holder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by the Holder holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holder) being or representing Holder whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holder shall be binding on all the holders of the CBBCs, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holder being held if passed unanimously.

Where the Holder is a clearing house recognised by the Laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder of the CBBC.

(b) *Modification*. The Issuer may, without the consent of the Holder, effect any modification of the provisions of the CBBCs or the Instrument which is (i) not materially prejudicial to the interests of the Holder or (ii) of a formal, minor or technical nature, (iii) made to correct an obvious error or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong; or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. Any such modification shall be binding on the Holder and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holder will be validly given if published on the HKEX website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

10 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holder, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

11 Early Termination for Extraordinary Reasons, Illegality and Force Majeure

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the CBBCs has become illegal or impractical in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the CBBCs for any reason, the Issuer may at its discretion and without obligation terminate the CBBCs early by giving notice to the Holders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the CBBCs early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Holder in respect of each CBBC held by such holder equal to the fair market value of a CBBC notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

12 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

13 Language

In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Transfer Agent
Standard Chartered Bank (Hong Kong) Limited
15th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

TERMS AND CONDITIONS OF THE CBBCs RELATING TO THE UNITS OF A FUND OR TRUST

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of CBBCs. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The callable bull/bear contracts or "CBBCs" (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Units of the Fund or Trust are issued in registered form subject to and with the benefit of the Instrument made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 9 from time to time. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the

Issuer nor any of its affiliates shall have any responsibility towards the Holder for any losses suffered in connection with the determination of a Mandatory Call Event, whether or not such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Expenses

(A) Every Board Lot of the CBBCs entitles the Holder to payment of the Cash Settlement Amount (if any) less the determined Expenses in accordance with Condition 3. If the Cash Settlement Amount is equal to or less than the determined Expenses, no amount is payable by the Issuer.

(B) The Holder will be required to pay the Expenses in respect of the Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D). Any Expenses which have not been determined by the Issuer on the Price Determination Date or the Valuation Date (as the case may be) shall be notified as soon as practicable after determination thereof by the Issuer to the Holder and shall be paid by the Holder forthwith in immediately available funds no later than 3 Business Days after the Holder receives notice of any unpaid Expenses.

(C) An irrevocable authorisation is deemed to be given to the Issuer to debit any determined Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

(A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the Mandatory Call Event Date ("**Mandatory Call Termination**") and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Where the Mandatory Call Event occurs in a continuous trading session of the Stock Exchange, all trades of CBBCs concluded in that continuous trading session after the time at which the Mandatory Call Event occurs will be cancelled. Where the Mandatory Call Event occurs in a pre-opening session or a closing auction session (if any) of the Stock Exchange, all auction trades of CBBCs concluded in that pre-opening session or closing auction session (if any) (as the case may be) and all manual trades of CBBCs concluded after the end of the relevant pre-order matching period will be cancelled.

Whereas:

"**Business Day**" means a day (other than a Saturday or Sunday) on which the Stock Exchange is open for dealings in Hong Kong and banks are open in Hong Kong for business;

"**Mandatory Call Event**" occurs when, subject to any adjustment as provided in Condition 5, the Spot Price of the Units at any time on a Trading Day during the Observation Period is for the first time in the Observation Period (in the case of a series of Bull CBBCs) at or below the Call Price or (in the case of a series of Bear CBBCs) at or above the Call Price;

"**Mandatory Call Event Date**" means the date on which the Mandatory Call Event occurs;

"**Observation End Date**" means the Business Day immediately before the Expiry Date;

"**Observation Period**" means the period from and including the Observation Start Date to and including the Observation End Date;

"**Observation Start Date**" means the date on which dealings in the CBBCs on the Stock Exchange first commence;

"**Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

"**Spot Price**" means:

(i) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during a continuous trading session of the Stock Exchange in accordance with the Rules and Regulations of the Exchange ("**Trading Rules**"), excluding direct business (as defined in the Trading Rules); and

(ii) in respect of a pre-opening session or a closing auction session (if any) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if any), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time; and

"**Trading Day**" means any day that is (or, but for the occurrence of a Market Disruption Event, would have been) a trading day on the Stock Exchange.

(B) Any CBBCs with respect to which a Mandatory Call Event has not occurred on or prior to the Observation End Date shall be deemed automatically exercised at 10 a.m. (Hong Kong time) on the Expiry Date ("**Automatic Exercise**").

(C) Following the Mandatory Call Event Date or the Expiry Date, the Global Certificate will be cancelled.

(D) Following a Mandatory Call Termination or an Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a date no later than the third Settlement Day following the Price Determination Date or the Valuation Date, as the case may be (the "**Settlement Date**") in accordance with these Conditions procure payment of the aggregate Cash Settlement Amounts for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

"**Cash Settlement Amount**" per Board Lot means, subject to adjustment as provided in Condition 5:

(i) In the case of a series of Bull CBBCs:

(a) If no Mandatory Call Event has occurred, an amount determined by the Issuer in accordance with the following formula:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Strike Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

In respect of Category N CBBCs

(b) If a Mandatory Call Event has occurred and the Bull CBBCs are terminated following a Mandatory Call Event, zero.

In respect of Category R CBBCs

(c) If a Mandatory Call Event has occurred and the Bull CBBCs are terminated following a Mandatory Call Event, an amount determined by the Issuer in accordance with the following formula:

$$\text{Cash Settlement Amount at Mandatory Call Termination per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price - Strike Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) In the case of a series of Bear CBBCs:

(a) If no Mandatory Call Event has occurred, an amount determined by the Issuer in accordance with the following formula:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price - Closing Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

In respect of Category N CBBCs

(b) If a Mandatory Call Event has occurred and the Bear CBBCs are terminated following a Mandatory Call Event, zero.

In respect of Category R CBBCs

(c) If a Mandatory Call Event has occurred and the Bear CBBCs are terminated following a Mandatory Call Event, an amount determined by the Issuer in accordance with the following formula:

$$\text{Cash Settlement Amount at Mandatory Call Termination per Board Lot} = \frac{\text{Entitlement x (Strike Price - Maximum Trade Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

provided that if the relevant formula above produces an amount that is equal to or less than zero, then no Cash Settlement Amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency and shall be rounded up to the nearest two decimal places in the Settlement Currency.

On the occurrence of a Mandatory Call Event, the Issuer may, at its sole and absolute discretion, elect to pay the Additional Amount and if the Issuer so elects, the Additional Amount shall be deemed to be included in the Cash Settlement Amount at Mandatory Call Termination as set out above.

"**Additional Amount**" means an amount determined by the Issuer in its absolute and sole discretion separately for each series of CBBCs if a Mandatory Call Event occurs, which amount may be zero. The Additional Amount shall be zero unless the Issuer has notified the Holder of the amount of such Additional Amount in accordance with Condition 9 at the same time notification is made as to the Cash Settlement Amount in accordance with the requirements of the Stock Exchange. Notwithstanding any provisions herein and any notification to be made, the Cash Settlement Amount payable per Board Lot shall never exceed an amount equal to: (i) the difference between the Strike Price and the Maximum Trade Price (in the case of Bull CBBCs) or the Minimum Trade Price (in the case of Bear CBBCs) times (ii) one Board Lot divided by (iii) Number of CBBC(s) per Entitlement;

"**Closing Price**" shall be the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) as of the Valuation Date;

"**Entitlement**" means such number of Units as specified in the relevant Supplemental Listing Document;

"**Expenses**" means all taxes, duties and/or expenses, including all applicable depository, transaction or exercise charges, stamp duties, stamp duty reserve tax, issue, registration, securities transfer and/or other taxes or duties, arising in connection with (i) the Mandatory Call Termination (not applicable in the case of Category N CBBCs) or Automatic Exercise of such CBBC and/or (ii) any payment due following Mandatory Call Termination or Automatic Exercise in respect of such CBBC;

"**Maximum Trade Price**" means the highest Spot Price of one Unit on the Stock Exchange in the trading session in which the Mandatory Call Event has occurred and the immediately following trading session, provided that for this purpose, (i) the pre-opening session and the morning trading session of the Stock Exchange shall be considered as one trading session; (ii) the afternoon trading session and the afternoon closing auction session (if any) of the Stock Exchange shall be considered as one trading session; (iii) in the case of half day trading, the pre-opening session, the morning trading session and the morning closing auction session (if any) of the Stock Exchange shall be considered as one trading session; and (iv) if, in the determination of the Issuer, a Market Disruption Event occurs in such trading session, the determination of the Maximum Trade Price shall be postponed in accordance with Condition 3(E);

"**Minimum Trade Price**" means the lowest Spot Price of one Unit on the Stock Exchange in the trading session in which the Mandatory Call Event has occurred and the immediately following trading session, provided that for this purpose, (i) the pre-opening session and the morning trading session of the Stock Exchange shall be considered as one trading session; (ii) the afternoon trading session and the afternoon closing auction session (if any) of the Stock Exchange shall be considered as one trading session; (iii) in the case of half day trading, the pre-opening session, the morning trading session and the morning closing auction session (if any) of the Stock Exchange shall be considered as one trading session; and (iv) if, in the determination of the Issuer, a Market Disruption Event occurs in such trading session, the determination of the Minimum Trade Price shall be postponed in accordance with Condition 3(E);

"**Price Determination Date**" means the date on which the Maximum Trade Price or the Minimum Trade Price, as the case may be, is determined by the Issuer;

"**Settlement Currency**" means Hong Kong dollars unless otherwise specified in the relevant Supplemental Listing Document; and

"**Valuation Date**" means, subject to Condition 3(E), the Business Day immediately before the Expiry Date.

(E) If the Issuer determines, in its sole discretion, that on the date originally scheduled to be the Valuation Date or during the trading session immediately following the trading session in which the Mandatory Call Event occurs, which is originally scheduled to determine the Maximum Trade Price or the Minimum Trade Price (the "**Price Determination**"), a Market Disruption Event has occurred, then the Valuation Date or the Price Determination, as the case may be, shall be postponed until the first succeeding Scheduled Trading Day or trading session, as the case may be, on or in which there is no Market Disruption Event (notwithstanding that such Scheduled Trading Day may fall on or after the Expiry Date), provided that if the postponement of the Valuation Date or the Price Determination, as the case may be, as aforesaid would result in such date or determination falling on or after the fourth Scheduled Trading Day following the scheduled Valuation Date or Price Determination Date, as the case may be, (the "**Final Valuation Date**"), then (i) the Final Valuation Date shall be deemed to be the Valuation Date or the Price Determination Date, as the case may be, notwithstanding the Market Disruption Event; and (ii) the Issuer shall determine the Closing Price or Maximum Trade Price or Minimum Trade Price, as the case may be, of the Unit on the basis of its good faith estimate of such prices that would have prevailed on the Final Valuation Date but for the Market Disruption Event, provided that if during any period (for at least one hour) in the relevant trading session the Market Disruption Event does not subsist, the Price Determination shall not be postponed in accordance with the above and the prices of trades available during such period(s) shall be used for the Price Determination. For the avoidance of doubt, no postponement will be made in respect of any Market Disruption Event occurring during the trading session in which the Mandatory Call Event occurs, and a postponement of Price Determination to a later trading session would not result in the prices of trades that occurred after the Mandatory Call Event but before the occurrence of the Market Disruption Event being excluded from the determination of Maximum Trade Price or Minimum Trade Price (as the case may be).

"**Market Disruption Event**" means the occurrence or existence of any suspension of, or limitation imposed on, trading on the Stock Exchange in the Units or any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material. For the avoidance of doubt, a Market Disruption Event shall include, but shall not be limited to a limitation/closure of the Stock Exchange due to unforeseen circumstances such as an official tropical cyclone warning signal eight (or above) or black rain storm warning hoisted by the Hong Kong Observatory provided that so long as such warnings are lowered or suspended by the Hong Kong Observatory; and the Stock Exchange: (i) re-opens for the entire afternoon trading session or (ii) opens late in the morning of the affected day and stays open for the entire afternoon trading session and closing only at the normal closing time for the Stock Exchange, the hoisting of such warning shall not by itself be a Market Disruption Event in respect of the day on which it happened;

"**Scheduled Trading Day**" means any day on which the Stock Exchange is scheduled to be opened for trading for its regular trading sessions.

(F) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be under any circumstances be liable for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(G) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Issuer or its agent (including the Transfer Agent) or nominee and the Holder and neither the Stock Exchange, the Issuer nor its agent (including the Transfer Agent) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amounts shall be discharged by payment in accordance with Condition 3(D) above.

4 Transfer Agent

(A) Unless another entity is specified as Transfer Agent in the Supplemental Listing Document, the Transfer Agent of the CBBCs is set out below. The Transfer Agent will be acting as agent of the Issuer in respect of the CBBCs and will not assume any obligation or duty to or any relationship or agency or trust for the Holder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Transfer Agent and to appoint another transfer agent provided that it will at all times maintain a transfer agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the holder in accordance with Condition 9.

5 Adjustments

Adjustments may be made by the Issuer to the terms of the CBBCs (including, but not limited to (i) the Strike Price, (ii) the Call Price and/or (iii) the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Fund or Trust shall, by way of Rights, offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Strike Price, the Call Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Whereas:

$$\text{Adjustment Factor:} \quad \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the relevant event giving rise to the adjustment

X: Existing Strike Price immediately prior to the relevant event giving rise to the adjustment

Y: Existing Call Price immediately prior to the relevant event giving rise to the adjustment

S: Cum-Rights Unit price, being the closing price of an existing Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Units per existing Unit (whether a whole or a fraction) each holder of an existing Unit is entitled to subscribe or have.

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Strike Price and the Adjusted Call Price (in each case rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 5(A) and 5(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.

(B) (i) If and whenever the Fund or Trust shall make an issue of Units credited as fully paid to holders of Units generally by way of capitalisation of profits or reserves (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement, the Strike Price and the Call Price will be adjusted, subject to Condition 5(A)(iii), on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

Adjustment Factor: 1 + M

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Strike Price immediately prior to the Bonus Issue

Y: Existing Call Price immediately prior to the Bonus Issue

M: Number of new Units (whether a whole or a fraction) each holder of an existing Unit is entitled to have.

(ii) The Adjusted Strike Price and the Adjusted Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) shall take effect on the same day that the Entitlement is adjusted.

(C) If and whenever the Fund or Trust shall subdivide its Units or any class of its outstanding Units into a greater number of Units or consolidate its outstanding Units or any class of it into a smaller number of Units, the Entitlement shall be increased and the Strike Price and the Call Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Strike Price and the Call Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect and in any event no later than the next Business Day following the day on which the relevant subdivision or consolidation shall have taken effect. The adjusted Strike Price and the adjusted Call Price shall be rounded to the nearest Hong Kong dollar 0.001.

(D) If it is announced that the Fund or Trust is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Fund or Trust is the surviving entity in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) or fund(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Fund or Trust, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Fund or Trust. However, the Issuer reserves the right, at its sole discretion and without any obligation whatsoever, to make such adjustments which shall take effect as of such date as it reasonably believes are appropriate in circumstances where an event or events occur which the Issuer believes (in its sole discretion and notwithstanding any adjustment previously made by the Issuer) should, in the context of the issue of CBBCs and its obligations hereunder, give rise to such adjustment, provided that such adjustment is considered by the Issuer to be beneficial to the Holder generally (without considering the individual circumstances of any Holder or the tax or other consequences of such adjustment in any particular jurisdiction) or is required to take account of provisions of Hong Kong law or Stock Exchange practice.

If and whenever the Fund or Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Strike Price, the Call Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price (which shall be rounded to the nearest Hong Kong dollar 0.001)} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001)} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{Adjustment Factor:} \quad \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Strike Price immediately prior to the relevant Cash Distribution

Y: Existing Call Price immediately prior to the relevant Cash Distribution

S: The closing price of a Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Unit (applicable only if the date on which trading in the Units becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Unit

(F) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Any such adjustment or amendment shall be set out in a notice, which shall be given to the Holder in accordance with Condition 9 as soon as practicable after the determination thereof.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

7 Global Certificate

A global certificate (the "**Global Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holder; Modification

(A) *Meetings of Holder*. Notices for convening meetings to consider any matter affecting the Holder's interests will be given to the Holder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by the Holder holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holder) being or representing Holder whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holder shall be binding on all the holders of the CBBCs, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holder being held if passed unanimously.

Where the Holder is a clearing house recognised by the Laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder of the CBBC.

(B) *Modification*. The Issuer may, without the consent of the Holder, effect any modification of the provisions of the CBBCs or the Instrument which is (i) not materially prejudicial to the interests of the Holder or (ii) of a formal, minor or technical nature, (iii) made to correct an obvious error or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong or such other jurisdiction where the Units are listed or where the Fund or Trust is established or (v) considered by the Issuer to be appropriate and such modification is approved by the Stock Exchange. Any such modification shall be binding on the Holder and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holder will be validly given if published on the HKEX website. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

10 Termination or Liquidation of the Fund or Trust

In the event of a Termination or the liquidation or dissolution of the trustee of the Fund or Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Fund or Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. The unexercised CBBCs will lapse and shall cease to be valid (i) in the case of a Termination, on the effective date of the Termination; (ii) in the case of a voluntary liquidation, on the effective date of the resolution; (iii) in the case of an involuntary liquidation or dissolution, on the date of the relevant court order; or (iv) in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. The Issuer shall pay a sum equal to its good faith estimate (determined at the Issuer's sole discretion) of the value of the CBBCs to the Holders.

For the purpose of this Condition 10, "**Termination**" means (i) the Fund or Trust is terminated, or the Trustee or the manager of the Fund or Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Fund or Trust under the trust deed ("**Trust Deed**") constituting the Fund or Trust or applicable law, or the termination of the Fund or Trust commences; (ii) the Fund or Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Fund or Trust to hold the property of the Fund or Trust in its name and perform its obligations under the Trust Deed; or (iv) the Fund or Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

11 Delisting of Fund or Trust

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holders or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 11(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holders on exercise or upon the occurrence of a Mandatory Call Event (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 11 shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 9 as soon as practicable after they are determined.

12 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holder, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

13 Early Termination for Extraordinary Reasons, Illegality and Force Majeure

If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the CBBCs has become illegal or impractical in whole or in part for any reason, or if the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the CBBCs for any reason, the Issuer may at its discretion and without obligation terminate the CBBCs early by giving notice to the Holders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

If the Issuer terminates the CBBCs early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Holder in respect of each CBBC held by such holder equal to the fair market value of a CBBC notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

14 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15 Language

In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Transfer Agent
Standard Chartered Bank (Hong Kong) Limited
15th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

ANNEX 3

PURCHASE AND SALE

General

No action has been or will be taken by the Issuer that would permit a public offering (other than Hong Kong) of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Products in any jurisdiction where action for that purpose is required. No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to Structured Products, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Issuer.

United States of America

The Structured Products which are the subject of the Base Listing Document and the relevant Supplemental Listing Document have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States. The Structured Products are being offered and sold pursuant to the registration exemptions contained in section 3(a)(2) of the Securities Act and outside the U.S. in reliance on Regulation S. In addition, until 40 days after the commencement of the offering of the Structured Products, an offer or sale of the Structured Products within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. The terms in this paragraph have the meaning given to them by Regulation S.

No ownership by U.S. Persons

The Structured Products may not be legally or beneficially owned by U.S. Person at any time. Each holder and each beneficial owner of a Structured Product hereby represents, as a condition to purchasing or owning the warrant or any beneficial interest therein, that neither it nor any person for whose account or benefit the Structured Products are being purchased is located in the United States, is a U.S. Person or was solicited to purchase the Structured Products while present in the United States. Each holder and each beneficial owner of a Structured Product hereby agrees not to offer, sell or deliver any of the Structured Products at any time, directly or indirectly in the United States or to any U.S. Person. The terms in this paragraph have the meaning given to them by Regulation S.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Issuer represents, warrants and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Structured Products to the public (where the Structured Products have a denomination of less than €50,000 (or its equivalent in any other currency as at the date of issue of the Structured Products)) in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Structured Products to the public in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Issuer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Structured Products shall result in a requirement for the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Structured Products to the public" in relation to any Structured Products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Structured Products to be offered so as to enable an investor to decide to purchase or subscribe the Structured Products, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

The Issuer represents, warrants and agrees that:

(a) in relation to any Structured Products which have an expiry of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Structured Products other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Structured Products would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Structured Products in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Structured Products in, from or otherwise involving the United Kingdom.

General

The offer and sale of Structured Products will also be subject to such other restrictions and requirements as may be set out in the relevant Supplemental Listing Document.

Persons interested in acquiring Structured Products should inform themselves and obtain appropriate professional advice as to (i) the legal requirements within the countries of their nationality, residence, ordinary residence or domicile for such acquisition; (ii) any foreign exchange restrictions or exchange control requirements which they might encounter on the acquisition of Structured Products or their redemption; or (iii) the acquisition, holding or disposal of Structured Products.

ANNEX 4

FINANCIAL INFORMATION RELATING TO SCB

The information in this Annex 4 has been extracted from the Standard Chartered Bank Directors' Report and Financial Statements 31 December 2009. The page numbers of such document appear on the bottom of the pages in this Appendix. Page references within the Standard Chartered Bank Directors' Report and Financial Statements 31 December 2009 are to the page number within such document.

Standard Chartered Bank

Reference Number ZC18

Directors' Report and Financial Statements

31 December 2009

Standard Chartered

Incorporated in England with limited liability by Royal Charter 1853
Principal Office: 1 Aldermanbury Square, London, EC2V 7SB, England

Standard Chartered Bank

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Financial Review

Group summary

The Group has delivered a record performance for the year ended 31 December 2009. Profit before tax rose 22 per cent to $5,166 million and operating income increased by 11 per cent to $15,214 million.

This is the seventh consecutive year in which we have demonstrated a sustained and consistent track record of delivering record operating income and record profits.

After the exceptional events in the latter part of 2008, this year continued to be a challenging and uncertain period for the banking industry. We navigated the year by retaining a keen focus on the fundamentals of sound banking practice; capital and liquidity management, proactive risk management and discipline on expenses.

We remain highly liquid. The advances to deposit ratio at 31 December 2009 was 78.6 per cent, up from 74.8 per cent at the end of 2008 and we remain a net lender into the interbank market. Whilst we benefitted from being a "flight to quality" institution for deposits, we also further improved our liability mix. For example low cost current and saving account balances now comprise 53 per cent of our total deposit base, up from 43 per cent at the end of 2008. Current and saving account balances grew strongly by over $40 billion to $157 billion, up 34 per cent.

The balance sheet is conservative with minimal exposure to problem asset classes. Although we benefitted in the second half of 2009 from a moderating risk environment, we also took steps to de-risk the portfolio and loan Impairment fell in both businesses in the second half. In Consumer Banking over 75 per cent of the portfolios are now secured.

Expense management in 2009 was very good with overall cost growth of 4 per cent, well below 11 per cent income growth so resulting in operating 'jaws' of 7 per cent. During the early part of the year when the economic outlook was uncertain, discretionary spending was reined in. As the year progressed and trading conditions became more settled, we accelerated our spending to support our trading momentum into 2010.

Our capital, liquidity and risk foundations are excellent and we enter 2010 with good momentum, well placed to meet the opportunities and challenges that we will face.

Operating income and profit

	2009	2008	2009 vs 2008
	$million	$million	%
Net interest income	**7,671**	7,465	3
Fees and commissions income, net	**3,370**	2,941	15
Net trading income	**2,872**	2,431	18
Other operating income	**1,301**	833	56
	7,543	6,205	22
Operating income	**15,214**	13,670	11
Operating expenses	**(7,967)**	(7,647)	4
Operating profit before impairment losses and taxation	**7,247**	6,023	20
Impairment losses on loans and advances and other credit risk provisions	**(2,000)**	(1,321)	51
Other impairment	**(102)**	(469)	(78)
Profit from associates	**21**	1	nm
Profit before taxation	**5,166**	4,234	22

Group performance

Operating income grew by $1,544 million, or 11 per cent, to $15,214 million. This was despite the income drag that came from margin compression on liabilities and the adverse impact of foreign exchange (FX) movements, primarily in India, Korea and certain countries in Africa.

Income growth was driven by Wholesale Banking, broadly spread across geographies and well diversified over multiple product lines. Five individual markets now deliver over $1 billion of income.

Net interest income grew $206 million or 3 per cent. In Consumer Banking net interest income fell $355 million or 8 percent as net margins on deposits remained some 60 basis points lower than 2008 reflecting the low interest rate environment. Wholesale Banking net interest income rose $561 million or 17 per cent. The Cash Management and Custody business was also impacted by low margins and income here fell 24 per cent despite a 24 per cent growth in balances. However the Trade and Lending businesses more than compensated for this reduction growing income 25 and 53 per cent respectively with re-pricing action serving to increase margins. The Group's net interest margin fell from 2.5 per cent in 2008 to 2.3 per cent, with higher asset margins more than offset by compressed liability margins.

Non-interest income grew $1,338 million or 22 per cent, to $7,543 million.

Net fees and commissions income grew $429 million, or 15 per cent, to $3,370 million. In Consumer Banking, whilst demand for Wealth Management products improved steadily through the year, fee income levels were still below those of 2008. Wholesale Banking fee income was higher as a result of strong corporate advisory income and capital market fees, which more than offset reduced custody income.

Net trading income increased $441 million, or 18 per cent, to $2,872 million. ALM income was up 5 per cent through realisations from strong positions taken at the end of 2008 capturing both high interest rates and wide credit spreads. Trading income also grew through increased client demand with gains in securities, interest rate and credit and other derivatives.

Other operating income was up $468 million, or 56 per cent, to $1,301 million. Other operating income includes $592 million of net profits on available for sale (AFS) assets including disposals from private equity and strategic portfolios, $264 million of gains arising from the buy back of subordinated debt, and $156 million related to lease income.

Operating expenses increased $320 million or 4 per cent to $7,967 million. Expenses include $170 million for the buy back of structured notes from the PEM Group in Taiwan and a $58 million charge in respect of the UK bank payroll tax. Both these items have been normalised. We have again maintained a tight rein on expenses this year. Group headcount reduced by over 3,000 both through natural attrition and selective restructuring initiatives. Consumer Banking expenses were $3,715 million down 4 per cent on 2008. Consumer banking continued a number of restructuring initiatives. Expenses increased towards the end of 2009 as the business increased investment spend in the light of improving income and impairment levels. Wholesale Banking expenses were $4,195 million up 11 per cent. This increase was driven by the flow through effect of investments in skills and infrastructure in previous years together with increased variable compensation driven by a strong income performance.

Operating profit before impairment losses and taxation (also referred to as 'working profit') increased by $1,224 million, or 20 per cent, to $7,247 million.

Loan impairment was up $679 million or 51 per cent to $2,000 million. The challenging credit environment seen in the latter half of 2008 continued into the early part of the year. In the second half both businesses have generally seen an improving credit environment, despite the portfolio provision taken in respect of exposures in the Middle East.

Other impairment charges were $102 million, down 78 per cent from $469 million in 2008. In 2009 the other impairment charge relates mainly to asset backed securities whereas in 2008 the charge also comprised write downs in the valuation of the private equity and strategic investment portfolios.

Profit before taxation was up $932 million, or 22 per cent, to $5,166 million. India joined Hong Kong as the second geography to deliver operating profits in excess of a billion dollars.

The Group's effective tax rate ('ETR') was 31.7 per cent, up from 26.2 per cent in 2008. The 2009 ETR is higher than our normal underlying tax rate due to the effects of a voluntary exercise with Her Majesty's Revenue and Customs ('HMRC') which finalised prior year UK tax computations from 1990 to 2006 resulting in a one-off net charge of $165 million in the current year.

Acquisitions

On 30 January 2009, we completed the acquisition of Cazenove Asia Limited in Hong Kong. On 30 June 2009, we completed the acquisition of the remaining 75 per cent equity shareholding in First Africa, in South Africa. The effects of the above acquisitions were not material to our 2009 performance. On 30 June 2009, the assets of the 'good bank' business of Asia Trust and Investment Corporation (ATIC) in Taiwan were amalgamated into Standard Chartered Bank (Taiwan) Limited. The integration of the business is largely complete.

Geographic reporting

Malaysia, which was previously reported as a separate geography, is now reported in 'Other APR' reflecting the way the Group reviews the performance of its business.

Standard Chartered Bank

Financial Review continued

Consumer Banking

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

2009	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Consumer Banking Total $million
	Asia Pacific								
Operating income	**1,083**	**636**	**996**	**1,285**	**445**	**680**	**351**	**160**	**5,636**
Operating expenses	**(605)**	**(297)**	**(702)**	**(1,048)**	**(248)**	**(396)**	**(229)**	**(189)**	**(3,714)**
Loan impairment	**(104)**	**(34)**	**(185)**	**(240)**	**(147)**	**(285)**	**(28)**	**(29)**	**(1,052)**
Other impairment	**5**	**–**	**(1)**	**(2)**	**4**	**–**	**–**	**(7)**	**(1)**
Operating profit/(loss)	**379**	**305**	**108**	**(5)**	**54**	**(1)**	**94**	**(65)**	**869**

[1] Other Asia Pacific (Other APR) includes Malaysia: operating income $246 million, operating expenses $(122) million, loan impairment $(53) million, operating profit $71 million.

2008	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Consumer Banking Total $million
	Asia Pacific								
Operating income	1,169	628	1,025	1,403	487	706	345	243	6,006
Operating expenses	(590)	(290)	(729)	(1,012)	(318)	(412)	(251)	(259)	(3,861)
Loan impairment	(106)	(20)	(161)	(311)	(89)	(178)	(19)	(53)	(937)
Other impairment	(25)	–	–	(2)	(7)	–	–	(22)	(56)
Operating profit/(loss)	448	318	135	78	73	116	75	(91)	1,152

[1] Other APR includes Malaysia: operating income $265 million, operating expenses $(128) million, loan impairment $(48) million, operating profit $89 million.

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

Operating income by product	2009 $million	2008 $million	2009 vs 2008 %
Cards, Personal Loans and Unsecured Lending	**1,994**	2,126	(6)
Wealth Management and Deposits	**2,235**	2,814	(21)
Mortgages and Auto Finance	**1,246**	936	33
Other	**161**	130	24
Total operating income	**5,636**	6,006	(6)

Consumer Banking continued the execution of its transformation initiative, delivering early results, despite an economic and business environment that remained challenging.

The early part of 2009 saw a continuation of the difficult trading conditions of 2008 with low interest rates, compressed liability margins, subdued demand for Wealth Management products and challenging credit conditions. The second half of 2009 was more encouraging for the Consumer Banking business. Demand for Wealth Management products continued to recover, secured lending volumes were up and margins improved. As the credit environment improved, loan impairment fell. As profitability improved, we accelerated investment.

This story has driven the shape of the business results across all Consumer Banking markets; results which have also been further impacted by adverse currency translation impacts. Full year operating income fell $370 million or 6 per cent to $5,636 million.

Net interest income dropped $355 million, or 8 per cent. There was good growth in Mortgage lending with balances up 21 per cent over the year and improved margins on 2008. However, even though liability balances were up 12 per cent on 2008, liability margins remained 60 bps lower pushing down net interest income.

Non interest income at $1,802 million was flat to the previous year. Sales of Wealth Management products comprise the majority of non interest income and demand for these products reduced sharply in late 2008. Since that time there has been consistent steady growth in Wealth Management income on a quarter by quarter basis.

Expenses were down $147 million, or 4 per cent, to $3,714 million. On a constant currency basis, expenses were up 2 per cent. Expenses included a $170 million charge in the first half for the buy back of structured notes issued by the PEM Group in Taiwan. This was offset by rationalization of the workforce, a reduction in retirement obligations of $59 million and other efficiency measures, which in the latter part of the year created room for investments in relationship managers, infrastructure and products.

Loan impairment increased by $115 million, or 12 per cent, to $1,052 million. In the first half of 2009, difficult credit conditions continued driving up impairment across all markets, mainly in the unsecured and SME portfolios. The portfolios have been actively de-risked and with an improving economic environment delinquency rates also improved in the second half of year. Loan impairment was down 13 per cent on the 1st half. Operating profit fell $283 million, or 25 per cent, to $869 million.

Consumer Banking continued to be an important source of liquidity for the Group. Liability balances grew 12 per cent driven by priority customers and with a 21 per cent increase in SME balances. The mix of despots was also improved by reducing time and other deposits and increasing the relatively less expensive and more stable current and savings accounts ('CASA'). CASA is now 60 per cent of the deposit base, up from 44 per cent in the previous year.

Product performance

Income from Cards, Personal Loans and Unsecured Lending fell $132 million, or 6 per cent, to $1,994 million. This fall was driven by the Consumer Banking strategy to de-emphasize unsecured lending in the light of stressed credit conditions in markets such as India, Taiwan and Pakistan. This decline in income was partially offset by volume gains in Korea, Singapore, Hong Kong and China.

Income from Wealth Management and Deposits fell $579 million, or 21 per cent, to $2,235 million. Income has been driven down by two significant factors. Firstly customer demand for Wealth Management products is still well below the levels seen in early 2008, although it has been steadily increasing and income has grown quarter on quarter throughout 2009. Secondly, deposit balances grew by $13 billion helped by enhancement of online banking capabilities and increasing cooperation with Wholesale Banking to source payroll accounts. This volume growth has however been insufficient to offset the margin compression of 60 basis points.

Income from Mortgages and Auto Finance ('Mortgages') grew by $310 million, or 33 per cent, to $1,246 million. This strong growth was driven by our focus on lower risk secured lending products. Net interest margins improved year on year due to lower funding expenses and mortgage re-pricing. The improving property market, especially in countries such as Singapore and Hong Kong has supported new mortgages business in the latter part of the year.

Geographic performance

Hong Kong

Income was down $86 million, or 7 per cent, to $1,083 million. To compensate for a subdued Wealth Management contribution the business focused on growing secured lending. Mortgage balances including in the SME book, grew $2 billion, or 16 per cent, driven by successful HIBOR-linked mortgage campaigns. Income from these mortgages was also supported by a widening of the Prime-HIBOR spread. The Group captured approximately 17 per cent of all new mortgage businesses booked in Hong Kong, up from 15.5% in 2008. Focus on government guaranteed SME lending increased SME balances up 28 per cant. Fee income from unit trust sales started to pick up again in the latter part of the year amongst signs of an increase in demand for structured products. Operating expenses were marginally higher at $605 million. Discretionary spend was carefully managed and headcount reduced primarily through natural attrition. Working profit was down $101 million, or 17 per cent, to $478 million. Loan impairment remained flat at $104 million. In the latter part of 2008 loan impairment from the SME segment had increased. The upward trend was stopped by the Hong Kong Government's SME Loan Guarantee Scheme which now covers the entire SME exposure of the Group in Hong Kong. Personal bankruptcies peaked in April 2009 and but have since reduced. Operating profit fell $69 million, or 15 per cent, to $379 million.

Singapore

Income was up $8 million, or 1 per cent, to $636 million. Wealth Management revenue remained under pressure though campaigns like E$aver top-up deposit helped to grow liabilities by 15 per cent. Income from mortgages grew by 28 per cent. Whilst mortgage margins remained flat, there was good volume growth driven by customer-focussed product innovations such as 'MortgageOne SIBOR'. There was also double digit income growth in unsecured lending as the business grew market share. SME income increased as volumes grew supported by the Singapore government guarantee scheme. We were the leading bank disbursing these government guaranteed loans in 2009. Operating expenses increased $7 million, or 2 per cent, to $297 million, with investment in frontline marketing and infrastructure being largely funded by operational savings. Working profit was flat at $339 million. Loan impairment was up $14 million, or 70 per cent, to $34 million driven primarily by SME related impairments in the first half of the year. The introduction of government guarantees improved the profile of our SME book and impairment was substantially reduced in the second half. Operating profit was slightly lower by $13 million or 4 per cent at $305 million.

Korea

Income was down $29 million, or 3 per cent, to $996 million. On a constant currency basis income was up 12 per cent year on year. Wealth Management and Deposits income fell 25 per cent. SME income was also down by over 30 per cent as the business reduced unsecured lending products such as Business Instalment Loans. These were offset by double digit income growth in Mortgages driven by strong sales volumes and increasing margins. Income also benefited in the second half by $68 million profit from the sale of our investment in BC Cards. Operating expenses were down $27 million, or 4 per cent, to $702 million. On a constant currency basis, expenses are 13 per cent higher largely driven by investment in infrastructure such as extensive refurbishing and renovation work undertaken on our property portfolio and the opening of 47 new branches. The increase is distorted by a previous year curtailment release from the retirement plan. Working profit was flat at $294 million. Loan impairment was up $24 million, or 15 per cent, to $185 million driven by unsecured lending as bankruptcies and industry debt restructuring increased. Loan impairment in the second half of 2009 fell 41 per cent on the first half as the SME portfolio continued to be de-risked and the environment improved. Operating profit was down $27 million, or 20 per cent, to $108 million.

Other Asia Pacific

Income was down $118 million, or 8 per cent, to $1,285 million. All countries in Other Asia Pacific ('Other APR') were adversely impacted by the slow down in Wealth Management. Income in China was up 20 per cent to $172 million driven by strong volume growth in personal loans and mortgages and improved asset margins. Income in Taiwan was also severely affected by margin compression. However, there was strong double digit growth in Mortgage income as balances grew 10 per cent year on year. Income in Malaysia was down 7 per cent to $246 million adversely impacted by the low interest rates. Operating expenses in Other APR were up $36 million, or 4 per cent, to $1,048 million. Expenses across the region were generally flat or down, with Taiwan driving the increase. This was due to the $170 million charge for the buy back of structured notes issued by the PEM Group, partly offset by a reduction in retirement obligations of $59 million. China maintained expenses lower at $228 million whilst investing in four new outlets. Other APR working profit was down $154 million, or 39 per cent, to $237 million. Loan impairment was down $71 million, or 23 per cent, to $240 million. Taiwan delivered a $57 million reduction and Thailand a $22 million reduction in impairment as enhanced collection efforts took effect and delinquency rates improved. Loan impairment in China also reduced by $11 million to $3 million as portfolios improved resulting in a reduction in the operating loss in Consumer Banking China to $60 million. Other APR delivered an operating loss of $5 million against a profit of $78 million in 2008.

India

Income was down $42 million, or 9 per cent, to $445 million. On a constant currency basis, income was up by 1 per cent. As in other geographies Wealth Management was under pressure and income was down on 2008. The Mortgage business, whilst growing from a small base, delivered a 75 per cent increase in income as volumes grew and margins doubled. SME income was driven by the growth in both secured lending and deposit. Operating expenses were $70 million, or 22 per cent lower at $248 million. On a constant currency basis, expenses were lower by 14 per cent. Expenses benefited from a service tax rebate, but also as a result of tight cost control coupled with restructuring initiatives such as consolidation of contact centres. Investment in the franchise continued with 4 new branch openings and continued refurbishment of the existing branch network. Working profit was up $28 million, or 17 per cent, to $197 million. On a constant currency basis, the growth in working profit was 28 per cent. Loan impairment was up $58 million, or 65 per cent, to $147 million driven by increased delinquencies on unsecured SME and personal lending products. Operating profit was lower by $19 million, or 26 per cent, at $54 million. On a constant currency basis, operating profit was lower by 20 per cent.

MESA

Income was down $26 million, or 3 per cent to $680 million. The reduction in total MESA income was largely driven by Pakistan where customer lending was significantly reduced and margin compression offset strong deposit growth. In UAE, income was flat year on year and was impacted by a reduction of the high-yield personal loan portfolio in light of the economic stress and tighter underwriting criteria. Wealth Management had a difficult first half, but recovered in the latter part of the year. Operating expenses in MESA were lower by $16 million, or 4 per cent, at $396 million. Pakistan expenses fell by $ 21 million or 16 per cent mainly due to exchange rate movements and efficiency initiatives. UAE expenses were up by $14 million or 9 per cent with investment in Private Banking and branch refurbishment. Working profit for MESA was down $8 million, or 3 per cent, to $286 million. Loan impairment was higher at $285 million, 60 per cent up on 2008. This was predominantly in UAE where loan impairment more than doubled as unemployment increased. This resulted in higher delinquency on unsecured lending and some stress in the mortgage book. MESA delivered an operating loss of $1 million, compared to an operating profit of $116 million in 2008.

Africa

Income was up $6 million, or 2 per cent, at $351 million. On a constant currency basis, income growth was 20 per cent. Wealth Management and Deposits fared relatively well compared to the other Consumer Banking markets with income growing 2 per cent. Nigeria, Ghana and Kenya all drove income growth with the liability businesses benefiting from a flight to quality. In addition, a new strategic partnership for distribution of bancassurance products increased fee income. There was strong momentum in SME. Operating expenses were $22 million or 9 per cent lower at $229 million. On a constant currency basis, expenses were higher by 7 per cent and were driven by investments to strengthen the distribution network as well as the introduction of new product offerings. Working profit in Africa was up $28 million or 30 per cent, at $122 million. On a constant currency basis, the increase in working profit was 55 per cent. Loan impairment was up $9 million, or 47 per cent, to $28 million. Loan impairment increased in unsecured lending reflecting increased unemployment in several countries. Operating profit increased $19 million, or 25 per cent, to $94 million. On a constant currency basis, operating profit grew 52 per cent.

Americas, UK & Europe

Income fell $83 million or 34 per cent from $243 million to $160 million. The business in this region is primarily Private Banking and thus has been disproportionately affected by the challenges faced by the Wealth Management products globally. Depressed world stock markets and low investor confidence resulted in Assets Under Management (AUM) reduction of 10 per cent, or $1.4 billion with a corresponding income decline. Low interest rates resulted in a squeeze in liability margins. Operating expenses fell $70 million or 27 percent through disciplined cost management and a significant reduction in American Express Bank (AEB) integration expenses. Impairment was lower by $24 million or 45 percent. The operating loss fell from $91 million to $65 million largely driven by cost efficiencies.

Standard Chartered Bank

Financial Review continued

Wholesale Banking

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

	2009								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Wholesale Banking Total $million
Operating income	**1,291**	**959**	**562**	**1,607**	**1,372**	**1,402**	**740**	**1,381**	**9,314**
Operating expenses	**(565)**	**(505)**	**(253)**	**(733)**	**(324)**	**(498)**	**(325)**	**(992)**	**(4,195)**
Loan impairment	**(41)**	**(3)**	**(93)**	**(155)**	**(54)**	**(526)**	**(26)**	**(50)**	**(948)**
Other impairment	**5**	**(40)**	**–**	**28**	**13**	**(10)**	**–**	**(78)**	**(82)**
Operating profit/(loss)	**690**	**411**	**216**	**747**	**1,007**	**368**	**389**	**261**	**4,089**

[1] Other APR includes Malaysia: operating income $242 million, operating expenses $(85) million, loan impairment $(8) million, operating profit $149 million.

	2008[1]								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[2] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Wholesale Banking Total $million
Operating income	1,097	703	536	1,576	1,070	966	569	1,027	7,544
Operating expenses	(445)	(377)	(230)	(717)	(331)	(413)	(315)	(958)	(3,786)
Loan impairment	(77)	5	(102)	(125)	(44)	(7)	(14)	(20)	(384)
Other impairment	(27)	(30)	–	(100)	(17)	–	–	(162)	(336)
Operating profit/(loss)	548	301	204	634	678	546	240	(113)	3,038

[1] Amounts restated as explained in "Geographic performance" below and in Notes to the financial statements on page 153. There is no change to the Operating Income by product for 2008.

[2] Other APR includes Malaysia: operating income $265 million, operating expanses $(84) million, Loan impairment $1 million, other impairment $(21) million, operating profit $161 million.

Income by product	2009 $million	2008 $million	2009 vs 2008 %
Lending and Portfolio Management	**851**	555	53
Transaction banking	**2,543**	2,683	(5)
Global Markets[1]			
Financial Markets	**3,319**	2,382	39
Asset and Liability Management ('ALM')	**965**	919	5
Corporate Finance	**1,297**	750	73
Principal Finance	**339**	255	33
Total Global Markets	**5,920**	4,306	37
Total operating income	**9,314**	7,544	23

[1] Global Markets comprises the following businesses: Financial Markets (foreign exchange, interest rate and other derivatives, commodities and equities, debt capital markets and syndications); ALM; Corporate Finance (corporate advisory, structured trade finance, structured finance and project and export finance); and Principal Finance (corporate private equity, real estate infrastructure and alternative investments).

Financial Markets operating income by desk	2009 $million	2008 $million	2009 vs 2008 %
Foreign Exchange	**1,352**	1,202	12
Rates	**881**	754	17
Commodities and Equities	**390**	142	175
Capital Markets	**410**	236	74
Credit and Other	**286**	48	496
Total Financial Markets operating income	**3,319**	2,382	39

Wholesale Banking has had another excellent year, with broad based income growth driven by continued client income momentum, which remains the cornerstone of a consistent and well executed strategy.

The market dislocation and volatility in the early part of 2009 enabled Wholesale Banking to drive exceptionally strong income growth. The business made gains in market share and benefited from increased asset margins. Competitors remained distracted and ALM benefited from strong accrual income as a result of strategic positioning in late 2008. However low interest rates drove Cash and Custody income lower and stressed economic conditions fuelled loan impairment. As economic conditions moderated in the second half so did income growth.

Client income remained robust and there was good underlying volume growth in the lending and flow businesses. Loan impairment moderated as the economic conditions improved.

Operating income grew $1,770 million, or 23 per cent, to $9,314 million. Net interest income was up $561 million, or 17 per cent, to $3,837 million. Non-interest income was up $1,209 million, or 28 per cent, to $5,477 million. Client income continued to be significant at 74 per cent of total income and was up 22 per cent on the previous year.

Operating expenses grew $409 million, or 11 per cent, to $4,195 million. The increase in expenses, which was well below income growth, was driven by staff costs. The business continued to invest in specialist skills and expertise, building in areas such as sales, trading and financial institutions teams.

Working profit increased $1,361 million, or 36 per cent, to $5,119 million.

Loan impairment increased by $564 million to $948 million reflecting the challenging economic environment. A significant portion of the impairment arose in MESA while other markets such as Korea, India and Other APR were also impacted but to a lesser extent. The portfolio remains well diversified and is increasingly well collateralised.

Other impairment was lower by $254 million or 76 per cent to $82 million. The 2008 charge reflected a fall in equity and other markets and a drop in value on the ABS, private equity and strategic investment portfolios. In 2009, as the economic conditions moderated, impairment has reduced. The business also benefited from recoveries on disposal of private equity and strategic investments.

Operating profit increased $1,051 million, or 35 per cent, to $4,089 million and constitutes nearly 80 per cent of the Group profits. Second half of operating profits was down 19 per cent on first half as spreads narrowed and volatility reduced

Product performance

Lending and Portfolio Management income increased by $296 million, or 53 per cent, to $851 million. This was primarily driven by improved margins through re-pricing and an increase in volumes and fee income from new deals.

Transaction banking income fell by $140 million, or 5 per cent, to $2,543 million. Despite a 10 per cent fall in volumes, Trade income grew by 26 per cent as margins increased. Cash income fell by 23 per cent due to margin compression in a low interest rate environment. However, the business continues to gain significant cash management mandates and volumes increased by some 21 per cent.

Global Markets income increased by $1,612 million, or 37 per cent, to $5,918 million.

Within Global Markets, the Financial Markets ('FM') business was the largest contributor. Income grew $937 million, or 39 per cent, to $3,319 million. The FM business primarily comprises sales and trading of exchange and interest rate products. In 2009 there has been diversification of income streams with increased contributions from commodity, equity and credit derivatives. Nearly 70 per cent of FM income was client driven through sale of products to meet client's hedging requirements, supported through upgraded risk management capabilities. We were favourably positioned to meet client demand for risk management solutions in a volatile and uncertain market, benefiting from wider bid-offer spreads and the rates business had a record year. This FM flow trading arose by virtue of being a market maker and was a key driver for the increase in own account income, which for the Group, also comprises ALM and Principal Finance.

The commodities and equities business delivered impressive growth of 176 per cent driven by opportunities arising in the energy and metals business, most notably in Africa. In the equities business, there was significant growth with strong primary deal flows.

ALM income was $46 million or 5 per cent higher at $965. Positions put on at the end of 2008 captured both high fixed interest rates and wide credit spreads benefiting from lower funding rates. Re-investment throughout 2009 in relatively steep curves generated income on accruals in addition to sales from the AFS portfolio.

Corporate Finance income was up $547 million or 73 per cent to $1,297 million with strong income growth across all products. Much of this growth was driven by Corporate Advisory where income more than doubled, driven by a number of landmark deals in India and Africa

Principal Finance income was up $85 million or 33 per cent higher at $338 million and realisations benefited as Asian market prices rose.

Geographic performance

The Group maintains a Global Booking Unit in the UK in which are recorded the income and expenses related to the private equity portfolio, certain principal finance activities and some Financial Markets ("FM") products. In 2008 income and expenses related to the private equity portfolio were apportioned and reported across a number of geographies. The principal finance and FM income and expenses were reported in Americas, UK and Europe. In 2009 FM income and expenses were also apportioned over other geographies to better align financial reporting with underlying organisational changes. In order to facilitate a more meaningful comparison, the 2008 Wholesale Banking geography split has been restated. The geographic performance commentary is based on the restated 2008 numbers. A comparison of the 2008 results as originally reported and as restated can be found in Note 53 page 153. The restated does not affect the Group's total operating income.

Hong Kong

Income was up $194 million, or 18 per cent, to $1,291 million. Both Fixed Income and ALM increased income capturing opportunities arising from volatile interest rates and FX markets. Lending and trade income both grew as volumes increased and re-pricing actions widened margins. However these advances were offset by shrinking margins in Cash and Custody and lower AUM. Operating expenses grew $120 million, or 27 per cent, to $565 million driven by higher staff costs and increased investment in infrastructure including a new dealing room. Working profit was up $74 million, or 11 per cent, to $726 million. Loan impairment was lower by $36 million, down almost a half, compared to 2008. Proactive engagement in debt relief plans helped mitigate impairment. Other impairment reflects some recovery on realisation of previously impaired investments. Operating profit was up $142 million, or 26 per cent, at $690 million.

Singapore

Income grew $256 million, or 36 per cent, to $959 million. Client income benefited from increased Trade Finance, a number of Corporate Finance deals and increased volumes through the offshore banking unit. Trading income was driven higher by fixed income being well positioned to take advantage of volatile market conditions. Operating expenses grew $128 million, or 34 per cent, to $505 million. Staff related costs constituted a major part of the increase. The full year impact of previous years hiring together with an increase in front line, client facing staff, drove up staff expenses. This hiring activity represents investment in specialist teams in areas such as commodities, options and interest rate derivatives and has helped drive income growth as evident from the positive jaws. Working profit was up 40 per cent at $454 million. Other impairment of $40 million represents provisions made against private equity investments. Operating profit was up by $110 million or 37 per cent, at $411 million.

Korea

Income at $562 million was up $26 million or 5 per cent. Client income grew substantially, driven by strong business momentum across all product lines, Transaction Banking, Lending and FM sales. Own account income was down as ALM accruals were impacted by re-pricing. Operating expenses were higher by $23 million, or 10 per cent, at $253 million. On a constant currency basis, expenses rose 27 per cent. The increase is distorted by a previous year curtailment release from the retirement plan. Underlying expense growth was driven by flow through of previous year investments in infrastructure expansion. Working profit was slightly up by $3 million, or 1 per cent, at $309 million. Loan impairment was marginally lower at $93 million as compared to $102 million and was driven by additional provisions raised in respect of exposures on certain foreign exchange transactions. Operating profit was lower by $12 million, or 6 per cent, at $216 million.

Other Asia Pacific

Income was up $31 million, or 2 per cent, at $1,607 million. Across Other APR, lending income increased through higher margins. However this was offset by lower income from Transaction Banking which was impacted by lower margins in a low interest rate environment and intense competition. In China, a major component of Other APR, income grew by 16 per cent to $566 million with further benefit from the Private Equity portfolio. In Taiwan, income was down 19 per cent due to margin compression in both cash and custody despite record liability levels. Other APR operating expenses were up $15 million, or 2 per cent, to $733 million. Expenses increased as a result of staff and premises costs and flow through from prior year investments. China operating expenses were up 10 per cent to $252 million. In Taiwan, operating expenses were down 9 per cent reflecting a reduction in retirement obligations. Working profit in Other APR was higher by 2 per cent at $874 million. Loan impairment was up $30 million from $125 million in 2008. The increase was driven by Thailand and Japan. In China, loan impairment reduced by $4million to $9 million. In Taiwan, the results of recovery actions offset new loan impairment charges. Other impairment benefited from the reversal of prior year provisions on sale of private equity investments. Operating profit was $113 million, or 18 per cent, higher at $747 million. China operating profit was $333 million.

India

Income grew $302 million, or 28 per cent, to $1,372 million. Income growth was broad based across all products. Trade and lending was up through re-pricing and higher margins. Corporate Advisory income grew, on the back of cross border financing and leveraging deal structuring capabilities. This helped offset reduced Cash and custody income impacted by margin compression and sluggish equity markets. Operating expenses of $324 million were flat to 2008. Working profit was up $309 million, or 42 per cent, at $1,048 million. Loan impairment was up $10 million, or 23 per cent, at $54 million driven by middle market clients. Other impairment release of $13 million reflects a recovery on Private Equity disposals compared to a $17 million charge in 2008. Operating profit was up $329 million, or 49 per cent, to $1,007 million. This constitutes 20 per cent of the Group's operating profit and makes India the first geography within the Wholesale Banking business to generate profits in excess of one billion dollars.

MESA

Income was up $436 million, or 45 per cent, to $1,402 million driven by increases in both client and own account income. Capital Markets grew income benefiting from bond mandates including a number of Sukuks. Islamic banking income doubled to $120 million. UAE led income growth with an overall increase of 74 per cent. Qatar income doubled driven by client revenue, principally in FX sales and commodity derivatives. Bahrain income grew by 28 per cent driven by lending volumes and re-pricing, large Corporate Advisory deals and a strong Islamic Banking performance. Pakistan was affected by political and economic uncertainty which impacted business sentiment. MESA operating expenses were up $85 million, or 21 per cent, to $498 million driven by staff and investment expenditure. MESA working profit was up $351 million, or 64 per cent, to $904 million. Loan impairment was up by $519 million over 2008. A substantial portion of this increase relates to individual impairment charges on corporate exposure in the Gulf and increased portfolio impairment provision for the region generally. The total loan portfolio is $14 billion, of which $10 billion is in the UAE. Certain high-profile entities within the portfolio have experienced stress. Our exposure to these entities is around $500 million. Resolution process is ongoing, in the event losses arise we do not expect they would be material. Operating profit was $178 million, or 32 per cent lower than the previous year.

Africa

Income was up $171 million, or 30 per cent, to $740 million. Trade and lending income increased on higher volumes benefiting from Asia trade flows coupled with aggressive re-pricing. This increase in income helped offset a fall in cash income where higher volumes could only partially make up for margin compression. Corporate Finance benefited from several landmark deals. Whilst South Africa and Ghana registered particularly strong income growth, other major markets such as Nigeria, Kenya, Zambia and Uganda have all delivered broad based income growth. Operating expenses were up $10 million, or 3 per cent, to $325 million. Working profit was up $161 million, or 63 per cent, to $415 million. Operating profit was up $149 million, or 62 per cent, to $389 million.

Americas, UK & Europe

Income was higher by $354 million or 34 per cent to $1,381 million. In 2009, there was broad based income growth in Commercial Banking and Trading income. Lending and Trade saw volume increases and re-pricing actions, which helped offset the drop in Cash income. The fixed income business was primarily driven by the growth in rates and commodities and equity derivative business. Trading income benefited from favourable ALM accruals in a low interest rate environment. Operating expenses were higher by $34 million at $992 million. Staff expense increases were partially offset through a reduction in premises and other costs as synergies from the AEB integration flowed through. Working profit grew $320 million. Impairment was higher by $30 million or 150 per cent. Other impairment was $78 million down by $84 million from 2008 which reflected write down of strategic investments. Operating profit was $261 million compared to an operating loss of $113 million in the previous year.

Standard Chartered Bank

Financial Review continued

Balance Sheet

	2009 $million	2008 $million	2009 vs 2008 $million	%
Assets				
Lending & investments				
Cash and balances at central banks	**18,131**	24,161	(6,030)	(25)
Loans and advances to banks	**50,884**	46,581	4,303	9
Loans and advances to customers	**198,292**	174,178	24,114	14
Investment securities held at amortised cost	**6,688**	7,493	(805)	(11)
	273,995	252,413	21,582	9
Assets held at fair value				
Investment securities held at fair value through equity	**69,040**	61,849	7,191	12
Financial assets held at fair value through profit or loss	**22,446**	15,425	7,021	46
Derivative financial instruments	**38,218**	69,657	(31,439)	(45)
	129,704	146,931	(17,227)	(12)
Other assets	**32,721**	35,645	(2,924)	(8)
Total assets	**436,420**	434,989	1,431	–
Liabilities				
Deposits and debt securities in issue				
Deposits by banks	**38,461**	31,909	6,552	21
Customer accounts	**251,244**	234,008	17,236	7
Debt securities in issue	**24,502**	22,075	2,427	11
	314,207	287,992	26,215	9
Liabilities held at fair value				
Financial liabilities held at fair value through profit or loss	**14,505**	15,478	(973)	(6)
Derivative financial instruments	**36,875**	67,775	(30,900)	(46)
	51,380	83,253	(31,873)	(38)
Other liabilities	**43,645**	42,686	959	2
Total liabilities	**409,232**	413,931	(4,699)	(1)
Equity	**27,188**	21,058	6,130	29
Total liabilities and shareholders' funds	**436,420**	434,989	1,431	–

Balance sheet

2009 was a year of continued and rigorous focus on the balance sheet as we further consolidated its capital and liquidity position and worked towards further de-risking the asset profile. On a year on year basis, total assets grew by $1.4 billion, less than 0.4 per cent with a strong increase in advances to customers by $24 billion or 14 per cent largely offset by a decrease in derivatives mark to market by $31 billion or 45 per cent. Total liabilities fell by $5 billion with strong growth in total deposits and debt securities in issue of $26 billion or 9 per cent offset by a decrease in derivatives mark to market by $31 billion or 46 per cent. Our emphasis on continuing importance of liquidity resulted in strong deposits growth, both from customers as well as banks. Our equity strengthened by $6 billion or 29 per cent.

Advances, deposits, investments and borrowings

Nearly 70 per cent of our balance sheet is held at amortised cost.

Customer advances grew by $24 billion or 14 per cent with 60 per cent of this increase from Consumer Banking. In Consumer Banking, Mortgages, a key component of the secured lending portfolio, increased to 61 per cent of their loan book, up from 59 per cent as compared to 2008. We supported the recovery of the SME through new products, including involvement in government sponsored initiatives in markets such as Singapore, Hong Kong and Korea. Consumer Banking share of the Group's customer advances increased from 45 per cent to 47 per cent.

Wholesale Banking focused on key clients, strengthening relationships and growing our product capabilities to support local trade, offering short term working capital solutions and supporting global cross border flows by leveraging on the Group's network. From a sector perspective, much of the incremental growth in Wholesale Banking is in Commerce and Transport, indicative of efforts to support recovery in these markets. Exposure to sectors such as Construction and Commercial Real Estate have increased year on year by around 8 to 10 per cent but continue to be low as a proportion of overall advances, under 5 per cent. Exposure to financial institutions has dropped significantly especially in the UK as funds deployed with central banks in 2008 have been moved to other sectors.

The Group has continued to attract deposits from both customers and banks and benefited from a flight to quality in markets such as Africa. Customer deposits registered a strong 7 per cent growth or by $17 billion. Given the importance of liquidity in a fragile and uncertain environment, both businesses continued to focus on deposit gathering through 2009. We ran successful campaigns such as "Do Dream" in

Korea, "e$aver" in Singapore and Hong Kong to garner deposits and increase market share. Markets such as Hong Kong, Taiwan and China used the low interest rate environment to reshape their balance sheet through an increase in CASA whilst reducing time deposits. CASA as a proportion of total deposits increased significantly from 43 per cent in December 2008 to 53 per cent.

We continue to be a net lender into the interbank money markets, and are particularly strong in geographies such as Hong Kong and Singapore. The net amount fell slightly from $14 billion in 2008 to $12 billion at the end of 2009 as we continue to be selective in choosing where to place funds.

We were successful in driving competitive pricing and raising senior debt in the United Kingdom. Debt securities in issue increased by $3 billion.

Our advances to deposits (AD) ratio at 31 December 2009 was 78.6 per cent compared to 74.8 per cent in 2008. Given our emphasis on a strong liquidity in each geography, advances growth is largely seen in countries that have seen strong deposits growth; Singapore, Korea and Hong Kong.

Assets and liabilities at fair value

The mark to market on derivatives, both assets and liabilities, reduced by approximately $31 billion while the notional amounts remained flat. Reductions were seen both in foreign exchange contracts and interest rate contracts. These decreases were largely driven by lower volatility in the market values and the weakening of USD against Asian currencies.

We deployed surplus deposits and borrowings in investment securities held at fair value, which increased by $14 billion, largely in listed debt and treasury bills.

Level 3 exposures constitute less than 0.5 per cent of our total assets.

Equity

We remain strongly capitalised and have built on the strength of our capital position at the end of 2008 through another year of record profits.

As of 31 December 2009, total equity was $27 billion, an increase of $6 billion from $21 billion as at 31 December 2008. In addition to retained profits, the increase also resulted from the $2.5 billion raised from issue of shares to its parent company in August 2009 partially offset by dividend payment of $371 million.

The impact of foreign exchange on reserves was less significant in 2009 compared to the $2.8 billion of losses recognised in 2008. Year on year, exchange rates remained relatively constant although gains were generated as the Korean Won appreciated slightly against USD. The effects of AFS investments were also less significant than 2008, which saw $0.7 billion of valuation write-downs. This was largely reversed in 2009 as markets improved and investments were realised.

There were no significant movements in minority interest within equity.

Summary

In summary, we have delivered another record performance in 2009 with multiple sources of income growth. We remain focused on effective management of risk and of capital and on maintaining excellent levels of liquidity. The Group enters 2010 with resilience and momentum, well-positioned and in great shape.

Standard Chartered Bank

Financial risk management

Risk overview

Standard Chartered has a defined risk appetite, approved by the Board, which is an expression of the amount of risk we are prepared to take, and plays a central role in the development of our strategic plans and policy. We also regularly conduct stress tests which ensure that we are operating within our expressed risk appetite across key markets and customer segments.

We maintain a diversified portfolio across countries, products, and customer segments, and we have low exposure to higher-risk asset classes and customer segments. We are disciplined in our liquidity management, and we benefit from a well-established risk governance structure and an experienced senior team.

Our pro-active approach to risk management, and steps taken early on in the current economic crisis to reshape our portfolios and tighten underwriting standards helped to mitigate the impact of market turbulence on our performance. Throughout 2009, our balance sheet and liquidity position remained strong, and we are well positioned to address further challenges and potential economic weakness in 2010.

Our lending portfolio is diversified across a wide range of products, industries and customer segments, which serves to mitigate risk. We operate in more than 70 countries and there is no single country which accounts for more than 20 per cent of loans and advances to customers, or operating income. Our cross-border asset exposure is diversified and reflects our strategic focus on our core markets and customer segments. No individual industry classification accounts for more than 15 per cent of our loan portfolio. Over half of our loans and advances to customers are of short maturity, and within the Wholesale Bank approximately 70 per cent of loans and advances have a tenor of one year or less. More than 75 percent of Consumer Banking assets are secured and more than 70 percent of Wholesale Banking revenues are client driven

We also have low exposure to asset classes and segments outside of our core markets and target customer base. We have no mass market business in the US or the UK. Our commercial real estate exposure accounts for less than two per cent of our total assets, and our exposure to leveraged loans is also low. Our portfolio of Asset-Backed Securities (ABS) accounts for less than one per cent of our total assets.

Market risk is tightly monitored using Value at Risk (VaR) methodologies complemented by sensitivity measures, gross nominal limits and management action triggers at a detailed portfolio level. This is supplemented with extensive stress testing which takes account of more extreme price movements.

Our liquidity was underpinned in 2009 by good inflows of customer deposits, resulting in a strong advances-to-deposit ratio. Liquidity will continue to be deployed to support growth opportunities in our chosen markets. We manage multi-currency liquidity across our geographical locations, ensuring that we can meet all short-term funding requirements and that our balance sheet remains structurally sound. We are a net provider of liquidity to the interbank money markets.

We have a well-established risk governance structure and an experienced senior team. Members of our senior leadership sit on our risk committees, which ensures that risk oversight is a critical focus for all our directors, while common membership between these committees helps us address the inter-relationships between risk types.

Since 1 January 2008, the Group has been using the advanced Internal Ratings Based (IRB) approach under the Basel II regulatory framework to calculate credit risk capital. The FSA has also granted the Group CAD2 internal model approval covering the majority of interest rate and foreign exchange risk in the trading book, as well as precious and base metals market risk. Assets and positions outside the scope of IRB and CAD2 are assessed according to standard FSA rules.

With effect from 4 March 2010, the Board Audit and Risk Committee will be split into a Board Risk Committee and a Board Audit Committee, to align with the recommendations of the Walker Review. Also as of March 2010, the Group Chief Risk Officer will report to the Group Finance Director and to the Board Risk Committee.

Risk performance review

In the first quarter of 2009, economic conditions in much of our footprint continued to worsen, but by the second half of the year credit conditions had begun to improve as the worst of the global financial crisis passed.

In Consumer Banking there was a moderate increase in loan impairment in the first half of the year, as trends that became evident during the fourth quarter of 2008 continued into 2009. This was primarily driven by unsecured portfolios impacted by rising unemployment and bankruptcy rates. The unsecured portfolios most affected were in Hong Kong and Korea where bankruptcy and debt restructuring programme filings increased markedly, in India where consumer leverage was particularly high, and in UAE where there was a rise in unemployment rates and a significant fall in property values.

In the second half of the year, as credit conditions improved, delinquency and impairment rates across most of our principal markets and product portfolios improved, and in most countries delinquency and loss rates had come back down below levels apparent at the end of 2008.

In Wholesale Banking loan impairment rose in the first half of 2009 relative to the second half of 2008. The increase occurred primarily in the Local Corporates portfolio, where the effects of the deteriorating economic environment have been most acutely felt. However, in the context of gradually improving credit conditions, Wholesale Banking impairment in the second half of 2009 was lower than in the first half of 2009. A large portion of Wholesale Banking impairment for 2009 was concentrated on a very small number of accounts.

Elsewhere, the portfolio has remained resilient. There were non-material levels of impairment on the ABS portfolio in 2009. The carrying value of the ABS portfolio has reduced, primarily as a result of redemptions and some sales. The overall quality of the ABS book remains good with no direct US sub-prime, and minimal Alt-A, exposures. Our net exposure to ABS represents less than one per cent of total Group assets and has had limited impact on our performance.

Sharp increases in the volatility of credit spreads following the collapse of Lehman Brothers in September 2008 drove an increase in non-trading book VaR through most of 2009, which in turn was a key factor in an increase in total average VaR in 2009 compared to 2008.

Principal uncertainties

Uncertainty	Description	Mitigants
Changing macroeconomic conditions in footprint countries	• Changes in macroeconomic conditions can have an impact on our performance via their influence on personal expenditure and consumption patterns; demand for business products and services; the debt service burden of consumers and businesses; the general availability of credit for retail and corporate borrowers; and the availability of capital and liquidity funding for our business..	• We balance risk and return taking account of changing conditions through the economic cycle. • We monitor economic trends in our markets very closely and continuously review the suitability of our risk policies and controls. • Our risk management processes are pro-active and dynamic, allowing us to respond quickly to changes in economic conditions or outlook.
Changes in government and regulatory policy	• The nature and impact of future changes in economic policies, laws and regulations are not predictable and may run counter to our strategic interests. These changes could also affect the volatility and liquidity of financial markets, and more generally the way we conduct business and manage capital and liquidity.	• We keep a close watch on key regulatory developments in order to anticipate changes and their potential impact on our performance. • Both unilaterally and through our participation in industry forums, the Group responds to consultation papers and discussions initiated by regulators and governments. The focus of these is to develop the framework for a stable and sustainable financial sector and global economy
Financial markets dislocation	• Financial market volatility or a sudden dislocation could affect our performance, through its impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios or the availability of capital or liquidity. • Financial market instability also increases the likelihood of default by our corporate customers and financial institution counterparties.	• We have low exposure to risky assets. • We assess carefully the performance of our financial institution counterparties, rate them internally according to their systemic importance, adjusting our exposure accordingly. • We maintain robust suitability and appropriateness processes.
Geopolitical events	• We face a risk that geopolitical tensions or conflict in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital across borders.	• We actively monitor the political situation in all of our principal markets, and conduct regular stress tests of the impact of such events on our portfolios, which inform assessments of risk appetite and any need to take mitigating action.
Reduced access to funding	• Liquidity risk is the risk that we either do not have sufficient financial resources available to meet all our obligations and commitments as they fall due, or can access funding only at excessive cost.	• We seek to manage our liquidity prudently in all geographical locations and for all currencies. • Our customer deposit base is diversified both by type and maturity, and we have a low dependence on wholesale funding. • We also hold a portfolio of liquid assets which can be realised if a liquidity stress event occurs.
Exchange rate movements	• Changes in exchange rates affect the value of our assets and liabilities denominated in foreign currencies, as well as the earnings reported by our non-US dollar denominated branches and subsidiaries. • A fall in the value of the US dollar could also impact trade flows and the wealth of our clients that hold US dollar-denominated assets, both of which could have an impact on our performance.	• We actively monitor exchange rate movements and adjust our exposure accordingly. • Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to protect our capital ratios from the effects of changes in exchange rates.

We are in the business of taking selected risks to generate shareholder value, and we seek to contain and mitigate those risks to ensure they remain within our risk appetite and are adequately compensated. However, risks are by their nature uncertain and the management of risk relies on judgements and predictions about the future.

Financial risk management continued

A description of our principal risk types and our approach to managing them are set out in our Risk Management section. The key uncertainties we face in the coming year are set out below. This should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties that we may experience.

Changing macroeconomic conditions in footprint countries
Macroeconomic conditions have an impact on personal expenditure and consumption; demand for business products and services; the debt service burden of consumers and businesses; the general availability of credit for retail and corporate borrowers; and the availability of capital and liquidity funding for our business. All these factors may impact our performance.

The world economy now appears to be emerging from the worst downturn since the 1930s. An even more serious recession would have occurred had governments globally not embarked upon a synchronised and extensive programme of monetary and fiscal easing, which has been a key driver of the current gradual return to growth in our markets and globally. There is a risk that as this stimulus is withdrawn economic conditions will deteriorate again, which could impact our performance as described above. We operate primarily in markets which appear well positioned to avoid another major downturn.

We balance risk and return taking account of changing conditions through the economic cycle, and monitor economic trends in our markets very closely. We also continuously review the suitability of our risk policies and controls. Our risk management processes are pro-active and dynamic, allowing us to respond quickly to changes in economic conditions or outlook.

Regulatory changes and compliance
The Group's business as an international bank is subject to a complex regulatory framework comprising legislation, regulation and codes of practice, in each of the countries in which we operate.

A key uncertainty for the Group relates to the way in which governments and regulators adjust laws and regulations and economic policies in response to macroeconomic and other systemic conditions. The financial crisis has spurred unprecedented levels of proposals to change the regulations governing financial institutions and further changes to regulations remain under consideration in many jurisdictions.

The nature and impact of future changes in laws, regulations and economic policies are not predictable and could run counter to our strategic interests. We support changes to laws, regulations or codes of practice that will improve the overall stability of the financial system. However, we also have concerns that certain proposals may not achieve this desired objective and may have unintended consequences, either individually or in terms of aggregate impact. Proposed changes could affect the volatility and liquidity of the financial markets and, consequently, the way we conduct business and manage capital and liquidity. These effects may directly or indirectly impact our financial performance. Both unilaterally and through our participation in industry forums, we endeavour to influence the development of relevant laws and regulatory policies in our key markets. We also keep close watch on key regulatory developments in order to anticipate changes and their potential impact.

We have a commitment to maintaining strong relationships with governments and regulators in the countries in which we operate. At any time the Group may be in discussion with a range of authorities and regulatory bodies in different countries on matters that relate to its past or current business activities.

HM Treasury regulations require compliance with sanctions adopted by the UK government. Similarly, US laws and regulations require compliance with US economic sanctions against designated foreign countries, nationals and others. The Group has a US Dollar payments and clearing business and has policies, procedures and controls designed to ensure compliance with relevant laws and regulations. Several US agencies have investigated how a number of other financial institutions have processed US Dollar payments potentially involving sanctioned parties. In the light of that activity relating to other institutions, the Group has initiated discussions with US authorities to discuss its past business.

On 29 February 2008, the Group completed the acquisition of American Express Bank. Prior to the acquisition, subsidiaries of the American Express Bank group located in New York and Miami had entered separately into a Written Agreement with the New York State Banking Department and a Cease and Desist Order with the Federal Reserve Bank of Atlanta to address deficiencies relating to compliance with applicable federal and state laws and regulations governing anti-money laundering.

On 15 January 2010, the New York State Banking Department notified the Group that Standard Chartered International (USA) Ltd. (formally American Express Bank Ltd) had satisfied the terms of the written agreement and that the agreement was therefore terminated. The Cease and Desist Order remained in place during 2009. However, the board believes that during the year the Group achieved substantial compliance with the terms of this document and the status of this matter continues to be monitored closely by the board.

Financial markets dislocation
Financial market volatility subsided in the second half of 2009. However there remains a risk that renewed volatility or a sudden financial market dislocation could affect our performance over the coming year. These factors may have an impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios. The potential losses incurred by certain customers holding derivative contracts during periods of financial market volatility could also lead to an increase in customer disputes and corporate defaults.

At the same time, financial market instability could cause some financial institution counterparties to experience tighter liquidity conditions or even fail. Government action has reduced the systemic risk, but the impact on the financial services industry of ongoing uncertainty in the broader economic environment means that the risk nonetheless remains.

We have low exposure to risky asset classes and segments. We also maintain robust appropriateness and suitability processes to mitigate the risk of customer disputes. We closely monitor the performance of our financial institution counterparties and adjust our exposure to these counterparties as necessary.

Financial risk management continued

Geopolitical events

We operate in a large number of markets around the world, and our performance is in part reliant on the openness of cross-border trade and capital flows. We face a risk that geopolitical tensions or conflict in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital or operations across borders.

We actively monitor the political situation in all of our principal markets, and conduct stress tests of the impact of extreme but plausible geopolitical events on our performance and the potential for such events to jeopardise our ability to operate within our stated risk appetite.

Reduced access to funding

Liquidity risk is the risk that we either do not have sufficient financial resources available to meet all our obligations and commitments as they fall due, or can access funding only at excessive cost. Exceptional market events can impact us adversely, thereby affecting our ability to fulfil our obligations as they fall due. The principal uncertainties for liquidity risk are that customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the intended maturity date.

We seek to manage our liquidity prudently in all geographical locations and for all currencies. Our customer deposit base is diversified both by type and maturity, and we have a low dependence on wholesale funding. We also hold a portfolio of liquid assets which can be realised if a liquidity stress event occurs.

Exchange rate movements

Changes in exchange rates affect, among other things, the value of our assets and liabilities denominated in foreign currencies, as well as the earnings reported by our non-US dollar denominated branches and subsidiaries. A sharp fall in the value of the US dollar could also impact trade flows and the wealth of clients holding US dollar-denominated assets, both of which could have an impact on our performance.

We monitor exchange rate movements closely and adjust our exposures accordingly. Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to protect our capital ratios from the effects of changes in exchange rates. The effect of exchange rate movements on the capital adequacy ratio is mitigated by corresponding movements in risk weighted assets.

	Year ended 31.12.09	Year ended 31.12.08
Indian rupee		
Average	**48.35**	43.50
Period end	**46.54**	48.65
Korean won		
Average	**1,276.62**	1,101.82
Period end	**1,164.47**	1,259.91
Singapore dollar		
Average	**1.45**	1.42
Period end	**1.40**	1.44

As a result of our normal business operations, Standard Chartered is exposed to a broader range of risks than those principal risks mentioned above, and our approach to managing risk is detailed on the following pages.

Market risk regulatory capital

At Group level, the FSA specifies minimum capital requirements against market risk. The FSA has granted the Group CAD2 internal model approval covering the majority of interest rate and foreign exchange risk in the trading book. In 2008 the scope was extended to include precious and base metals market risk. Positions outside the CAD2 scope are assessed according to standard FSA rules.

At 31 December 2009, our market risk regulatory capital requirement was $1.6 billion (31 December 2008: $0.7 billion). The increase occurred despite a reduction in trading book market risk as reflected above in internal VaR. It arises primarily due to energy derivative positions that are subject to FSA standard rules and for which application has been made to the FSA for CAD2 approval.

Operational risk

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems, or from external events. We seek to minimise exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The Group Operational Risk Committee (GORC) oversees the management of operational risks across the Group, supported by business, functional, and country-level committees. This formal structure of governance provides the Group Risk Committee with confidence that operational risks are being proactively identified and effectively managed.

Group Operational Risk is responsible for setting and maintaining standards for operational risk management and measurement. An independent assurance function, separate from the business and functions, is responsible for assuring adherence to our operational risk controls.

Regulatory risk

Regulatory risk includes the risk of loss arising from a failure to comply with the laws, regulations or codes applicable to the financial services industry.

The Regulatory Risk function within Group Compliance & Assurance is responsible for developing and maintaining an appropriate framework of regulatory compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all employees and is monitored by the Compliance & Assurance function.

The Group Compliance and Regulatory Risk Committee reviews and approves our Regulatory Compliance standards and monitors key regulatory risks across the Group.

Reputational risk

Reputational risk is that we fail to meet the standards of performance or behaviours mandated by our Board and expected by our stakeholders in the way in which business is conducted. It is our policy that protecting our reputation should at all times take priority over all other activities, including revenue generation.

Reputational risk will arise from the failure to effectively mitigate one or more of country, credit, liquidity, market, regulatory, operational, environmental and social risk. All employees are responsible for day-to-day identification and management of reputational risk.

The Wholesale Banking Responsibility and Reputational Risk Committee and the Consumer Banking Responsibility and Reputational Risk Committee have responsibility for managing reputational risk in their respective businesses, while the Group Risk Committee provides oversight, sets Group-wide policy and monitors any material risk issues.

At country level, it is the responsibility of the country Chief Executive Officer to protect our reputation in that market. To achieve this, the country Chief Executive Officer and country management committee must actively:

- promote awareness and application of our policy and procedures regarding reputational risk;
- encourage business and functions to take account of our reputation in all decision-making, including dealings with customers and suppliers;
- implement effective in-country reporting systems to ensure they are aware of all potential issues; and
- promote effective, proactive stakeholder management.

Pension risk

Pension risk is the risk to the Group caused by our obligations to provide pension benefits to our employees. Pension risk exposure is not concerned with the financial performance of our pension schemes themselves, rather the focus is upon the risk to our financial position which arises from our need to meet our pension scheme funding obligations. The risk assessment is focused on our obligations towards our major pension schemes, ensuring that our funding obligation to these schemes is comfortably within the financial capacity of the Group. Pension risk is monitored on a quarterly basis, taking account of the actual variations in asset values and updated expectations regarding the progression of the pension fund assets and liabilities.

The Pensions Executive Committee is the body responsible for governance of pension risk and it receives its authority directly from the Court.

Tax risk

Tax risk is any uncertainty of outcome regarding our tax position.

We manage tax risk through the Tax Management Committee (TMC), which receives its authority from the Group Asset and Liability Committee (GALCO). Tax risks are identified at both a country and a Group level; significant tax risks identified in this way, and mitigating action both planned and taken, are reported to the TMC and GALCO on a quarterly basis.

Financial risk management continued

Asset backed securities

Total exposures to asset backed securities

	31 December 2009				31 December 2008			
	Percentage of notional value of portfolio	Notional $million	Carrying value $million	Fair value $million[1]	Percentage of notional value of Portfolio	Notional $million	Carrying value $million	Fair value $million[1]
Residential Mortgage Backed Securities (RMBS)								
- US Alt-A	2%	74	42	31	2%	84	57	35
- US Prime	–	1	–	–	–	2	1	–
- Other	24%	819	767	708	23%	1,024	969	858
Collateralised Debt Obligations (CDOs)								
- Asset Backed Securities	2%	77	13	10	5%	208	32	30
- Other CDOs	10%	353	285	273	9%	379	306	225
Commercial Mortgage Backed Securities (CMBS)								
- US CMBS	4%	139	122	108	3%	147	129	92
- Other	19%	664	480	373	15%	671	525	466
Other Asset Backed Securities (Other ABS)	39%	1,315	1,227	1,204	43%	1,935	1,740	1,551
	100%	3,442	2,936	2,707	100%	4,450	3,759	3,257
Of which included within:								
- Financial assets held at fair value through profit or loss	3%	103	97	97	–	–	–	–
- Investment securities – available-for-sale	26%	903	608	608	26%	1,145	725	725
- Investment securities – loans and receivables	71%	2,436	2,231	2,002	74%	3,305	3,034	2,532
	100%	3,442	2,936	2,707	100%	4,450	3,759	3,257

[1] Fair value reflects the value of the entire portfolio, including the assets redesignated to loans and receivables.

The carrying value of asset backed securities represents 0.7 per cent (31 December 2008: 0.9 per cent) of our total assets. The notional value of the ABS portfolio fell by approximately $1 billion during 2009 due to natural redemptions in the portfolio. The difference between carrying value and fair value of the remaining portfolio narrowed to $229 million at 31 December 2009, benefiting from both the redemptions and a recovery in market prices in certain asset classes

The credit quality of the asset backed securities portfolio remains strong. With the exception of those securities subject to an impairment charge, 80 per cent of the overall portfolio is rated A or better, and 39 per cent of the overall portfolio is rated as AAA. The portfolio is broadly diversified across asset classes and geographies, and there is no direct exposure to the US sub-prime market. The portfolio has an average credit grade of AA-, unchanged from year-end 2008. 26 per cent of the overall portfolio is invested in RMBS, with a weighted average credit rating of AA (AA+ in 2008). 45 per cent of the residential mortgage exposures were originated in 2005 or earlier.

12 per cent of the overall portfolio is in CDOs. This includes $77 million of exposures to Mezzanine and High Grade CDOs of ABS, of which $56 million have been impaired. The remainder of the CDOs have a weighted average credit rating of BBB (AA+ in 2008).23 per cent of the overall portfolio is in CMBS, of which $139 million is in respect of US CMBS with a weighted average credit grade of AAA (AAA in 2008). The weighted average credit rating of the Other CMBS is A- (AA in 2008).39 per cent of the overall portfolio is in Other ABS, which includes securities backed by credit card receivables, bank collateralised loan obligations, future flows and student loans, with a weighted credit rating of AA.

The Group reclassified some asset backed securities from trading and available-for-sale to loans and receivables with effect from 1 July 2008. The securities were reclassified at their fair value on the date of reclassification. Note 14 on page 60 provides details of the remaining balance of those assets reclassified in 2008. No assets were reclassified in the twelve months to 31 December 2009.

Writedowns of asset backed securities

	Trading $million	Available-for-sale $million	Loans and receivables $million	Total $million
31 December 2009				
Credit to available-for-sale reserves	–	26	–	26
Charge to the profit and loss account	–	(70)	(7)	(77)
31 December 2008				
Charge to available-for-sale reserves	–	(309)	–	(309)
Charge to the profit and loss account	(74)	(90)	–	(164)

Standard Chartered Bank

Report of the Directors

Directors' Report
The directors present their report and the audited financial statements of Standard Chartered Bank Group (the 'Group') and Standard Chartered Bank (the 'Company') for the year ended 31 December 2009.

Activities
The activities of the Group are banking and providing other financial services. The Financial Review on pages 3 to 12 contains a review of the business during 2009.

Post balance sheet events
There are no post balance sheet events.

Financial instruments
Details of financial instruments are given in note 14 to the accounts.

Results and dividends
The results for the year are given in the income statement on page 24.

An interim dividend of $270 million was paid to ordinary shareholders during the year (2008: $1,819 million). The directors do not recommend the payment of a final dividend (2008:$nil).

Share capital
Details of the Company's share capital are given in note 38 to the accounts.

Loan capital
Details of the loan capital are given in note 37 to the accounts.

Property, plant and equipment
Details of the property, plant and equipment of the Company are given in note 26 to the accounts.

Directors and their interests
The directors of the Company at the date of this report are:

Mr P A Sands, Chairman
Mr S P Bertamini
Mr J S Bindra
Mr G R Bullock
Mr R H Meddings
Mr T J Miller
Mr A M G Rees

None of the directors have a beneficial or non-beneficial interest in the shares of the Company or in any of its subsidiary undertakings.

Details of directors' pay and benefits are disclosed in note 13 to the accounts.

All of the directors as at 31 December 2009, except for Mr Bindra and Mr Miller are directors of the Company's ultimate holding company, Standard Chartered PLC, and their interests in the share capital of that company are shown in its report and accounts. Mr Rees was appointed as a director of Standard Chartered PLC with effect from 4 August 2009.

Directors' Interests in Standard Chartered PLC Ordinary Shares

Directors	At 1 January 2009 Total interests	At 31 December 2009 Total interests
J S Bindra	162,159	130,279
T J Miller	147,586	162,525

2004 Deferred Bonus Plan

Directors	Shares held in trust at 1 January 2009	Shares awarded during the period	Shares awarded in respect of notional dividend	Shares vested during the period	Shares held in trust at 31 December 2009
J S Bindra	14,393	–	142	14,535	–
T J Miller	16,906	–	166	17,072	–

[1] Adjustments made to all unexercised share awards granted under the Group's Employee Share Scheme as part of the rights issue.

Report of the Directors continued

Directors and their interests continued

Long Term incentives – Share Options and Awards of Shares

Directors	Scheme	At 1 January 2009	Granted	Exercised	Lapsed	At 31 December 2009
J S Bindra	2000 ESOS	74,114	–	74,114	–	–
	Sharesave	2,824	1,356	2,824	–	1,356
	2001 PSP	169,251	127,314	35,316	6,233	255,016
	2006 RSS	–	30,621	–	–	30,621
T J Miller	2000 ESOS	239,246	–	239,246	–	–
	Sharesave	1,912	–	–	–	1,912
	2001 PSP	240,378	135,802	64,073	13,104	299,003
	2006 RSS	–	34,148	–	–	34,148

Definitions:

2000 Executive Share Option Scheme ('2000 ESOS')
Under the 2000 ESOS, options to acquire Standard Chartered PLC ordinary shares 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 normally only be exercised if performance conditions are satisfied.

2001 Performance Share Plan ('2001 PSP')
Under the 2001 PSP, awards of deferred rights or nil price options to acquire Standard Chartered PLC shares are granted and are exercisable after the third, but before the tenth anniversary of the date of grant, if the individual is still employed by the Group and performance conditions are satisfied.

Restricted Share Scheme ('RSS')
Under the RSS, the value of shares awarded in any year to any individual may not exceed two times' their base salary. Fifty per cent of the award vests two years after the date of grant and the balance after three years. The RSS does not have performance conditions.

Sharesave
Under Sharesave, employees are invited to open a three-year or a five-year savings contract. Within a period of six months after the third or fifth anniversary, employees may purchase ordinary shares in Standard Chartered PLC at a price which 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 these schemes.

1994 Executive Share Option Scheme ('1994 ESOS')
This scheme is now closed. No awards have been made under this scheme since August 1999.

Community Investment
The Group recognises its responsibility to invest in the communities where it operates and to act as a good corporate citizen. In 2009, the Group made a total investment of $38.3 million (2008: $48.6 million) in the communities in which it operates. This included direct financial support of $20.3 million (2008: $30.7 million), and indirect contributions, which comprise employee time; the donation of non-monetary goods and funds raised by our employees of $13.3 million (2008: $13.3 million).

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

The Company recognises its social and statutory duty to employ disabled people and has followed a policy in the United Kingdom of providing the same employment opportunities for disabled people as for others wherever possible. If employees become disabled, every effort is made to ensure their continued employment with appropriate training where necessary.

Risk management
The risk management objectives of the Group and Company including the policy for hedging risk is set out in note 49. The Group and Company's exposure to market risk is set out in note 49, credit risk in note 50, liquidity risk in note 51 and currency risk in note 52 to the accounts.

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

Areas of operation
The Company operates through branches and subsidiaries in Asia Pacific, the Middle East, South Asia, Africa, Europe, the United Kingdom and the Americas.

Creditor payment policy
Operating businesses are responsible for agreeing the terms and conditions with their suppliers in the economies where they conduct business. It is the Company's policy to pay creditors when the amounts fall due for payment. For Standard Chartered Bank in the United Kingdom at 31 December 2009 there were 43 days purchases outstanding.

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

Qualifying Third Party Indemnities
Standard Chartered PLC, the Company's ultimate holding company has granted qualifying third party indemnities to the directors of the Company. These indemnities remain in force at the time of this report. The Company itself has not granted any qualifying third party indemnities to the directors.

Social, Ethical and Environmental Responsibilities
The Group complies with the guidelines issued by the Association of British Insurers on responsible investment disclosure and is committed to the communities and environments in which it operates. The Court is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. The Group has established and maintains policies and procedures in relation to SEE related risks. Through the Group's risk management structure and control framework, the Court receives regular and adequate information to identify and assess significant risks and opportunities arising from SEE matters.

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

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

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

The Group continues to review and, where appropriate, strengthen its money laundering prevention policies, procedures and training. The Court is not aware of any material exceptions to its policies.

Auditor
KPMG Audit Plc have agreed to continue as the Company's auditor and a resolution for their re-appointment will be proposed at this year's annual general meeting.

The directors have taken all necessary steps to make themselves and KPMG Audit Plc aware of any information needed in performing the audit of the 2009 Annual Report and Accounts and as far as each of the directors is aware, there is no relevant audit information of which KPMG Audit Plc is unaware.

By order of the Court

A Durbin
Secretary
3 March 2010

Standard Chartered Bank

Statement of Directors' Responsibilities in respect of the Financial Statements

The directors are responsible for preparing the Director's Report and the Group and Bank financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Bank financial statements for each financial year. Under that law they are required to prepare the Group and Bank financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Bank and of their profit or loss for that period. In preparing each of the Group and Bank financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time, the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Directors' responsibility statement

The directors confirm to the best of their knowledge:

1. the financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation as a whole; and
2. the management reports, which are incorporated into the report of the directors, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with the principal risks and uncertainties they face.

By order of the Court

R H Meddings
Director
3 March 2010

Standard Chartered Bank

Independent Auditor's Report to the members of Standard Chartered Bank

We have audited the financial statements of the Group (Standard Chartered Bank and its subsidiaries) and Bank (Standard Chartered Bank) (together referred to as the 'financial statements') for the year ended 31 December 2009 as set out in pages 24 to 166.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Bank's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Bank's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Bank financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, the information given in the Directors' Report, which include information presented in the Financial Review that are cross referenced from the Report of the Directors, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

M StJ Ashley (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London
3 March 2010

Standard Chartered Bank

Consolidated income statement

For the year ended 31 December 2009

	Notes	2009 $million	2008 $million
Interest income	3	12,926	16,272
Interest expense	4	(5,255)	(8,807)
Net interest income		7,671	7,465
Fees and commission income	5	3,824	3,420
Fees and commission expense	5	(454)	(479)
Net trading income	6	2,872	2,431
Other operating income	7	1,301	833
Non-interest income		7,543	6,205
Operating income		15,214	13,670
Staff costs	8	(4,909)	(4,733)
Premises costs	8	(698)	(738)
General administrative expenses	8	(1,822)	(1,711)
Depreciation and amortisation	9	(538)	(465)
Operating expenses		(7,967)	(7,647)
Operating profit before impairment losses and taxation		7,247	6,023
Impairment losses on loans and advances and other credit risk provisions	20	(2,000)	(1,321)
Other impairment	10	(102)	(469)
Profit from associates		21	1
Profit before taxation		5,166	4,234
Taxation	11	(1,640)	(1,108)
Profit for the year		3,526	3,126
Profit attributable to:			
Minority interests	39	329	240
Parent company shareholders		3,197	2,886
Profit for the year		3,526	3,126

The notes on pages 31 to 161 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated statement of comprehensive income

For the year ended 31 December 2009

	Notes	2009 $million	2008 $million
Profit for the year		3,526	3,126
Other comprehensive income:			
Exchange differences on translation of foreign operations:			
Net gains/(losses) taken to equity		600	(2,806)
Transferred to income on repatriation of branch capital		–	5
Actuarial losses on retirement benefit obligations	36	(150)	(229)
Share of comprehensive income from associates		19	–
Available-for-sale investments:			
Net valuation gains/(losses) taken to equity		455	(738)
Reclassified to income		(580)	(198)
Cash flow hedges:			
Net gains/(losses) taken to equity		14	(176)
Reclassified to income		106	(18)
Taxation relating to components of other comprehensive income	11	62	218
Other comprehensive income for the year, net of taxation		526	(3,942)
Total comprehensive income for the year		4,052	(816)
Attributable to:			
Minority interests	39	348	119
Parent company shareholders		3,704	(935)
		4,052	(816)

The notes on pages 31 to 161 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated balance sheet

As at 31 December 2009

	Notes	2009 $million	2008 $million
Assets			
Cash and balances at central banks	14, 42	**18,131**	24,161
Financial assets held at fair value through profit or loss	14, 15	**22,446**	15,425
Derivative financial instruments	14, 16	**38,218**	69,657
Loans and advances to banks	14, 17, 20	**50,884**	46,581
Loans and advances to customers	14, 18, 20	**198,292**	174,178
Investment securities	14, 22	**75,728**	69,342
Other assets	14, 28	**17,113**	20,368
Current tax assets		**203**	702
Prepayments and accrued income		**3,241**	3,464
Interests in associates	23	**514**	511
Goodwill and intangible assets	25	**6,451**	6,354
Property, plant and equipment	26	**4,103**	3,586
Deferred tax assets	27	**1,096**	660
Total assets		436,420	434,989
Liabilities			
Deposits by banks	14, 30	**38,461**	31,909
Customer accounts	14, 31	**251,244**	234,008
Financial liabilities held at fair value through profit or loss	14, 15	**14,505**	15,478
Derivative financial instruments	14, 16	**36,875**	67,775
Debt securities in issue	14, 32	**24,502**	22,075
Other liabilities	14, 34	**16,084**	17,426
Due to parent companies		**2,588**	2,113
Current tax liabilities		**862**	601
Accruals and deferred income		**3,988**	4,077
Subordinated liabilities and other borrowed funds	14, 37	**19,240**	17,709
Deferred tax liabilities	27	**193**	176
Provisions for liabilities and charges	35	**184**	137
Retirement benefit obligations	36	**506**	447
Total liabilities		409,232	413,931
Equity			
Share capital	38	**11,246**	8,746
Reserves		**13,659**	10,291
Total parent company shareholders' equity		**24,905**	19,037
Minority interests	39	**2,283**	2,021
Total equity		**27,188**	21,058
Total equity and liabilities		436,420	434,989

The notes on pages 31 to 161 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 3 March 2010 and signed on its behalf by:

P A Sands
Director

R H Meddings
Director

Standard Chartered Bank

Consolidated statement of changes in equity

For the year ended 31 December 2009

	Share capital $million	Share premium account $million	Capital and Capital redemption reserve[1] $million	Available-for-sale reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company shareholders equity $ million	Minority interests $million	Total $million
At 1 January 2008	8,746	1,796	40	750	57	975	9,568	21,932	601	22,533
Profit for the year	–	–	–	–	–	–	2,886	2,886	240	3,126
Other comprehensive income	–	–	–	(755)	(140)	(2,778)	(148)[2]	(3,821)	(121)	(3,942)
Distributions	–	–	–	–	–	–	–	–	(147)	(147)
Share option expense, net of taxation	–	–	–	–	–	–	(31)	(31)	–	(31)
Dividends, net of scrip	–	–	–	–	–	–	(1,929)	(1,929)	–	(1,929)
Other increases	–	–	–	–	–	–	–	–	1,448	1,448
At 31 December 2008	8,746	1,796	40	(5)	(83)	(1,803)	10,346	19,037	2,021	21,058
Profit for the year	–	–	–	–	–	–	3,197	3,197	329	3,526
Other comprehensive income	–	–	–	(83)	102	599	(111)[3]	507	19	526
Distributions	–	–	–	–	–	–	–	–	(87)	(87)
Shares issued, net of expenses	2,500	–	–	–	–	–	–	2,500	–	2,500
Share option expense, net of taxation	–	–	–	–	–	–	35	35	–	35
Dividends, net of scrip	–	–	–	–	–	–	(371)	(371)	–	(371)
Other increases	–	–	–	–	–	–	–	–	1	1
At 31 December 2009	11,246	1,796	40	(88)	19	(1,204)	13,096	24,905	2,283	27,188

[1] Includes capital reserve of $5 million and capital redemption reserve of $35 million at 1 January 2008, 31 December 2008 and 2009.
[2] Comprises actuarial losses, net of taxation and minority interest share.
[3] Comprises actuarial losses, net of taxetion, minority interest share of $130 million and share of comprehensive income from associates of $19 million.

The notes on pages 31 to 161 form an integral part of these financial statements.

Standard Chartered Bank

Cash flow statement

For the year ended 31 December 2009

		Group		Company	
	Notes	2009 $million	2008[1] $million	2009 $million	2008[1] $million
Cash flows from operating activities					
Profit before taxation		5,166	4,234	2,559	3,171
Adjustments for:					
Non-cash items and other items included within income statement	41	1,301	2,267	740	(381)
Change in operating assets	41	3,089	(83,557)	7,898	(74,882)
Change in operating liabilities	41	(14,234)	102,248	(21,039)	89,890
Contributions to defined benefit schemes		(124)	(95)	(38)	(39)
UK and overseas taxes, net of refund		(1,184)	(1,402)	(577)	(562)
Net cash (used in)/from operating activities		(5,986)	23,695	(10,457)	17,197
Net cash flows from investing activities					
Purchase of property, plant and equipment		(261)	(579)	(117)	(277)
Disposal of property, plant and equipment		218	73	10	3
Acquisition of investment in subsidiaries, net of cash acquired		(68)	6,209	(1,577)	(1,928)
Disposal of investment in subsidiaries		–	1,759	–	1,759
Purchase of investment securities		(129,739)	(109,938)	(41,662)	(48,303)
Dividends received from subsidiaries and associates		11	–	273	528
Disposal and maturity of investment securities		126,678	97,756	43,707	48,476
Redemption of investment in subsidiaries		–	–	565	300
Net cash (used in)/from investing activities		(3,161)	(4,720)	1,199	558
Net cash flows from financing activities					
Issue of ordinary and preference share capital, net of expenses		2,500	–	2,500	–
Redemption of preference share capital		–	–	–	(1,024)
Interest paid on subordinated liabilities		(361)	(531)	(313)	(401)
Gross proceeds from issue of subordinated liabilities		3,863	3,677	3,300	3,360
Repayment of subordinated liabilities		(2,440)	(412)	(1,789)	–
Dividends paid to minority interests and preference shareholders, net of scrip		(188)	(257)	(101)	(110)
Dividends paid to ordinary shareholders, net of scrip		(270)	(1,819)	(270)	(1,819)
Net cash from financing activities		3,104	658	3,327	6
Net (decrease)/increase in cash and cash equivalents		(6,043)	19,633	(5,931)	17,761
Cash and cash equivalents at beginning of year		73,696	55,336	41,170	23,238
Effect of exchange rate movements on cash and cash equivalents		418	(1,273)	176	171
Cash and cash equivalents at end of year	42	68,071	73,696	35,415	41,170

[1] Amounts have been restated as explained in note 53.

The notes on pages 31 to 161 form an integral part of these financial statements.

Standard Chartered Bank

Company balance sheet

As at 31 December 2009

	Notes	2009 $million	2008 $million
Assets			
Cash and balances at central banks	14, 42	11,800	17,679
Financial assets held at fair value through profit or loss	14, 15	14,974	9,276
Derivative financial instruments	14, 16	35,207	63,480
Loans and advances to banks	14, 17, 20	23,389	21,167
Loans and advances to customers	14, 18, 20	89,067	74,485
Investment securities	14, 22	31,403	32,241
Other assets	14, 28	10,075	13,679
Due from subsidiary undertakings and other related parties		14,685	13,025
Current tax assets		125	382
Prepayments and accrued income		1,743	1,767
Investment in subsidiary undertakings	23	17,356	16,790
Investment in joint ventures	23	297	297
Investment in associates	23	53	70
Goodwill and intangible assets	25	630	610
Property, plant and equipment	26	623	587
Deferred tax assets	27	716	368
Assets classified as held for sale		–	387
Total assets		252,143	266,290
Liabilities			
Deposits by banks	14, 30	21,526	18,060
Customer accounts	14, 31	104,952	95,403
Financial liabilities held at fair value through profit or loss	14, 15	5,844	8,701
Derivative financial instruments	14, 16	34,605	62,561
Debt securities in issue	14, 32	11,993	8,904
Other liabilities	14, 34	6,914	8,877
Due to subsidiary undertakings and other related parties		26,506	29,921
Current tax liabilities		526	284
Accruals and deferred income		2,430	2,125
Subordinated liabilities and other borrowed funds	14, 37	17,492	15,907
Deferred tax liabilities	27	20	15
Provisions for liabilities and charges	35	122	15
Retirement benefit obligations	36	393	182
Liabilities classified as held for sale		–	405
Total liabilities		233,323	251,360
Equity			
Share capital	38	11,246	8,746
Reserves		7,574	6,184
Total parent company shareholders' equity		18,820	14,930
Total equity and liabilities		252,143	266,290

The notes on pages 31 to 161 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 3 March 2010 and signed on its behalf by:

P A Sands
Director

R H Meddings
Director

Standard Chartered Bank

Company statement of changes in equity

For the year ended 31 December 2009

	Share capital $million	Share premium account $million	Capital and Capital redemption reserve[1] $million	Available-for-sale reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Total $million
At 1 January 2008	8,746	1,796	40	53	25	485	4,007	15,152
Profit for the year	–	–	–	–	–	–	2,681	2,681
Other comprehensive income	–	–	–	(275)	(143)	(465)	(60)	(943)
Share option taxation	–	–	–	–	–	–	(31)	(31)
Dividends, net of scrip	–	–	–	–	–	–	(1,929)	(1,929)
At 31 December 2008	8,746	1,796	40	(222)	(118)	20	4,668	14,930
Profit for the year	–	–	–	–	–	–	1,639	1,639
Other comprehensive income	–	–	–	(81)	132	150	(126)	75
Shares issued, net of expenses	2,500	–	–	–	–	–	–	2,500
Share option taxation	–	–	–	–	–	–	47	47
Dividends, net of scrip	–	–	–	–	–	–	(371)	(371)
At 31 December 2009	11,246	1,796	40	(303)	14	170	5,857	18,820

[1] Includes capital reserve of $5 million and capital redemption reserve of $35 million at 1 January 2008, 31 December 2008 and 2009.

The notes on pages 31 to 161 form an integral part of these financial statements.

Standard Chartered Bank

Notes to the financial statements

1. Accounting policies

Statement of compliance

The Group financial statements consolidate those of Standard Chartered Bank (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 section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

New accounting standards adopted

On 1 January 2009 the Group and Company retrospectively adopted IAS 1 'Presentation of Financial Statements' (revised 2007). As a result, in the Group's financial statements certain terminology has changed and a statement of changes in equity has been included as a primary statement.

On 1 January 2009 the Group retrospectively adopted IFRS 8 'Operating Segments' which did not have a material impact on the Group's financial statements. The Group's reportable segments, as disclosed in note 2, continue to be Consumer Banking and Wholesale Banking. In addition, the Group continues to provide entity-wide geographic financial information.

On 1 January 2009 the Group and Company retrospectively adopted IFRIC 13 'Customer Loyalty Programmes', IFRIC 16 'Hedges of a Net Investment in a Foreign Operation', amendments to IFRS 2 'Share Based Payment: Vesting Conditions and Cancellations', IAS 23 (revised) 'Borrowing Costs' and an amendment to IAS 32 'Financial Instruments: Presentation', none of which had a material impact on the financial statements.

On 1 January 2009 the Group and Company prospectively adopted an amendment to IAS 27 'Consolidated and Separate Financial Statements' in respect of cost of investment in a subsidiary, jointly controlled entity or associate, which did not have a material impact on the financial statements.

On 1 January 2009 the Group and Company prospectively adopted amendments to IFRS 7 'Financial Instruments: Disclosures', and the required disclosures are presented in note 14 to these financial statements. Where permitted, comparatives have not been provided.

On 1 January 2009, the Group and Company adopted Improvements to IFRSs (2008), a collection of amendments to a number of IFRSs. The amendments to IAS 19, IAS 20, IAS 28, IAS 31, IAS 32, and IAS 40 were applied on a prospective basis and the amendments to IAS 1, IAS 7, IAS 16, IAS 19, IAS 23, IAS 27, IAS 29, IAS 36, IAS 38 and IAS 39 were applied on a retrospective basis. None of these amendments has had a material impact on the Group's financial statements. However, the amendment to IAS 7 resulted in a reclassification in the cash flow statement of cash flows between investing and operating activities. Further details are provided in note 53.

On 31 December the Group and Company adopted on a retrospective basis the amendments to IAS 32.

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 Company financial statements have been prepared on an historical cost basis, as modified by cash settled share based payments and the revaluation of 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 across the Group and to all periods presented in these financial statements.

Consolidation

Subsidiaries

Subsidiaries are all entities, including special purpose entities ('SPEs'), 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.

SPEs are consolidated when the substance of the relationship between the Group and its entity indicates the control by the Group. Potential indicators of control include amongst others, an assessment of risks and benefits in respect of the SPE's activities.

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. Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, any adjustments arising from their subsequent finalisation are made as of the date of acquisition and amounts restated as appropriate.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group accounts.

1. Accounting policies continued

Consolidation continued

Associates

Associates are all entities over which the Group has the ability to significantly influence, but not control, the financial and operating policies and procedures 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 other comprehensive income 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 and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

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 prior to 1 January 2009, 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 depending on the treatment of the gain or loss on the asset or liability.

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 Group's 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 other comprehensive income. When a foreign operation is sold or capital repatriated 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, associate or joint venture 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 included in intangible assets is assessed at each balance sheet date 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. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments (as set out in note 2) as the Group views its reportable segments on a global basis. Note 25 sets out the major cash-generating units to which goodwill has been allocated.

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 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Computer software

Acquired computer software licences 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. At each balance sheet date, these assets are assessed for indicators of impairment. In the event that

1. Accounting policies continued

Intangible assets continued
an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

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.

Freehold 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	three to 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. At each balance sheet date, assets are also assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately to the recoverable amount.

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 leased to customers under finance leases, 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 cash flows.

Assets leased to customers under operating leases are included within 'Property, plant and equipment' and depreciated over their useful lives. Rental income on these leased assets is recognised in the income statement on a straight-line basis unless another systematic basis is more representative.

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central banks (unless restricted) and balances with less than three months maturity from the date of acquisition, including: 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.

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 funded 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. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. 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 other comprehensive income 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 where applicable, 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.

1. Accounting policies continued

Employee benefits continued

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, which excludes 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. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at the time of cancellation.

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 and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to 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 is based on the applicable tax law in each jurisdiction and 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 held at amortised cost

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 that represents a market rate of interest at the issue date, 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 are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares and preference shares classified as equity 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 the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

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 into the following measurement categories: financial assets held at fair value through to 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 or, where appropriate, at the time of reclassification.

(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.

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

1. Accounting policies continued

Financial assets and liabilities (excluding derivatives) continued

- 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 required to be 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 and where it is expected that subsequently all of the initial investment will be recovered, other than because of credit deterioration.

(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.

(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, commodity prices 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. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement
Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the income statement.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to a separate component of equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables and held-to-maturity financial assets are subsequently 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.

Reclassifications
Reclassifications of financial assets, other than as set out below, or of financial liabilities between categories are not permitted following their initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: (i) to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or (ii) to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category, where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets must be reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.

Renegotiated loans
Loans whose original terms have been modified are considered renegotiated loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

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 instruments at fair value through profit or loss are included in the income statement in the period in which they arise. Contractual interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

1. Accounting policies continued

Financial assets and liabilities (excluding derivatives) continued

Income recognition

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 equity instruments are recognised in the income statement within 'Other income' when the Group's right to receive payment is established.

Impairment of financial assets

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 following factors are considered in assessing objective evidence of impairment:

- whether the counterparty is in default of principal or interest payments;
- a counterparty files for bankruptcy protection (or the local equivalent) where this would avoid or delay repayment of its obligation;
- the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation;
- the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments;
- the Group sells a credit obligation at a material credit-related economic loss; or
- there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

Assets carried at amortised cost

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.

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, geographic 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 an equity security below its cost is considered, amongst other factors in assessing objective evidence of impairment for equity securities. Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortised 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.

1. Accounting policies continued

Derivative financial instruments and hedge accounting
Derivatives are categorised as trading unless they are designated as hedging instruments.

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. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. 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 held, 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); (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or (3) hedges of the net investment of a foreign operation ('net investment hedges'). 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 hedging instruments 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 the income statement over the period to maturity or derecognition.

(b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognized in equity. The gain or loss relating to the ineffective portion is recognized 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.

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 deposits by banks, or customer accounts, 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 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 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.

1. **Accounting policies** continued

Interest income and expense continued
Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instruments original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

If the financial asset has been reclassified, subsequent increases in the estimates of future cash receipts as a result of increased recoverability are recognised as an adjustment to the effective interest rate from the date of the change in estimate.

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 or significant act performed. 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 as 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.

2. Segmental Information

The Group is organised on a worldwide basis for management and reporting purposes into two main business segments: Consumer Banking and Wholesale Banking. The products offered by these segments are summarised under 'Income by product' below. The businesses' focus is on broadening and deepening the relationship with customers, rather than maximising a particular product line. Hence the Group evaluates segmental performance based on overall profit or loss before taxation (excluding corporate items not allocated) and not individual product profitability. Product revenue information is used as a way of assessing customer needs and trends in the market place. The strategies adopted by Consumer Banking and Wholesale Banking need to be adapted to local market and regulatory requirements, which is the responsibility of country management teams. While not the primary driver of the business, country performance is an important part of the Group's matrix structure and is also used to evaluate performance and reward staff. Corporate items not allocated are not aggregated into the businesses because of the one-off nature of these items.

The Group's entity-wide disclosure comprises geographic areas, classified by the location of the customer.

Transactions between the business segments and geographic areas are carried out on an arms length basis. Apart from the entities that have been acquired in the last two years, Group central expenses have been distributed between the business segments and geographic areas in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their average 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. The distribution of central expenses is phased in over two years, based on the estimate of central management costs associated with the acquisition.

By class of business

	2009					2008				
	Consumer Banking $million	Wholesale Banking $million	Total reportable segments $million	Corporate items not allocated[3] $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total reportable segments $million	Corporate items not allocated[4] $million	Total $million
Internal income	(55)	55	–	–	–	(78)	78	–	–	–
Net interest income	3,889	3,782	7,671	–	7,671	4,267	3,198	7,465	–	7,465
Other income	1,802	5,477	7,279	264	7,543	1,817	4,268	6,085	120	6,205
Operating income	5,636	9,314	14,950	264	15,214	6,006	7,544	13,550	120	13,670
Operating expenses	(3,714)	(4,195)	(7,909)	(58)	(7,967)	(3,861)	(3,786)	(7,647)	–	(7,647)
Operating profit before impairment losses and taxation	1,922	5,119	7,041	206	7,247	2,145	3,758	5,903	120	6,023
Impairment losses on loans and advances and other credit risk provisions	(1,052)	(948)	(2,000)	–	(2,000)	(937)	(384)	(1,321)	–	(1,321)
Other impairment	(1)	(82)	(83)	(19)	(102)	(56)	(336)	(392)	(77)	(469)
Profit from associates	–	–	–	21	21	–	–	–	1	1
Profit before taxation	869	4,089	4,958	208	5,166	1,152	3,038	4,190	44	4,234
Total assets employed[1]	103,479	331,128	434,607	1,813	436,420	86,501	347,126	433,627	1,362	434,989
Total liabilities employed	144,322	263,855	408,177	1,055	409,232	129,490	283,664	413,154	777	413,931
Other segment items:										
Capital expenditure[2]	160	901	1,061	–	1,061	375	1,207	1,582	–	1,582
Depreciation	161	151	312	–	312	157	93	250	–	250
Interests in associates	–	–	–	514	514	–	–	–	511	511
Amortisation of intangible assets	77	149	226	–	226	93	82	175	–	175

1 Interests in associates at 31 December 2008 amounting $511 million previously allocated by business has now been included in 'Corporate items not allocated'.

2 Includes capital expenditure in Wholesale Banking of $631 million in respect of operating lease assets (31 December 2008: $852 million).

3 Relates to gain on buy-back of subordinated debt, UK payroll tax, impairment of associates and the Group's share of profit from associates.

4 Relates to gain on buy-back of subordinated debt, disposal of businesses, impairment of associates and other strategic investments and the Group's share of profit from associates.

Notes to the financial statements continued

2. Segmental Information continued

The following table details entity-wide operating income by product:

	2009 $million	2008 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	1,994	2,126
Wealth Management and Deposits	2,235	2,814
Mortgage and Auto Finance	1,246	936
Other	161	130
Total operating income by product	5,636	6,006
Wholesale Banking		
Lending and Portfolio Management	851	555
Transaction Banking	2,543	2,683
Global Markets		
Financial Markets	3,319	2,382
Asset and Liability Management (ALM)	965	919
Corporate Finance	1,297	750
Principal Finance	339	255
Total Global Markets	5,920	4,306
Total operating income by product	9,314	7,544

Notes to the financial statements continued

2. Segmental information continued

Entity-wide information

By geography

The Group manages its reportable business segments on a global basis. The operations are based in eight main geographic areas. The UK is the home country of the company.

	2009								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[2] $million	Total $million
Internal income	14	(18)	(62)	43	195	(42)	39	(169)	-
Net interest income	1,315	788	915	1,514	729	1,132	494	784	7,671
Fees and commissions income, net	541	290	186	500	545	503	319	486	3,370
Net trading income	454	355	320	499	257	353	221	413	2,872
Other operating income	50	180	199	336	91	136	18	291	1,301
Operating income	2,374	1,595	1,558	2,892	1,817	2,082	1,091	1,805	15,214
Operating expenses	(1,170)	(802)	(955)	(1,781)	(572)	(894)	(554)	(1,239)	(7,967)
Operating profit before impairment losses and taxation	1,204	793	603	1,111	1,245	1,188	537	566	7,247
Impairment losses on loans and advances and other credit risk provisions	(145)	(37)	(278)	(395)	(201)	(811)	(54)	(79)	(2,000)
Other impairment	10	(40)	(1)	26	17	(10)	–	(104)	(102)
(Loss)/profit from associates	(5)	–	–	29	–	–	–	(3)	21
Profit before taxation	1,064	716	324	771	1,061	367	483	380	5,166
Loans and advances to customers – average	29,194	25,938	32,372	38,972	8,351	18,972	3,316	31,336	188,451
Net interest margins (%)	1.8	1.7	1.8	2.3	3.8	3.7	4.8	1.0	2.3
Loans and advances to customers – period end	29,973	31,399	36,804	41,992	8,866	18,484	4,029	30,256	201,803
Loans and advances to banks – period end	19,453	5,085	2,780	7,232	511	1,864	300	15,707	52,932
Total assets employed[3]	91,369	61,886	62,967	82,856	31,591	44,096	13,578	90,782	479,125
Capital expenditure[4]	24	164	63	32	49	22	37	662	1,053

[1] Other Asia Pacific region (Other APR) includes Malaysia: operating income of $489 million; operating expenses of $208 million, impairment losses on loans and advances and other credit risk provisions of $61 million and profit before taxation of $220 million. Total assets employed of $13,881 million.

[2] Americas UK & Europe includes operating income of $967 million and total assets employed of $74,458 million in respect of the UK, the Company's country of domicile.

[3] Total assets employed includes intra-group items of $44,004 million and excludes tax assets of $1,299 million. Assets held at the centre have been distributed between geographical areas in proportion to their total assets employed.

[4] Includes capital expenditure in Americas, UK and Europe of $631 million in respect of operating lease assets. Capital expenditure comprises additions to property and equipment (note 26) and software related intangibles (note 25) including any post-acquisition additions made by the acquired entities.

2. Segmental information continued

	2008[5]								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[2] $million	Total $million
Internal income	1	105	(109)	25	12	16	2	(52)	–
Net interest income	1,304	374	1,244	1,588	730	1,000	506	719	7,465
Fees and commissions income, net	506	247	184	503	451	453	227	370	2,941
Net trading income	360	362	165	706	300	185	168	185	2,431
Other operating income	95	243	77	157	210	18	11	22	833
Operating income	2,266	1,331	1,561	2,979	1,703	1,672	914	1,244	13,670
Operating expenses	(1,035)	(667)	(959)	(1,729)	(649)	(825)	(566)	(1,217)	(7,647)
Operating profit before impairment losses and taxation	1,231	664	602	1,250	1,054	847	348	27	6,023
Impairment losses on loans and advances and other credit risk provisions	(183)	(15)	(263)	(436)	(133)	(185)	(33)	(73)	(1,321)
Other impairment	(52)	(30)	–	(102)	(24)	–	–	(261)	(469)
(Loss)/profit from associates	(1)	–	–	4	–	–	–	(2)	1
Profit/(loss) before taxation	995	619	339	716	897	662	315	(309)	4,234
Loans and advances to customers – average	26,610	19,610	34,867	40,116	8,612	16,041	3,091	29,970	178,917
Net interest margin (%)	2.1	1.3	2.3	2.4	3.5	3.7	4.5	1.1	2.5
Loans and advances to customers – period end	28,004	20,349	31,763	38,366	7,863	17,476	3,642	31,049	178,512
Loans and advances to banks – period end	18,963	9,283	1,594	5,201	291	1,504	587	10,521	47,944
Total assets employed[3]	77,663	51,273	64,384	82,232	32,286	34,382	12,110	128,831	483,161
Capital expenditure[4]	25	140	59	170	178	40	31	939	1,582

1 Other APR includes Malaysia : operating income of $534 million; operating expenses of $(213) million, impairment losses on loans and advances and other credit risk provisions of $47 million, other impairment $21 million and profit before taxation of $253 million. Total assets employed of $13,557 million.

2 Americas UK & Europe includes operating income of $824 million and total assets employed of $112,311 million in respect of the UK, the Company's country of domicile.

3 Total assets employed includes intra-group items of $49,534 million and excludes tax assets of $1,362 million. Assets held at the centre have been distributed between geographic areas in proportion to their total assets employed.

4 Includes capital expenditure in Americas, UK and Europe of $852 million in respect of operating lease assets. Capital expenditure comprises additions to property and equipment (note 26) and software related intangibles (note 25) including any post-acquisition additions made by the acquired entities.

5 Restated as explained in note 53.

3. Interest income

	2009 $million	2008 $million
Balances at central banks	**6**	32
Treasury bills	**656**	835
Loans and advances to banks	**755**	1,381
Loans and advances to customers	**9,370**	11,292
Listed debt securities	**885**	1,147
Unlisted debt securities	**1,196**	1,545
Accrued on impaired assets (discount unwind)	**58**	40
	12,926	16,272

Total interest income from financial instruments held at amortised cost in 2009 is $8,195 million (2008: $10,124million) and from financial instruments held as available-for-sale is $2,093million (2008: $2,820million).

4. Interest expense

	2009 $million	2008 $million
Deposits by banks	854	1,268
Customer accounts:		
Interest bearing current accounts and savings deposits	785	1,009
Time deposits	2,396	4,328
Debt securities in issue	650	1,328
Subordinated liabilities and other borrowed funds:		
Wholly repayable within five years	37	215
Other	533	659
	5,255	8,807

Total interest expense on financial instruments held at amortised cost in 2009 is $4,236million (2008: $7,452million).

5. Fees and commissions

	2009 $million	2008 $million
Fee income:		
Arising from financial instruments that are not fair valued through profit or loss	1,480	1,475
Arising from trust and other fiduciary activities	80	113
Other	2,264	1,832
	3,824	3,420
Fee expense:		
Arising from financial instruments that are not fair valued through profit or loss	142	261
Arising from trust and other fiduciary activities	15	21
Other	297	197
	454	479

6. Net trading income

	2009 $million	2008 $million
Gains less losses on instruments held for trading:		
Foreign currency[1]	1,834	2,582
Trading securities	329	238
Interest rate derivatives	576	(402)
Credit and other derivatives	35	(30)
	2,774	2,388
Gains less losses from fair value hedging		
Gains less losses from fair value hedged items	403	(1,060)
Gains less losses from fair value hedged instruments	(433)	1,106
	(30)	46
Gains less losses on instruments designated at fair value:		
Financial assets designated at fair value through profit or loss	22	150
Financial liabilities designated at fair value through profit or loss	70	(118)
Derivatives managed with financial instruments designated at fair value through profit or loss	36	(35)
	128	(3)
	2,872	2,431

[1] Includes foreign currency gains and losses arising on the translation of foreign currency monetary assets and liabilities.

Notes to the financial statements continued

7. Other operating income

	2009 $million	2008 $million
Other operating income includes:		
Gains less losses on available-for-sale financial assets:		
On disposal	**592**	322
Writedowns on asset backed securities	**(4)**	(49)
Dividend income	**109**	203
Gains arising on repurchase of subordinated liabilities	**264**	–
Gains arising on assets fair valued at acquisition	**43**	80
Loss on part disposal of subsidiary	**–**	(23)
Rental income from operating lease assets	**156**	66
Profit on sale of property, plant and equipment	**40**	7
Recognition of profit on Visa shares	**–**	17
(Loss)/profit on sale of businesses	**(2)**	146

Profit on sale of businesses in 2008 represents the gain on sale of the Group's Indian asset management business.

Gains arising on assets fair valued at acquisition primarily relate to recoveries of fair value adjustments on loans and advances.

Loss on part disposal of subsidiary in 2008 represents the loss on sale of 34 per cent of Standard Chartered Bank (Hong Kong) Limited to Standard Chartered Holdings Limited, the parent company of the Group.

8. Operating expenses

	2009 $million	2008 $million
Staff costs:		
Wages and salaries	**3,634**	3,793
Social security costs	**98**	93
Other pension costs (note 36)	**138**	172
Share based payment (note 40)	**375**	121
Other staff costs	**664**	554
	4,909	4,733
Premises and equipment expenses:		
Rental of premises	**338**	337
Other premises and equipment costs	**341**	376
Rental of computers and equipment	**19**	25
	698	738
General administrative expenses	**1,822**	1,711

8. Operating expenses continued

The following tables summarise the number of employees as at 31 December 2009 and 31 December 2008 respectively.

Group

	2009			
	Consumer Banking	Wholesale Banking	Support Services	Total
Period end	47,522	17,379	12,425	77,326
Average for the period	47,789	16,612	13,196	77,597

	2008[1]			
	Consumer Banking	Wholesale Banking	Support Services	Total
Period end	50,660	15,950	13,947	80,557
Average for the period	51,048	14,672	14,330	80,050

Company

	2009			
	Consumer Banking	Wholesale Banking	Support Services	Total
Period end	13,617	7,908	3,583	25,108
Average for the period	13,369	7,525	3,989	24,883

	2008[1]			
	Consumer Banking	Wholesale Banking	Support Services	Total
Period end	13,951	7,251	4,414	25,616
Average for the period	13,621	6,551	5,499	25,671

[1] The period end number of employees for 2008 has been restated to reflect the inclusion of certain agency workers previously excluded, together with the inclusion of fixed term contract workers as employees in line with the definition under the Companies Act 2006.

8. Operating expenses continued

Directors' emoluments
Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 48 to 49.

Transactions with directors, officers and other related parties are disclosed in the related parties note 55.

Auditor's remuneration
Auditor's remuneration in relation to the Group statutory audit amounts to $4.1 million (2008: $5.0 million). The following fees were payable by the Group to their principal auditor, KPMG Audit Plc and its associates (together 'KPMG'):

	2009 $million	2008 $million
Audit fees for the Group statutory audit:		
Fees relating to the current year	**4.1**	5.0
Fees payable to KPMG for other services provided to the Group:		
Audit of Standard Chartered PLC subsidiaries, pursuant to legislation		
Fees relating to the current year	**9.1**	9.9
Fees relating to prior year	**-**	0.8
Total audit and audit related fees	**13.2**	15.7
Other services pursuant to legislation	**3.4**	2.8
Tax services	**1.6**	1.3
Services relating to information technology	**-**	0.1
Services relating to corporate finance transactions	**0.3**	1.4
All other services	**1.2**	3.3
Total fees payable	**19.7**	24.6

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 Bank. It excludes amounts payable for the audit of Standard Chartered Bank'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. In 2008 this included $1.3 million in respect of rights issue.
- All other services include other assurance and advisory services such as translation services, ad-hoc accounting advice, reporting accountants work on capital raising 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 $0.3 million (2008: $0.3 million) by parties other than the Group but where the Group is 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 Bank are not separately disclosed because such fees are disclosed on a consolidated basis for the Group.

9. Depreciation and amortisation

	2009 $million	2008 $million
Premises	**119**	98
Equipment	**193**	152
Intangibles:		
Software	**139**	94
Acquired on business combinations	**87**	121
	538	465

Notes to the financial statements continued

10. Other impairment

	2009 $million	2008 $million
Impairment losses on available-for-sale financial assets	123	417
Impairment of investment in associates	19	46
Other	17	6
	159	469
Recovery of impairment on disposal of equity instruments	(57)	–
	102	469

Impairment losses on available-for-sale financial assets includes $49 million (2008: $315 million) in relation to impairment of equity investments, $66 million (2008: $41 million) impairment on asset backed securities, and $8 million (2008: $61 million) on other debt securities. Recoveries of impairment of $57 million during 2009 are in respect of private and strategic equity investments sold during 2009 which had impairment provisions raised against them during 2008.

11. Taxation

Analysis of taxation charge in the year:

	2009 $million	2008 $million
The charge for taxation based upon the profits for the year comprises:		
Current tax:		
United Kingdom corporation tax at 28% (2008: 28.5%):		
Current tax on income for the year	889	620
Adjustments in respect of prior periods (including double taxation relief)	368	(163)
Double taxation relief	(623)	(602)
Foreign tax:		
Current tax on income for the year	1,309	1,221
Adjustments in respect of prior periods	48	(117)
	1,991	959
Deferred tax:		
Origination/reversal of temporary differences	(192)	89
Adjustments in respect of prior periods	(159)	60
	(351)	149
Tax on profits on ordinary activities	1,640	1,108
Effective tax rate	31.7%	26.2%

During 2008, the United Kingdom corporation tax rate was reduced from 30 per cent to 28 percent, which gave a blended 28.5 per cent tax rate for 2008.

The taxation charge for the year is higher than the standard rate of corporation tax in the United Kingdom, 28 per cent. The differences are explained below:

	2009 $million	2008 $million
Profit on ordinary activities before taxation	5,166	4,234
Tax at 28% (2008: 28.5%)	1,446	1,207
Effects of:		
Tax free income	(179)	(112)
Lower tax rates on overseas earnings	(119)	(130)
Higher tax rates on overseas earnings	216	207
Adjustments to tax charge in respect of previous periods[1]	257	(220)
Other items	19	156
Tax on profits on ordinary activities	1,640	1,108

[1] Adjustments to tax charge in respect of previous periods includes a $165 million (2008: $nil million) one-off tax charge resulting from a collaborative exercise with the UK tax authority, HM Revenue & Customs, to settle the UK tax position relating to the period from 1990 to 2006.

Notes to the financial statements continued

11. Taxation continued

	2009 Current Tax $million	2009 Deferred Tax $million	2009 Total $million	2008 Current Tax $million	2008 Deferred Tax $million	2008 Total $million
Tax recognised in other comprehensive income						
Available-for-sale assets	52	(6)	46	97	7	104
Cash flow hedges	–	(21)	(21)	–	54	54
Retirement benefit obligations	–	37	37	–	60	60
Other	(22)	22	–	–	–	–
	30	32	62	97	121	218
Other tax recognised in equity						
Share based payments	–	35	35	16	(46)	(30)
	–	35	35	16	(46)	(30)
Total tax credit recognised in equity	30	67	97	113	75	188

12. Dividends

Ordinary equity shares	2009	2008
Dividend per ordinary share (cents)	2.40	20.79
Interim dividends declared and paid during the period ($ million)	270	1,819

Preference shares		2009 $million	2008 $million
Non-cumulative redeemable preference shares:	8.125 per cent preference shares of $5 each[1]	76	32
	7.014 per cent preference shares of $5 each	53	62
	6.409 per cent preference shares of $5 each	48	48

[1] Dividends on these preference shares are treated as interest expense and accrued accordingly.

13. Directors

Remuneration of Directors

Remuneration of directors is shown below:

	2009 Salary $000	2009 Annual Performance Award (a) $000	2009 Benefits (b) $000	2009 Total $000	2008 Salary $000	2008 Annual Performance Award (a) $000	2008 Benefits (b) $000	2008 Total $000
P A Sands	1,444	3,200	97	4,741	1,516	2,625	97	4,238
S P Bertamini [(c), (d)]	1,113	1,400	772	3,285	701	2,574	467	3,742
J S Bindra	656	1,400	210	2,266	752	1,190	909	2,851
G R Bullock	781	1,400	65	2,246	907	795	76	1,778
M B DeNoma [(e)]	–	–	–	–	1,274	–	2,884	4,158
R H Meddings	1,054	2,200	69	3,323	1,096	1,825	68	2,989
T J Miller	703	1,350	41	2,094	804	1,295	43	2,142
A M G Rees	625	11,000	37	11,662	643	8,766	37	9,446
	6,376	21,950	1,291	29,617	7,693	19,070	4,581	31,344

(a) The annual performance award shown here for 2009 is inclusive of cash bonus and deferred shares and/or the deferred bonus plan. The value is determined in US dollars and shown as such in the table. Both the 2009 annual performance award and 2008 bonus are net of any amounts waived to provide additional pension benefits.

(b) The benefits column includes amounts relating to car allowances and medical and life insurance benefits. Steve Bertamini carries out his duties overseas and his remuneration was adjusted to take local living costs into account. This adjustment was to put Steve in a position, after taxation differentials, where he would be no worse off as a result of carrying out his duties overseas. The benefits column for Steve includes additional benefits, such as allowances for working overseas, the provision of accommodation or education of children.

(c) Steve Bertamini received cash allowances of $315,000 (2008: $140,905) in lieu of his participation in any pension plan and this is reflected in the table above as part of salary/fees.

13 Directors continued

(d) Steve Bertamini received a total 2008 discretionary annual performance award of $1,125,000 of which $296,250 and $266,000 is deferred into restricted shares under the 2006 Restricted Share Scheme and the Deferred Bonus Plan respectively. In addition, in recognition of the substantial elements of deferred compensation and share awards which he forfeited on leaving his previous employer, he was also awarded, as part of his joining arrangements, a one-off award of deferred shares of $1,449,300 (£1,000,000) granted in March 2009. This will vest in February 2010. No guarantee was made to Steve in the respect of the 2009 performance and financial year.

(e) Mr DeNoma resigned from the board on 1 June 2008. However, he continued to be an employee of the Group until 30 June 2009. His base salary and other contractual benefits continued to be paid until 30 June 2009 in line with his contract of employment.

Deferred compensation

In recognition of the substantial elements of deferred compensation and share awards forfeited when he left his previous employer, Steve Bertamini participates in a deferred compensation arrangement under which a total of $6,500,000 was allocated into an interest bearing account, and all or part of the account may be invested in alternative assets at his discretion. The original allocation (together with the accrued interest and investment returns) will vest in three tranches unless he resigns or is terminated for cause: $3,000,000 after the second, $2,000,000 after the fourth and $1,500,000 after the sixth anniversary of joining. No further awards are planned.

	Grant date	Allocation	Value as at 31 December 2008	Vested	Value as at 31 December 2009	Vesting period
S P Bertamini	19 May 2008	$6,500,000	$6,606,978	–	**$7,756,150**	2010-2014

Retirement Benefits of Directors

All of the directors are eligible for retirement benefits. The Company policy is to provide a retirement benefit equivalent to two-thirds of base salary for those who have completed at least 20 years' service with the Company at retirement. The retirement benefits are provided through a combination of approved and/or unapproved defined benefit structures depending upon when the director joined the Company and his geographical location.

The defined benefit plans comprise a combination of the Standard Chartered Pension Fund, an approved non-contributory scheme, and an unapproved unfunded retirement benefit scheme. The unapproved unfunded retirement benefit scheme provides that part of the benefit which cannot be delivered through the approved scheme and is designed to mirror the provisions of the Standard Chartered Pension Fund.

		Accrued pension $000 (b)			Transfer value of accrued pension $000 (c)				Increase in accrued pension (net of inflation and waiver) during 2009 $000 (e)	
	Age	At 1 January 2009	Increase during the year	At 31 December 2009	At 1 January 2009	Increase/ (decrease) during the year net of waiver	At 31 December 2009	2009 waiver $000 (d)	Annual pension	Transfer value
P A Sands	48	241	79	350	3,635	1,703	5,809	–	79	1,331
G R Bullock	56	270	31	332	4,575	1,309	6,698	–	30	608
R H Meddings	51	249	68	347	3,911	1,713	6,127	–	67	1,209
T J Miller	52	146	28	192	2,276	751	3,311	–	28	505
A M G Rees	54	170	40	230	2,687	973	3,999	–	39	738
J S Bindra	49	20	22	45	316	417	784	–	22	378

Notes

(a) Mr Bertamini only receives a cash supplement and does not participate, like the other directors, in the defined benefit plans set out above.

(b) The accrued pension amounts include benefits arising from transfer payments received in respect of service with previous employers.

(c) The transfer values in respect of benefits under the unapproved unfunded retirement benefits scheme have been calculated using the Group's pension accounting methodology and assumptions.

(d) Directors are given the opportunity to waive a proportion of any potential bonus and/or salary to enhance their unfunded unapproved retirement benefits. The amounts waived in respect of 2009 are shown in tha table above.

(e) The increase in accrued pension (net of inflation and waiver) during the year is the difference between the accrued pension at the end of 2008 increased by an allowance for inflation of 0.3 per cent (2008: 3.0 per cent) and the accrued pension at the end of 2009 excluding any waiver in 2009.

(f) In addition to the amounts identified in the table above the Group paid $449,612 (2008: $ 605,996) in retirement benefits to former directors and their dependants.

(g) The amounts included in the table above as at 1 January and 31 December 2009 are calculated using the exchange rates at the end of 2008 (£1:$1.4493) and 2009 (£1:$1.6142) respectively. The other entries are calculated using the average exchange rates for 2009 (£1:$1.5613) and 2008 (£1:$1.8377).

14. Financial instruments

Classification

Financial assets are classified between four measurement categories: held at fair value through profit or loss (comprising trading and designated), available-for-sale, loans and receivables and held-to-maturity; and two measurement categories for financial liabilities: held at fair value through profit or loss (comprising trading and designated) and amortised cost. Instruments are classified in the balance sheet in accordance with their legal form, except for instruments that are held for trading purposes and those that the Group has designated to hold at fair value through the profit and loss account. The latter are combined on the face of the balance sheet and disclosed as financial assets or liabilities held at fair value through profit or loss.

The Group's classification of its principal financial assets and liabilities is summarised in the table below.

Group

	Assets at fair value				Assets at amortised cost			
Assets	Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Available-for-sale $million	Loans and receivables $million	Held-to-maturity $million	Non-financial assets $million	Total $million
Cash and balances at central banks	–	–	–	–	18,131	–	–	18,131
Financial assets held at fair value through profit or loss								
Loans and advances to banks	1,947	–	101	–	–	–	–	2,048
Loans and advances to customers	3,373	–	138	–	–	–	–	3,511
Treasury bills and other eligible bills	5,319	–	240	–	–	–	–	5,559
Debt securities	9,941	–	170	–	–	–	–	10,111
Equity shares	633	–	584	–	–	–	–	1,217
	21,213	–	1,233	–	–	–	–	22,446
Derivative financial instruments	37,174	1,044	–	–	–	–	–	38,218
Loans and advances to banks	–	–	–	–	50,884	–	–	50,884
Loans and advances to customers	–	–	–	–	198,292	–	–	198,292
Investment securities								
Treasury bills and other eligible bills	–	–	–	18,958	–	–	–	18,958
Debt securities	–	–	–	48,433	6,657	31	–	55,121
Equity shares	–	–	–	1,649	–	–	–	1,649
	–	–	–	69,040	6,657	31	–	75,728
Other assets	–	–	–	–	11,181	–	5,932	17,113
Total at 31 December 2009	58,387	1,044	1,233	69,040	285,145	31	5,932	420,812
Cash and balances at central banks	–	–	–	–	24,161	–	–	24,161
Financial assets held at fair value through profit or loss								
Loans and advances to banks	1,351	–	12	–	–	–	–	1,363
Loans and advances to customers	4,103	–	231	–	–	–	–	4,334
Treasury bills and other eligible bills	2,502	–	205	–	–	–	–	2,707
Debt securities	6,193	–	203	–	–	–	–	6,396
Equity shares	165	–	460	–	–	–	–	625
	14,314	–	1,111	–	–	–	–	15,425
Derivative financial instruments	68,166	1,491	–	–	–	–	–	69,657
Loans and advances to banks	–	–	–	–	46,581	–	–	46,581
Loans and advances to customers	–	–	–	–	174,178	–	–	174,178
Investment securities								
Treasury bills and other eligible bills	–	–	–	16,713	–	–	–	16,713
Debt securities	–	–	–	43,543	7,456	37	–	51,036
Equity shares	–	–	–	1,593	–	–	–	1,593
	–	–	–	61,849	7,456	37	–	69,342
Other assets	–	–	–	–	14,773	–	5,595	20,368
Total at 31 December 2008	82,480	1,491	1,111	61,849	267,149	37	5,595	419,712

Standard Chartered Bank

Notes to the financial statements continued

14. Financial instruments continued

Classification continued

Group

Liabilities	Liabilities at fair value: Trading $million	Liabilities at fair value: Derivatives held for hedging $million	Liabilities at fair value: Designated at fair value through profit or loss $million	Amortised cost $million	Non-financial liabilities $million	Total $million
Financial liabilities held at fair value through profit or loss						
Deposits by banks	432	–	50	–	–	482
Customer accounts	1,886	–	3,616	–	–	5,502
Debt securities in issue	2,618	–	1,369	–	–	3,987
Short positions	4,534	–	–	–	–	4,534
	9,470	–	5,035	–	–	14,505
Derivative financial instruments	36,323	552	–	–	–	36,875
Deposits by banks	–	–	–	38,461	–	38,461
Customer accounts	–	–	–	251,244	–	251,244
Debt securities in issue	–	–	–	24,502	–	24,502
Other liabilities	–	–	–	8,513	7,571	16,084
Subordinated liabilities and other borrowed funds	–	–	–	19,240	–	19,240
Total at 31 December 2009	45,793	552	5,035	341,960	7,571	400,911
Financial liabilities held at fair value through profit or loss						
Deposits by banks[1]	4,028	–	49	–	–	4,077
Customer accounts	1,207	–	3,376	–	–	4,583
Debt securities in issue	2,128	–	1,494	–	–	3,622
Short positions	3,196	–	–	–	–	3,196
	10,559	–	4,919	–	–	15,478
Derivative financial instruments	67,238	537	–	–	–	67,775
Deposits by banks	–	–	–	31,909	–	31,909
Customer accounts	–	–	–	234,008	–	234,008
Debt securities in issue	–	–	–	22,075	–	22,075
Other liabilities	–	–	–	9,401	8,025	17,426
Subordinated liabilities and other borrowed funds	–	–	–	17,709	–	17,709
Total at 31 December 2008	77,797	537	4,919	315,102	8,025	406,380

[1] Trading deposits by banks at 31 December 2008 includes $3,093 million in respect of a repo transaction which was eligible for netting under IAS 32 with balances within trading loans and advances to customers. At 31 December 2009, the net balance of $63 million has been presented within trading loans to customers.

14. Financial instruments continued

Company

Assets	Assets at fair value: Trading $million	Assets at fair value: Derivatives held for hedging $million	Assets at fair value: Designated at fair value through profit or loss $million	Available-for-sale $million	Assets at amortised cost: Loans and receivables $million	Assets at amortised cost: Held-to-maturity $million	Non-financial assets $million	Total $million
Cash and balances at central banks	–	–	–	–	11,800	–	–	11,800
Financial assets held at fair value through profit or loss								
Loans and advances to banks	1,942	–	101	–	–	–	–	2,043
Loans and advances to customers	3,355	–	15	–	–	–	–	3,370
Treasury bills and other eligible bills	1,844	–	–	–	–	–	–	1,844
Debt securities	7,082	–	46	–	–	–	–	7,128
Equity shares	589	–	–	–	–	–	–	589
	14,812	–	162	–	–	–	–	14,974
Derivative financial instruments	34,208	999	–	–	–	–	–	35,207
Loans and advances to banks	–	–	–	–	23,389	–	–	23,389
Loans and advances to customers	–	–	–	–	89,067	–	–	89,067
Investment securities								
Treasury bills and other eligible bills	–	–	–	3,668	–	–	–	3,668
Debt securities	–	–	–	23,726	3,871	–	–	27,597
Equity shares	–	–	–	138	–	–	–	138
	–	–	–	27,532	3,871	–	–	31,403
Other assets	–	–	–	–	6,192	–	3,883	10,075
Total at 31 December 2009	49,020	999	162	27,532	134,319	–	3,883	215,915
Cash and balances at central banks	–	–	–	–	17,679	–	–	17,679
Financial assets held at fair value through profit or loss								
Loans and advances to banks	1,351	–	–	–	–	–	–	1,351
Loans and advances to customers	4,057	–	–	–	–	–	–	4,057
Treasury bills and other eligible bills	274	–	–	–	–	–	–	274
Debt securities	3,382	–	47	–	–	–	–	3,429
Equity shares	165	–	–	–	–	–	–	165
	9,229	–	47	–	–	–	–	9,276
Derivative financial instruments	62,100	1,380	–	–	–	–	–	63,480
Loans and advances to banks	–	–	–	–	21,167	–	–	21,167
Loans and advances to customers	–	–	–	–	74,485	–	–	74,485
Investment securities								
Treasury bills and other eligible bills	–	–	–	4,142	–	–	–	4,142
Debt securities	–	–	–	23,238	4,735	–	–	27,973
Equity shares	–	–	–	126	–	–	–	126
	–	–	–	27,506	4,735	–	–	32,241
Other assets	–	–	–	–	10,820	–	2,859	13,679
Total at 31 December 2008	71,329	1,380	47	27,506	128,886	–	2,859	232,007

14. Financial instruments continued

Classification continued

Company

Liabilities	Liabilities at fair value: Trading $million	Liabilities at fair value: Derivatives held for hedging $million	Liabilities at fair value: Designated at fair value through profit or loss $million	Amortised cost $million	Non-financial liabilities $million	Total $million
Financial liabilities held at fair value through profit or loss						
Deposits by banks	432	–	34	–	–	466
Customer accounts	1,859	–	121	–	–	1,980
Debt securities in issue	2,525	–	–	–	–	2,525
Short positions	873	–	–	–	–	873
	5,689	–	155	–	–	5,844
Derivative financial instruments	34,162	443	–	–	–	34,605
Deposits by banks	–	–	–	21,526	–	21,526
Customer accounts	–	–	–	104,952	–	104,952
Debt securities in issue	–	–	–	11,993	–	11,993
Other liabilities	–	–	–	3,622	3,292	6,914
Subordinated liabilities and other borrowed funds	–	–	–	17,492	–	17,492
Total at 31 December 2009	39,851	443	155	159,585	3,292	203,326
Financial liabilities held at fair value through profit or loss						
Deposits by banks[1]	4,028	–	34	–	–	4,062
Customer accounts	1,207	–	180	–	–	1,387
Debt securities in issue	1,970	–	101	–	–	2,071
Short positions	1,181	–	–	–	–	1,181
	8,386	–	315	–	–	8,701
Derivative financial instruments	62,141	420	–	–	–	62,561
Deposits by banks	–	–	–	18,060	–	18,060
Customer accounts	–	–	–	95,403	–	95,403
Debt securities in issue	–	–	–	8,904	–	8,904
Other liabilities	–	–	–	5,194	3,683	8,877
Subordinated liabilities and other borrowed funds	–	–	–	15,907	–	15,907
Total at 31 December 2008	70,527	420	315	143,468	3,683	218,413

[1] Trading deposits by banks at 31 December 2008 includes $3,093 million in respect of a repo transaction which was eligible for netting under IAS 32 with balances within trading loans and advances to customers. At 31 December 2009, the net balance of $63 million has been presented within trading loans to customers.

Valuation of financial instruments

Instruments held at fair value

Valuation of financial assets and liabilities held at fair value are subject to a review independent of the business by Valuation Control. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices or market observable pricing inputs to valuation model, an assessment is made against external market data and consensus services. Financial instruments held at fair value in the balance sheet have been classified into a valuation hierarchy that reflects the significance of the inputs used in the fair value measurements.

Wherever possible, Valuation Control utilises multiple independent market data sources. Market data sources are assessed for relevance and reliability. A market data source is relevant and reliable if there is a high probability that a third party transaction can be executed based on this data. Market data reliability is assessed with respect to the following considerations:

1. methodology used by data provider to generate data (eg. identity of contributors, basis of data collection/processing)
2. degree of activity in the market or extent of market coverage represented by the data source
3. integrity and reputation of the data provider
4. comparisons with other similar or alternative data sources and whether or not it is regarded within the range of acceptable quotes (on the basis of a current and historical consideration)

Where a range of market price sources are utilised, Valuation Control documents the process by which the average or consensus price is determined. If Veluation Control chooses to adopt a pricing hierarchy (a scheme in which prices from more reliable sources are used preferentially to prices less reliable), any prices not used are reviewed for a body of contradictory evidence. Valuation Control assesses all available market data before selecting the market data sources that will form the basis of the Price Testing process. Market data utilised by Valuation Control is independent of the Front Office. Market data that is not fully independent receives a zero or low weighting.

14. Financial instruments continued

Valuation of financial instruments continued

Control framework
A Product Valuation Control Committee exists for each business where there is a material valuation risk. The Committees meet monthly and comprise representatives from front office, Group market risk, Product control and valuation control. The Committees are responsible for reviewing the results of the valuation control process.

Valuation hierarchy
The valuation hierarchy, and the types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Types of financial assets:	Actively traded government and agency securities Listed equities Listed derivative instruments Investments in publicly traded mutual funds with listed market prices	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives Asset backed securities Private equity investments	Asset backed securities Private equity investments Highly structured OTC derivatives with unobservable parameters Corporate bonds in illiquid markets
Types of financial liabilities:	Listed derivative instruments	Over-the-counter (OTC) derivatives	Highly structured OTC derivatives with unobservable parameters.

Level 1 portfolio

Level 1 assets and liabilities are typically exchange traded positions and some government bonds traded in active markets. These positions are valued using quoted prices in active markets.

Level 2 portfolio

Where instruments are not quoted in an active market the Group utilises a number of valuation techniques to determine fair value. These valuation techniques include discounted cash flow analysis models, option pricing models and simulation models and other standard models commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as Level 2.

The Group makes a credit valuation adjustment (CVA) against derivative products, which represents an estimate of the adjustment to fair value that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions. For these products, the Group uses the Advanced IRB (AIRB) approach to manage its credit risk. All assets under the AIRB approach have sophisticated probability of default (PD), loss given default (LGD) and exposure at default or credit conversion factor models developed to support the credit decision making process. For CVA, AIRB models used calculate the PD and LGD which, together with the results of the exposure simulation engine, generates a conservative view of expected loss.

In addition to periodic reassessment of counterparties, credit exposures and external trends which may impact risk management outcomes are closely monitored. Accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is a decline in the customer's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management. As a result, the reserve represents a dynamic calculation based on the credit quality of the counterparties, collateral positions and exposure profiles.

All fair value positions in non-derivative financial instruments are valued at bid (for long positions) or offer (short) levels. Fair value of derivative positions is initially derived by calculating at mid-market levels. These are then adjusted through bid-offer valuation adjustments to effectively reflect the long positions at bid and short positions at offer. The resulting valuation is then reflective of the fair value of that instrument in the market.

In calculating the bid-offer valuation adjustment, reference is usually made to the risk contained within a similar bucket, for example the interest rate risk is divided in time buckets and a separate bid-offer valuation adjustment calculated for each one of these. The rationale for following this methodology is to take account of the different risks that exist for each of the time buckets and the different hedge transactions that would need to be executed to insulate the gross risk in those buckets, should the need arise. Similar bucketing also takes place to account for different bid-offer levels for options which are at the money, out of the money and in the money.

Level 3 portfolio

The primary products classified as Level 3 are as follows:

Investment securities - asset backed securities
The majority of these positions are valued using third party sources. However, due to the severe lack of liquidity in the market and the prolonged period of time under which many securities have not traded, obtaining external prices is not a strong enough measure to determine whether an asset has an observable price or not. Therefore, once external pricing has been verified, the portfolio asset classes are monitored against market conditions using broker reports in order to establish which asset classes are seeing some levels of activity and which are completely illiquid. The latter are classified as Level 3. Where third party pricing is not available, Standard Chartered dealer prices are used with the asset classified as Level 3.

14. **Financial instruments** continued

Level 3 portfolio continued

Equity shares – Private Equity

Unlisted Private Equity investments are generally valued based on earning multiples (Price-to-Earnings (P/E) or Enterprise Value (EV)/ Earnings before Income-Tax, Depreciation and Amortisation (EBITDA)) of comparable listed companies together with the application of a liquidity discount. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. Even though earning multiples for the comparable listed companies can be sourced from third party sources (for example, Bloomberg) and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where some form of observable inputs are available, for example, OTC prices) are classified as Level 3 on the ground that the valuation methods involve significant judgements ranging from determining comparable companies to liquidity discounts.

Derivatives

These trading derivatives are classified as Level 3 if there are parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. These unobservable correlation parameters could only be implied from the market, through methods such as historical analysis and comparison to historical levels or benchmark data. Other derivatives are classified as Level 3 if the trading is illiquid, such as some emerging market convertible bonds and structured credit products.

The tables below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2009.

Group

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	372	1,676	–	2,048
Loans and advances to customers	170	3,341	–	3,511
Treasury bills and other eligible bills	4,537	1,022	–	5,559
Debt securities	5,250	4,732	129	10,111
Equity shares	604	37	576	1,217
	10,933	10,808	705	22,446
Derivative financial instruments	648	37,432	138	38,218
Investment securities				
Treasury bills and other eligible bills	12,794	6,164	–	18,958
Debt securities	16,366	31,630	437	48,433
Equity shares	595	298	756	1,649
	29,755	38,092	1,193	69,040
At 31 December 2009	41,336	86,332	2,036	129,704

Liabilities	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Deposit by banks	–	482	–	482
Customer accounts	39	5,463	–	5,502
Debt securities in issues	–	3,987	–	3,987
Short positions	4,302	232	–	4,534
	4,341	10,164	–	14,505
Derivative financial instruments	869	35,856	150	36,875
At 31 December 2009	5,210	46,020	150	51,380

There were no significant transfers between Level 1 and Level 2 in 2009.

Notes to the financial statements continued

14. Financial instruments continued

Valuation of financial instruments continued

Company

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	372	1,671	–	2,043
Loans and advances to customers	170	3,200	–	3,370
Treasury bills and other eligible bills	1,789	55	–	1,844
Debt securities	2,628	4,371	129	7,128
Equity shares	552	37	–	589
	5,511	9,334	129	14,974
Derivative financial instruments	612	34,517	78	35,207
Investment securities				
Treasury bills and other eligible bills	3,125	543	–	3,668
Debt securities	7,099	16,247	380	23,726
Equity shares	71	13	54	138
	10,295	16,803	434	27,532
At 31 December 2009	16,418	60,654	641	77,713

Liabilities	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Deposit by banks	–	466	–	466
Customer accounts	39	1,941	–	1,980
Debt securities in issues	–	2,525	–	2,525
Short positions	642	231	–	873
	681	5,163	–	5,844
Derivative financial instruments	586	33,959	60	34,605
At 31 December 2009	1,267	39,122	60	40,449

There were no significant transfers between Level 1 and Level 2 fair value in 2009.

Level 3 movement tables

Financial assets

Group

	Held at fair value through profit or loss			Investment securities		
Assets	Debt securities $million	Equity shares $million	Derivative financial instruments $million	Debt securities $million	Equity shares $million	Total $million
At 1 January 2009	141	415	260	332	563	1,711
Total (losses)/gains recognised in income statement	(10)	32	(142)	(1)	(41)	(162)
Total gains recognised in other comprehensive income	–	1	12	14	74	101
Purchases	–	128	3	307	165	603
Issues	–	–	–	–	–	–
Sales	–	–	(1)	(193)	(5)	(199)
Settlements	–	–	–	–	–	–
Transfers out	(2)	–	–	(22)	–	(24)
Transfers in	–	–	6	–	–	6
At 31 December 2009	129	576	138	437	756	2,036
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2009	(5)	28	39	6	(31)	37

14. Financial instruments continued

Company

Assets	Held at fair value through profit or loss: Debt securities $million	Derivative financial instruments $million	Investment securities: Debt securities $million	Investment securities: Equity shares $million	Total $million
At 1 January 2009	141	142	277	62	622
Total losses recognised in income statement	(10)	(97)	(1)	(6)	(114)
Total gains recognised in other comprehensive income	–	5	14	1	20
Purchases	–	1	304	–	305
Issues	–	–	–	–	–
Sales	–	(1)	(193)	(3)	(197)
Settlements	–	28	–	–	28
Transfers out	(2)	–	(21)	–	(23)
Transfers in	–	–	–	–	–
At 31 December 2009	129	78	380	54	641
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2009	(5)	23	4	–	22

Financial liabilities

Group

Liabilities	Derivative financial instruments $million	Total $million
At 1 January 2009	181	181
Total gains recognised in income statement	(70)	(70)
Total losses recognised in other comprehensive income	16	16
Purchases	–	–
Issues	–	–
Sales	–	–
Settlements	23	23
Transfers out	–	–
Transfers in	–	–
At 31 December 2009	150	150
Total losses recognised in the income statement relating to liabilities held at 31 December 2009	(31)	(31)

Company

Liabilities	Derivative financial instruments $million	Total $million
At 1 January 2009	91	91
Total gains recognised in income statement	(37)	(37)
Total losses recognised in other comprehensive income	1	1
Purchases	–	–
Issues	–	–
Sales	–	–
Settlements	5	5
Transfers out	–	–
Transfers in	–	–
At 31 December 2009	60	60
Total losses recognised in the income statement relating to liabilities held at 31 December 2009	(40)	(40)

There were no significant transfers into or out of level 3 fair value in 2009.

14. Financial instruments continued

Sensitivities in respect of the fair values of Level 3 assets and liabilities

Group

At 31 December 2009	Held at fair value through profit or loss Net exposure $million	Favourable Changes $million	Unfavourable Changes $million	Investment securities Net exposure $million	Favourable Changes $million	Unfavourable Changes $million
Financial instruments held at fair value through profit or loss						
Debt securities	129	130	126	–	–	–
Equity shares	576	634	518	–	–	–
Derivative financial instruments	(12)	2	(14)	–	–	–
Investment securities						
Debt securities	–	–	–	437	452	427
Equity shares	–	–	–	756	835	676
Total	693	766	630	1,193	1,287	1,103

Company

At 31 December 2009	Held at fair value through profit or loss Net exposure $million	Favourable Changes $million	Unfavourable Changes $million	Investment securities Net exposure $million	Favourable Changes $million	Unfavourable Changes $million
Financial instruments held at fair value through profit or loss						
Debt securities	129	131	128	–	–	–
Equity shares	–	–	–	–	–	–
Derivative financial instruments	18	32	16	–	–	–
Investment securities						
Debt securities	–	–	–	380	392	369
Equity shares	–	–	–	54	62	46
Total	147	163	144	434	454	415

Where the fair value of financial instruments are measured using valuation techniques that incorporate one or more insignificant inputs which are based on unobservable market data, we apply stresses on these unobservable parameter inputs. A 10 per cent increase or decrease in correlation and credit sensitivities, generate a range of reasonably possible alternative valuations. As of 31 December 2009, these stresses could have increased fair values of financial instruments held at fair value through profit or loss by $73 million and available-for-sale by $94 million, or decreased fair values of financial instruments held at fair value through profit or loss by $63 million and available-for-sale by $90 million. For the Company, these stresses could have increase fair values of financial instruments held at fair value through profit or loss by $16 million and available-for-sale by $20 million, or decreased fair values of financial instruments held at fair value through profit or loss by $3 million and available-for-sale by $19 million.

14. Financial instruments continued

Instruments carried at amortised cost

The following tables summarise the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. The fair values in the table below are stated as at 31 December and may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument.

Group

	2009 Book amount $million	2009 Fair value $million	2008 Book amount $million	2008 Fair value $million
Assets				
Cash and balances at central banks	18,131	18,131	24,161	24,161
Loans and advances to banks	50,884	50,905	46,581	45,855
Loans and advances to customers	198,292	199,739	174,178	170,410
Investment securities	6,688	6,556	7,493	6,729
Other assets	11,181	11,181	14,773	14,773
Liabilities				
Deposits by banks	38,461	38,169	31,909	31,713
Customer accounts	251,244	249,548	234,008	230,558
Debt securities in issue	24,502	22,490	22,075	23,097
Subordinated liabilities and other borrowed funds	19,240	18,692	17,709	14,626
Other liabilities	8,513	8,513	9,401	9,401

Company

	2009 Book amount $million	2009 Fair value $million	2008 Book amount $million	2008 Fair value $million
Assets				
Cash and balances at central banks	11,800	11,799	17,679	17,695
Loans and advances to banks	23,389	23,402	21,167	20,909
Loans and advances to customers	89,067	90,271	74,485	73,638
Assets classified as held for sale	–	–	387	387
Investment securities	3,871	3,743	4,735	3,979
Other assets	6,192	6,192	10,820	10,820
Liabilities				
Deposits by banks	21,526	21,522	18,060	18,205
Customer accounts	104,952	104,975	95,403	94,022
Debt securities in issue	11,993	11,973	8,904	8,954
Liabilities classified as held for sale	–	–	405	405
Subordinated liabilities and other borrowed funds	17,492	16,965	15,907	12,935
Other liabilities	3,622	3,622	5,194	5,194

The following sets out the Group's basis of establishing fair values of the financial instruments shown above.

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 and customers
For 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.

The Group's loans and advances to customers portfolio is well diversified by geography and industry. Approximately one-third of the portfolio reprices within one month, and over 50 per cent reprices within 12 months. The fair value of loans and advances to customers with a residual maturity of less than one year is their carrying value. Loans and advances are presented net of provisions for impairment. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, where appropriate, credit spreads. Expected cash flows are discounted at current market rates to determine fair value.. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

Investment securities
For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using inputs proxied from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or inputs proxied from a different underlying (for example, a similar bond but using

14. Financial instruments continued

Instruments carried at amortised cost continued

Investment securities continued

spreads for a particular sector and rating). Certain instruments cannot be proxied as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relate to asset backed securities. The fair value for such instruments is usually proxied from internal assessments of the underlying cash flows. The Group has a wide range of individual investments within the unlisted debt securities portfolio. Given the number of instruments involved, providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

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.

Reclassification of financial assets

In 2008 the Group and Company reclassified certain financial assets classified as held for trading into the available-for-sale ('AFS') category as these were no longer considered to be held for the purpose of selling or repurchasing in the near term. At the time of transfer, the Group and Company identified the rare circumstances permitting such a transfer as the impact of the ongoing credit crisis in financial markets, particularly from the beginning of 2008, which significantly impacted the liquidity in certain markets. The Group and Company also reclassified certain eligible financial assets from trading and available-for-sale categories to loans and receivables.

The following tables provide details of the remaining balance of assets reclassified during 2008 as at 31 December 2009 and 31 December 2008:

Group

For assets reclassified:	Carrying amount at 31 December 2009 $million	Fair value at 31 December 2009 $million	If assets had not been reclassified, fair value gain/(loss) from the date of 1 January 2009 to 31 December 2009 which would have been recognised within: Income $million	AFS reserve $million	Income/(expense) recognised in income statement in 2009 $million	Effective interest rate at date of reclassification %
From trading to AFS	593	593	(20)[1]	–	23	6.2
From trading to loans and receivables	2,213	2,049	127	–	95	5.8
From AFS to loans and receivables	1,362	1,216	–	145	49	5.3
	4,168	3,858	107	145	167	
Of which asset backed securities:						
reclassified to AFS	148	148	(17)[1]	–	(36)	
reclassified to loans and receivables	2,231	2,002	21	145	76	

[1] Post-reclassification, the loss is recognised within the available-for-sale reserve.

For assets reclassified:	Carrying amount at 31 December 2008 $million	Fair value at 31 December 2008 $million	If assets had not been reclassified, fair value gain/(loss) from the date of reclassification to 31 December 2008 which would have been recognised within: Income $million	AFS reserve $million	Income recognised in income statement in 2008 $million	Effective interest rate at date of reclassification %
From trading to AFS	2,485	2,485	(83)[2]	–	12	5.9%
From trading to loans and receivables	2,754	2,456	(298)	–	15	5.7%
From AFS to loans and receivables	2,095	1,685	–	(410)	11	5.3%
	7,334	6,626	(381)	(410)	38	
Of which asset backed securities:						
reclassified to AFS	171	171	(66)[2]	–	2	
reclassified to loans and receivables	3,034	2,532	(92)	(410)	15	

[2] Post-reclassification, the loss is recognised within the available-for-sale reserve.

14. Financial instruments continued

Company

For assets reclassified:	Carrying amount at 31 December 2009 $million	Fair value at 31 December 2009 $million	If assets had not been reclassified, fair value loss from the 1 January 2009 to 31 December 2009 which would have been recognised within: Income $million	AFS reserve $million	Income/(expense) recognised in income statement $million	Income recognised in income statement $million
From trading to AFS	501	501	(20)[1]	–	3	6.5%
From trading to loans and receivables	2,104	1,942	128	–	92	5.8%
From AFS to loans and receivables	1,362	1,216	–	145	49	5.3%
	3,967	3,659	108	145	144	
Of which asset backed securities:						
reclassified to AFS	148	148	(17)[1]	–	(36)	
reclassified to loans and receivables	2,231	2,002	21	145	76	

[1] Post-reclassification, the loss is recognised within the available-for-sale reserve.

For assets reclassified:	Carrying amount at 31 December 2008 $million	Fair value at 31 December 2008 $million	If assets had not been reclassified, fair value loss from the date of reclassification to 31 December 2008 which would have been recognised within: Income $million	AFS reserve $million	Income recognised in income statement $million	Income recognised in income statement $million
From trading to AFS	1,943	1,943	(89)[2]	–	9	6.3%
From trading to loans and receivables	2,637	2,341	(296)	–	13	5.8%
From AFS to loans and receivables	2,095	1,685	–	(410)	11	5.3%
	6,675	5,969	(385)	(410)	33	
Of which asset backed securities:						
reclassified to AFS	171	171	(66)[2]	–	2	
reclassified to loans and receivables	3,034	2,532	(92)	(410)	15	

[2] Post-reclassification, the loss is recognised within the available-for-sale reserve.

15. Financial instruments held at fair value through profit or loss

Financial assets held at fair value through profit and loss

Financial assets held at fair value through profit and loss comprise assets held for trading and those financial assets designated as being 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 IAS 39 are met by matching the principal terms of interest rate swaps to the corresponding loans and debt securities. 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.

Loans and advances held at fair value through profit and loss

The maximum exposure to credit risk for loans designated at fair value through profit or loss was $239 million (2008: $243 million).

The net fair value loss on loans and advances to customers designated at fair value through profit or loss was $5.9 million (2008: $0.1 million). Of this, $nil million (2008: $3 million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was $3.4 million (2008: $3.4 million).

The changes in fair value attributable to credit risk has been determined by comparing fair value movements in risk-free bonds with similar maturities to the changes in fair value of loans designated at fair value through profit or loss.

For certain loans and advances designated at fair value through profit or loss, the difference arising between the fair value at initial recognition and the amount that would have arisen had the valuation techniques used for subsequent measurement been used at initial recognition, is amortised to the income statement until the inputs become observable or the transaction matures or is terminated. The following table sets out a reconciliation of amounts deferred:

Standard Chartered Bank

Notes to the financial statements continued

15. Financial instruments held at fair value through profit or loss continued

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
At 1 January	8	9	–	–
Additional amount deferred	–	2	–	–
Recognised in income	(4)	(3)	–	–
At 31 December	4	8	–	–

Changing one or more of the assumptions to reasonably possible alternatives would not significantly change the fair value.

Investment securities held at fair value through profit or loss

Group

	2009			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	5,568			
Other public sector securities	18			
	5,586			
Issued by banks:				
Certificates of deposit	628			
Other debt securities	968			
	1,596			
Issued by corporate entities and other issuers:				
Other debt securities	2,929			
Total debt securities	10,111			
Of which:				
Listed on a recognised UK exchange	440	–	–	440
Listed elsewhere	4,835	604	1,516	6,955
Unlisted	4,836	613	4,043	9,492
	10,111	1,217	5,559	16,887
Market value of listed securities	5,275	604	1,516	7,395

	2008			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	4,346			
Other public sector securities	17			
	4,363			
Issued by banks:				
Certificates of deposit	33			
Other debt securities	798			
	831			
Issued by corporate entities and other issuers:				
Other debt securities	1,202			
Total debt securities	6,396			
Of which:				
Listed on a recognised UK exchange	14	–	–	14
Listed elsewhere	2,216	197	1,085	3,498
Unlisted	4,166	428	1,622	6,216
	6,396	625	2,707	9,728
Market value of listed securities	2,230	197	1,085	3,512

15. Financial instruments held at fair value through profit or loss continued

Company

	2009 Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	2,841			
Other public sector securities	13			
	2,854			
Issued by banks:				
Certificates of deposit	469			
Other debt securities	1,327			
	1,796			
Issued by corporate entities and other issuers:				
Other debt securities	2,478			
Total debt securities	7,128			
Of which:				
Listed on a recognised UK exchange	440	–	–	440
Listed elsewhere	2,669	552	558	3,779
Unlisted	4,019	37	1,286	5,342
	7,128	589	1,844	9,561
Market value of listed securities	3,109	552	558	4,219

	2008 Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	1,584			
Other public sector securities	9			
	1,593			
Issued by banks:				
Certificates of deposit	33			
Other debt securities	529			
	562			
Issued by corporate entities and other issuers:				
Other debt securities	1,274			
Total debt securities	3,429			
Of which:				
Listed on a recognised UK exchange	14	–	–	14
Listed elsewhere	1,134	165	7	1,306
Unlisted	2,281	–	267	2,548
	3,429	165	274	3,868
Market value of listed securities	1,148	165	7	1,320

15. Financial instruments held at fair value through profit or loss continued

Financial liabilities held at fair value through profit and loss

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 to 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 IAS 39). The Group ensures the criteria under IAS 39 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 net fair value gain on liabilities designated at fair value through profit or loss was $70 million for the year (2008: loss of $118.0 million). Of this, a gain of $6.0 million (2008: loss of $11.2 million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was a loss of $10.4 million (2008: a loss of $16.4 million).

As at 31 December 2009, the amount the Group is contractually obliged to pay at maturity to the holders of these obligations was $505 million higher (2008: $407 million higher) than the carrying amount at fair value.

The change in fair value attributable to credit risk was determined by comparing fair value movements in risk-free debt instruments with similar maturities, to the changes in fair value of liabilities designated at fair value through profit or loss.

16. Derivative financial instruments

Derivatives are contracts with characteristics and value derived from underlying financial instruments, interest and exchange rates or indices. They include futures, forwards, swaps and options transactions. Derivatives are an important risk management tool for banks and their customers because they can be used to manage market price risk. The market risk of derivatives is managed in essentially the same way as other traded products.

Our derivative transactions are principally in instruments where the mark-to-market values are readily determinable by reference to independent prices and valuation quotes. We enter into derivative contracts in the normal course of business to meet customer requirements and to manage our exposure to fluctuations in market price movements. Derivatives are carried at fair value and shown in the balance sheet as separate totals of assets and liabilities. Recognition of fair value gains and losses depends on whether the derivatives are classified as trading or held for hedging purposes. The credit risk arising from all financial derivatives is managed as part of the overall lending limits to financial institutions and corporate customers.

Hedging

Countries within the Group use futures, forwards, swaps and options transactions primarily to mitigate interest and foreign exchange risk arising from their own country exposures. The Company also uses futures, forwards and options to hedge foreign exchange and interest rate risk.

In accounting terms under IAS 39, hedges are classified into three types: fair value hedges, predominantly where fixed rates of interest or foreign exchange are exchanged for floating rates; cash flow hedges, predominantly where variable rates of interest or foreign exchange are exchanged for fixed rates; and hedges of net investments in overseas operations translated to the parent company's functional currency, US dollars.

The use of interest rate swaps for the purposes of hedging significantly increased in 2009 compared to 2008. A large part of the increase arose in cash flow hedges from hedging of the returns on mortgage backed securities obtained in 2009 following the government sponsored mortgage acquisition programme in Korea. The use of fair value hedging was also expanded as part of our focus on liquidity management. Foreign exchange options were also taken out during the year to provide more flexibility in managing the foreign exchange risks in elements of our non-US dollar cost base.

We may also, under certain individually approved circumstances, enter into 'economic hedges' which do not qualify for IAS 39 hedge accounting treatment, and which are accordingly marked to market through the profit and loss account, thereby creating an accounting asymmetry. These are entered into primarily to ensure that residual interest rate and foreign exchange risks are being effectively managed.

Notes to the financial statements continued

16. Derivative financial instruments continued

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 and Company are set out below. All derivatives are classified as trading, recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within reserves).

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

The Group and Company limit 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 in the ordinary course of business they are not intended to be settled net. Details of the amounts available for offset can be found in note 50, under maximum exposure to credit risk.

Group

	2009			2008		
Total derivatives	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	704,691	9,052	8,211	832,915	23,096	21,017
Currency swaps and options	448,615	9,753	9,621	528,215	18,760	19,253
Exchange traded futures and options	774	–	–	742	–	–
	1,154,080	18,805	17,832	1,361,872	41,856	40,270
Interest rate derivative contracts:						
Swaps	1,211,971	14,255	13,946	1,089,407	21,992	21,451
Forward rate agreements and options	233,769	2,498	2,472	170,700	1,076	1,451
Exchange traded futures and options	252,625	83	84	242,694	557	429
	1,698,365	16,836	16,502	1,502,801	23,625	23,331
Credit derivative contracts	35,133	835	845	29,033	926	961
Equity and stock index options	3,208	470	613	1,075	219	233
Commodity derivative contracts	19,066	1,272	1,083	16,200	3,031	2,980
Total derivatives	2,909,852	38,218	36,875	2,910,981	69,657	67,775

Company

	2009			2008		
Total derivatives	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	700,838	7,661	8,347	838,910	21,935	22,607
Currency swaps and options	389,475	7,052	6,741	458,303	15,012	14,600
	1,090,313	14,713	15,088	1,297,213	36,947	37,207
Interest rate derivative contracts:						
Swaps	1,121,835	15,401	14,555	921,028	20,798	19,571
Forward rate agreements and options	219,633	2,385	2,326	158,730	867	1134
Exchange traded futures and options	246,334	83	84	236,946	557	429
	1,587,802	17,869	16,965	1,316,704	22,222	21,134
Credit derivative contracts	35,628	840	850	29,524	993	1030
Equity and stock index options	7,575	477	598	391	248	204
Commodity derivative contracts	19,787	1,308	1,104	16,374	3070	2986
Total derivatives	2,741,105	35,207	34,605	2,660,206	63,480	62,561

16. Derivative financial instruments continued

Derivatives held for hedging

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 IAS 39 have been met. The use of the interest rates swaps for the purposes of cash flow hedging significantly increased in 2009 compared to 2008. A large part of the increase arose from hedging of the returns on the mortgage backed securities obtained in 2009 following the government sponsored mortgage acquisition programme in Korea. Foreign exchange options were also taken out during the year to provide more flexibility in managing the foreign exchange risk in elements of our non-USD dollar cost base. The use of fair value hedging overall was also expanded as part of our focus on liquidity management. The tables below list the types of derivatives that the Group and Company hold for hedge accounting.

Group

	2009			2008		
	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Derivatives designated as fair value hedges:						
Interest rate swaps	24,867	956	415	17,332	1,393	225
Currency swaps	607	14	9	–	–	–
Forward foreign exchange contracts	825	–	1	–	–	–
	26,299	970	425	17,332	1,393	225
Derivatives designated as cash flow hedges:						
Interest rate swaps	14,673	46	23	4,514	92	13
Options	898	23	–	–	–	–
Forward foreign exchange contracts	410	–	37	1,015	6	210
Currency swaps	218	–	1	–	–	–
	16,199	69	61	5,529	98	223
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	738	5	66	600	–	89
Total derivatives held for hedging	43,236	1,044	552	23,461	1,491	537

Company

	2009			2008		
	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Derivatives designated as fair value hedges:						
Interest rate swaps	19,865	938	390	15,269	1,326	206
Currency swaps	607	14	9	–	–	–
Forward foreign exchange contracts	825	–	1	–	–	–
	21,297	952	400	15,269	1,326	206
Derivatives designated as cash flow hedges:						
Interest rate swaps	4,454	24	5	2,796	48	4
Forward foreign exchange contracts	410	–	37	1,015	6	210
Currency swaps	218	–	1	–	–	–
Options	898	23	–	–	–	–
	5,980	47	43	3,811	54	214
Total derivatives held for hedging	27,277	999	443	19,080	1,380	420

Fair value hedges

The swaps exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange 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. In respect of fair value hedges, losses arising on the hedging instruments during the year were $433 million (2008: gains of $1,116 million) compared to gains arising on the hedged items of $403 million (2008: losses of $1,112 million). For the Company, losses arising on fair value hedging instruments were $398 million (2008: gains of $1,120 million) compared to gains arising on the hedged items of $365 million (2008: losses of $1,117 million).

16. Derivative financial instruments continued

Cash flow hedges

The Group uses interest rate swaps to manage the variability in future 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 effective portion of 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. During the year, $4 million (2008: $4 million) was recognised by the Group in the income statement in respect of ineffectiveness arising on cash flow hedges. During the year, losses of $106 million (2008: gains of $18 million) for the Group was removed from the cash flow hedging reserve and included in profit and loss, of which, losses of $123 million (2008: gains of $2 million) was recognised within operating costs and gains of $17 million (2008: $16 million) within income.

During the year, losses of $115 million (2008: $10million) for the company was removed from the cash flow hedging reserve and included in the profit and loss of which, losses of $123 million (2008: gains of $2 million) was recognised within operating costs and gains of $8 million (2008: $8 million) within income.

The Group has hedged the following cash flows which are expected to impact the income statement in the following periods:

	2009						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	500	274	179	161	150	–	1,264
Forecast payable cash flows	(2,043)	(246)	(155)	(136)	(132)	–	(2,712)
	(1,543)	28	24	25	18	–	(1,448)

	2008						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	716	335	268	203	154	144	1,820
Forecast payable cash flows	(1,439)	(586)	(208)	(158)	(121)	(118)	(2,630)
	(723)	(251)	60	45	33	26	(810)

The Company has hedged the following cash flows which are expected to impact the income statement in the following periods:

	2009						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	82	20	6	7	7	–	122
Forecast payable cash flows	(1,671)	(21)	(7)	–	–	–	(1,699)
	(1,589)	(1)	(1)	7	7	–	(1,577)

	2008						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	50	17	4	–	–	–	71
Forecast payable cash flows	(915)	(333)	(2)	–	–	–	(1,250)
	(865)	(316)	2	–	–	–	(1,179)

Net investment hedges

The Group uses foreign exchange contracts to manage the variability in future exchange rates on its net investments in foreign currencies. Gains and losses arising on the effective portion of the hedges are deferred in equity until the net investment is disposed of. During the year, $nil million (2008: $nil million) was recognised in the Income statement in respect of ineffectiveness arising on net investment hedges.

Notes to the financial statements continued

17. Loans and advances to banks

	Group 2009 $million	Group 2008 $million	Company 2009 $million	Company 2008 $million
Loans and advances to banks	**53,066**	47,967	**25,487**	22,521
Individual impairment provision (note 20)	**(132)**	(17)	**(54)**	(2)
Portfolio impairment provision (note 20)	**(2)**	(6)	**(1)**	(1)
	52,932	47,944	**25,432**	22,518
Of which: loans and advances held at fair value through profit or loss (note 14)	**(2,048)**	(1,363)	**(2,043)**	(1,351)
	50,884	46,581	**23,389**	21,167

18. Loans and advances to customers

Loans and advances to customers have grown by $23.3 billion to $201.8 billion.

Compared to 2008, the Consumer Banking portfolio in 2009 has grown by $13.9 billion, or 17 per cent, mainly due to increased mortgage lending.

The growth in the mortgage portfolio is in line with Consumer Banking's strategy of de-risking the overall portfolio by increasing the proportion of secured advances and taking advantage of the strengthening property markets. Growth was mostly in Korea, Singapore and Hong Kong which increased by $3.3 billion, $2.1 billion and $1.8 billion respectively.

Growth in the Wholesale Banking customer portfolio was $9.6 billion, or 10 per cent. Growth was spread across several regions, with Singapore particularly strong at $6.9 billion, or 72 per cent of that growth. The growth in Singapore is primarily in trade loans, due to business growth and the acquisition of new clients, receivables financing and other corporate loans.

Exposures to banks grew by 10 per cent. This reflects our strong liquidity position, with much of that liquidity placed with high quality bank counterparties.

The Wholesale Banking portfolio remains diversified across both geography and industry, with no significant concentration within the industry classifications of Manufacturing; Financing, insurance and business services; Commerce; or Transport, storage and communication.

Single borrower concentration risk has been mitigated by active distribution of assets to banks and institutional investors, some of which is achieved through credit-default swaps and synthetic risk transfer structures.

	Group 2009 $million	Group 2008 $million	Company 2009 $million	Company 2008 $million
Loans and advances to customers	**204,530**	180,470	**93,541**	79,085
Individual impairment provision (note 20)	**(1,853)**	(1,307)	**(666)**	(304)
Portfolio impairment provision (note 20)	**(874)**	(651)	**(438)**	(239)
	201,803	178,512	**92,437**	78,542
Of which: loans and advances held at fair value through profit or loss (note 14)	**(3,511)**	(4,334)	**(3,370)**	(4,057)
	198,292	174,178	**89,067**	74,485
Loans and advances sold subject to sale and repurchase transactions	**231**	106	**3**	53

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 $3,601 million (2008: $4,192 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 $3,063 million (2008: $4,583 million) arising from the securitisations.

The Company 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 $283 million (2008: $271 million). The Company continues to be exposed to related credit and foreign exchange risk on these assets. The Company continues to recognise these assets in addition to the proceeds and related liability of $144 million (2008: $183 million) arising from the securitisations.

The Group has entered into synthetic credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $15.7 billion (2008: $15.7 billion). The Group continues to hold the underlying assets referenced in the synthetic credit default swaps.

The Company has not entered into synthetic credit default swaps for portfolio management purposes.

The Group has outstanding residential mortgage loans to Korea residents of $20.5 billion (2008: $17.1 billion) and Hong Kong residents of $14.8 billion (2008: $13.0 billion).

Notes to the financial statements continued

18. Loans and advances to customers continued

The Company's exposure to credit risk is concentrated in Singapore, Other Asia Pacific region, India and Middle East & Other S Asia. The Company is affected by the general economic conditions in the territories in which it operates. The Company sets limits on the exposure to any counterparty and credit risk is spread over a variety of different personal and commercial customers. The Company has outstanding residential mortgage loans to Singapore residents of $8.1 billion (2008: $6.0 billion).

The following tables show loans and advances to customers by industry and by geography split:

Group

	2009								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans to individuals									
Mortgages	14,816	8,149	20,460	11,016	1,685	1,128	212	171	57,637
Other	2,971	4,957	4,951	5,012	772	2,396	678	1,909	23,646
Small and medium enterprises	1,641	2,370	4,024	3,258	1,255	636	113	3	13,300
Consumer Banking	19,428	15,476	29,435	19,286	3,712	4,160	1,003	2,083	94,583
Agriculture, forestry and fishing	16	81	25	351	75	150	613	630	1,941
Construction	274	49	370	350	342	788	116	234	2,523
Commerce	2,508	4,819	939	3,612	861	4,959	765	4,576	23,039
Electricity, gas and water	538	53	188	523	31	371	239	1,395	3,338
Financing, insurance and business services	2,319	4,150	668	4,515	543	4,036	174	5,406	21,811
Governments	–	966	344	3,256	1	250	34	366	5,217
Mining and quarrying	120	569	3	280	139	185	172	4,941	6,409
Manufacturing	2,586	1,061	3,369	7,794	2,485	1,857	685	5,735	25,572
Commercial real estate	1,274	2,275	997	908	360	672	4	518	7,008
Transport, storage and communication	579	1,438	310	1,024	399	1,115	258	4,323	9,446
Other	397	507	268	296	6	234	21	61	1,790
Wholesale Banking	10,611	15,968	7,481	22,909	5,242	14,617	3,081	28,185	108,094
Portfolio impairment provision	(66)	(45)	(112)	(203)	(88)	(293)	(55)	(12)	(874)
Total loans and advances to customers	29,973	31,399	36,804	41,992	8,866	18,484	4,029	30,256	201,803
Total loans and advances to banks	19,453	5,085	2,780	7,232	511	1,864	300	15,707	52,932

[1] Other APR includes Malaysia: Total loans and advances to customers $9,022 million; Total loans and advances to banks $390 million.

Total loans and advances to customers include $3,511 million held at fair value through profit or loss. Total loans and advances to banks include $2,048 million held at fair value through profit or loss.

Notes to the financial statements continued

18. Loans and advances to customers continued

Group

	2008								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans to individuals									
Mortgages	12,977	6,044	17,120	8,786	1,447	891	171	131	47,567
Other	2,826	3,529	4,383	5,389	910	2,742	564	1,106	21,449
Small and medium enterprises	1,288	1,754	3,603	2,660	1,093	710	170	370	11,648
Consumer Banking	17,091	11,327	25,106	16,835	3,450	4,343	905	1,607	80,664
Agriculture, forestry and fishing	27	65	34	193	34	106	383	562	1,404
Construction	142	81	367	424	305	823	40	143	2,325
Commerce	2,150	2,685	964	3,533	749	4,150	725	2,395	17,351
Electricity, gas and water	453	15	93	532	34	242	71	1,246	2,686
Financing, insurance and business services	3,455	2,303	427	2,988	533	3,329	453	12,075	25,563
Governments	–	366	–	3,480	–	383	26	427	4,682
Mining and quarrying	–	355	26	174	104	257	194	4,710	5,820
Manufacturing	2,756	1,153	3,475	7,866	2,255	1,864	598	4,892	24,859
Commercial real estate	1,353	1,265	787	1,245	332	526	10	839	6,357
Transport, storage and communication	470	366	356	921	121	1,218	220	2,113	5,785
Other	168	415	217	403	12	319	48	85	1,667
Wholesale Banking	10,974	9,069	6,746	21,759	4,479	13,217	2,768	29,487	98,499
Portfolio impairment provision	(61)	(47)	(89)	(228)	(66)	(84)	(31)	(45)	(651)
Total loans and advances to customers	**28,004**	**20,349**	**31,763**	**38,366**	**7,863**	**17,476**	**3,642**	**31,049**	**178,512**
Total loans and advances to banks	**18,963**	**9,283**	**1,594**	**5,201**	**291**	**1,504**	**587**	**10,521**	**47,944**

[1] Other APR includes Malaysia: Total loans and advances to customers $7,955 million; Total loans and advances to banks $411 million.

Total loans and advances to customers include $4,334 million held at fair value through profit or loss. Total loans and advances to banks include $1,363 million held at fair value through profit or loss.

Notes to the financial statements continued

18. Loans and advances to customers continued

Company

	2009						
	Asia Pacific						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans to individuals							
Mortgages	8,149	80	1,629	1,051	33	26	10,968
Other	4,957	955	706	2,150	–	1,369	10,137
Small and medium enterprises	2,370	118	1,252	400	–	2	4,142
Consumer Banking	15,476	1,153	3,587	3,601	33	1,397	25,247
Agriculture, forestry and fishing	81	147	75	150	467	630	1,550
Construction	49	106	341	787	70	234	1,587
Commerce	4,819	360	837	4,946	135	4,576	15,673
Electricity, gas and water	53	366	26	69	44	1,395	1,953
Financing, insurance and business services	4,150	683	507	3,954	77	5,406	14,777
Governments	966	616	–	248	–	366	2,196
Mining and quarrying	569	140	139	175	98	4,941	6,062
Manufacturing	1,061	1,493	2,409	1,360	86	5,734	12,143
Commercial real estate	2,275	1	341	672	–	518	3,807
Transport, storage and communication	1,438	357	387	986	20	3,884	7,072
Other	507	22	2	211	1	65	808
Wholesale Banking	15,968	4,291	5,064	13,558	998	27,749	67,628
Portfolio impairment provision	(45)	(30)	(87)	(212)	(3)	(61)	(438)
Total loans and advances to customers	31,399	5,414	8,564	16,947	1,028	29,085	92,437
Total loans and advances to banks	5,085	2,473	437	1,811	1	15,625	25,432

Total loans and advances to customers include $3,370 million held at fair value through profit or loss. Total loans and advances to banks include $2,043 million held at fair value through profit or loss.

Notes to the financial statements continued

18. Loans and advances to customers continued

Company

	2008						
	Asia Pacific						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans to individuals							
Mortgages	5,950	77	1,403	795	33	29	8,287
Other	3,492	762	841	2,398	–	287	7,780
Small and medium enterprises	1,754	204	1,093	434	–	35	3,520
Consumer Banking	11,196	1,043	3,337	3,627	33	351	19,587
Agriculture, forestry and fishing	65	105	34	106	269	561	1,140
Construction	81	173	305	729	–	143	1,431
Commerce	2,685	534	727	3,998	170	2,376	10,490
Electricity, gas and water	15	294	34	56	12	1,246	1,657
Financing, insurance and	2,303	1,004	461	3,289	123	11,599	18,779
Governments	367	36	–	383	–	427	1,213
Mining and quarrying	357	124	104	257	89	4,710	5,641
Manufacturing	1,153	1,190	2,175	1,452	119	4,828	10,917
Commercial real estate	1,265	1	327	526	–	835	2,954
Transport, storage and communication	366	418	121	1,055	–	2,113	4,073
Other	415	60	3	316	20	85	899
Wholesale Banking	9,072	3,939	4,291	12,167	802	28,923	59,194
Portfolio impairment provision	(44)	(60)	(63)	(57)	(2)	(13)	(239)
Total loans and advances to customers	20,224	4,922	7,565	15,737	833	29,261	78,542
Total loans and advances to banks	8,272	2,825	271	1,311	16	9,823	22,518

Total loans and advances to customers include $4,057 million held at fair value through profit or loss. Total loans and advances to banks include $1,351 million held at fair value through profit or loss.

Notes to the financial statements continued

18. Loans and advances to customers continued

Group

	2009 One year or less $million	2009 One to five years $million	2009 Over five years $million	2009 Total $million
Loans to individuals				
Mortgages	2,455	7,818	47,364	57,637
Other	14,266	7,158	2,222	23,646
Small and medium enterprises	7,110	3,054	3,136	13,300
Consumer Banking	23,831	18,030	52,722	94,583
Agriculture, forestry and fishing	1,515	348	78	1,941
Construction	1,921	482	120	2,523
Commerce	19,981	2,919	139	23,039
Electricity, gas and water	1,056	825	1,457	3,338
Financing, insurance and business services	15,282	6,484	45	21,811
Governments	4,754	398	65	5,217
Mining and quarrying	3,296	1,531	1,582	6,409
Manufacturing	18,979	5,286	1,307	25,572
Commercial real estate	3,325	3,523	160	7,008
Transport, storage and communication	3,665	4,312	1,469	9,446
Other	1,369	268	153	1,790
Wholesale Banking	75,143	26,376	6,575	108,094
Portfolio impairment provision				(874)
				201,803

	2008 One year or less $million	2008 One to five years $million	2008 Over five years $million	2008 Total $million
Loans to individuals				
Mortgages	2,357	6,883	38,327	47,567
Other	11,575	7,118	2,756	21,449
Small and medium enterprises	6,780	2,653	2,215	11,648
Consumer Banking	20,712	16,654	43,298	80,664
Agriculture, forestry and fishing	1,008	259	137	1,404
Construction	1,943	356	26	2,325
Commerce	15,732	1,477	142	17,351
Electricity, gas and water	1,108	345	1,233	2,686
Financing, insurance and business services	19,057	6,026	480	25,563
Governments	4,476	43	163	4,682
Mining and quarrying	3,238	1,449	1,133	5,820
Manufacturing	18,300	5,293	1,266	24,859
Commercial real estate	2,186	4,064	107	6,357
Transport, storage and communication	2,988	1,743	1,054	5,785
Other	1,271	337	59	1,667
Wholesale Banking	71,307	21,392	5,800	98,499
Portfolio impairment provision				(651)
				178,512

18. Loans and advances to customers continued

Company

	2009			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	349	1,013	9,606	10,968
Other	7,626	1,976	535	10,137
Small and medium enterprises	1,661	993	1,488	4,142
Consumer Banking	9,636	3,982	11,629	25,247
Agriculture, forestry and fishing	1,276	226	48	1,550
Construction	1,199	284	104	1,587
Commerce	14,111	1,504	58	15,673
Electricity, gas and water	300	295	1,358	1,953
Financing, insurance and business services	9,954	4,815	8	14,777
Governments	1,733	398	65	2,196
Mining and quarrying	3,120	1,377	1,565	6,062
Manufacturing	8,453	2,709	981	12,143
Commercial real estate	1,785	1,952	70	3,807
Transport, storage and communication	2,847	2,912	1,313	7,072
Other	669	108	31	808
Wholesale Banking	45,447	16,580	5,601	67,628
Portfolio impairment provision				(438)
				92,437

	2008			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	277	721	7,289	8,287
Other	5,200	2,071	509	7,780
Small and medium enterprises	1,697	810	1,013	3,520
Consumer Banking	7,174	3,602	8,811	19,587
Agriculture, forestry and fishing	872	168	100	1,140
Construction	1,163	261	7	1,431
Commerce	9,901	574	15	10,490
Electricity, gas and water	357	176	1,124	1,657
Financing, insurance and business services	14,577	4,046	156	18,779
Governments	1,007	43	163	1,213
Mining and quarrying	3,110	1,419	1,112	5,641
Manufacturing	7,349	2,722	846	10,917
Commercial real estate	1,176	1,734	44	2,954
Transport, storage and communication	2,128	1,062	883	4,073
Other	722	172	5	899
Wholesale Banking	42,362	12,377	4,455	59,194
Portfolio impairment provision				(239)
				78,542

19. Assets leased to customers

Finance leases and installment credit

	Group 2009 $million	Group 2008 $million	Company 2009 $million	Company 2008 $million
Finance leases	**399**	468	**–**	2
Instalment credit agreements	**706**	784	**706**	772
	1,105	1,252	**706**	774

The above assets are included within 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 $228 million (2008: $154 million) for the Group and $145 million (2008: $144 million) for the Company.

	Group 2009 $million	Group 2008 $million	Company 2009 $million	Company 2008 $million
Minimum lease receivables under finance leases falling due:				
Within one year	**52**	47	**–**	1
Later than one year and less than five years	**389**	354	**–**	1
After five years	**–**	125	**–**	–
	441	526	**–**	2
Interest income relating to future periods	**(42)**	(58)	**–**	–
Present value of finance lease receivables	**399**	468	**–**	2
Of which:				
Falls due within one year	**35**	46	**–**	1
Falls due later than one year and less than five years	**364**	321	**–**	1
Falls due after five years	**–**	101	**–**	–

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft which are included in property, plant and equipment in note 26. At 31 December 2009, these assets had a net book value of $1,606 million (2008: $1,029 million) in the Group.

	Group 2009 $million	Group 2008 $million
Minimum lease receivables under operating leases falling due:		
Within one year	**175**	111
Later than one year and less than five years	**679**	451
After five years	**386**	297
	1,240	859

The Company had no operating lease assets in 2009 and 2008.

Notes to the financial statements continued

20. Impairment provisions on loans and advances

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
At 1 January	**1,981**	1,809	**546**	385
Exchange translation differences	**70**	(179)	**27**	(39)
Acquisitions	**–**	109	**–**	28
Amounts written off	**(1,332)**	(1,119)	**(433)**	(284)
Recoveries of acquisition fair values	**(39)**	(78)	**–**	–
Recoveries of amounts previously written off	**191**	180	**53**	49
Discount unwind	**(58)**	(40)	**(18)**	(3)
Other	**53**	13	**20**	–
New provisions	**2,613**	1,796	**1,175**	572
Recoveries/provisions no longer required	**(618)**	(510)	**(211)**	(162)
Net charge against profit	**1,995**	1,286	**964**	410
Provisions held at 31 December	**2,861**	1,981	**1,159**	546

The following table shows impairment provisions on loans and advances by each principal category of borrowers' business or industry:

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
Loans to individuals				
Mortgages	**107**	88	**32**	13
Other	**201**	191	**55**	66
Small and medium enterprises	**230**	263	**39**	21
Consumer Banking	**538**	542	**126**	100
Agriculture, forestry and fishing	**59**	39	**23**	12
Construction	**36**	18	**31**	1
Commerce	**425**	134	**193**	45
Electricity, gas and water	**7**	28	**5**	13
Financing, insurance and business services	**130**	31	**124**	25
Mining and quarrying	**6**	–	**–**	–
Manufacturing	**590**	458	**153**	106
Commercial real estate	**13**	21	**(1)**	–
Transport, storage and communication	**24**	24	**6**	2
Other	**25**	12	**6**	–
Wholesale Banking	**1,315**	765	**540**	204
Individual impairment provision against loans and advances to customers (note 18)	**1,853**	1,307	**666**	304
Individual impairment provision against loans and advances to banks (note 17)	**132**	17	**54**	2
Portfolio impairment provision (note 18, 17)	**876**	657	**439**	240
Total impairment provisions on loans and advances	**2,861**	1,981	**1,159**	546

20. Impairment Provisions on Loans and Advances continued

The following table reconciles the charge for impairment provisions on loans and advances to the total impairment charge and other credit commitments:

Group

	2009 $million	2008 $million
Net charge against profit on loans and advances:		
Individual impairment charge	1,799	1,168
Portfolio impairment charge	196	118
	1,995	1,286
(Releases)/provisions related to credit commitments	(2)	27
Impairment charges relating to debt securities classified as loans	7	8
Total impairment charge and other credit risk provisions	2,000	1,321

Company

	2009 $million	2008 $million
Net charge against profit on loans and advances:		
Individual impairment charge	782	325
Portfolio impairment charge	182	85
	964	410
Provisions related to credit commitments	98	–
Impairment charges relating to debt securities classified as loans	7	8
Total impairment charge and other credit risk provisions	1,069	418

21. Non-performing Loans and Advances

Problem credit management and provisioning

Consumer Banking

In Consumer Banking, where there are large numbers of small value loans, a primary indicator of potential impairment is delinquency. However, not all delinquent loans (particularly those in tha early stage of delinquency) will be impaired. Within Consumer Banking an account is considered to be delinquent when payment is not received on the due date. For delinquency reporting purposes we follow industry standards, measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are more closely monitored and subject to specific collections processes.

Provisioning within Consumer Banking reflects the fact that the product portfolios (excluding medium enterprises among SME customers and Private Banking customers) consist of a large number of comparatively small exposures. As a result, much of the provisioning is initially done at an account level for each product and a portfolio impairment provision ('PIP') is raised on a portfolio basis. PIP is set using expected loss rates, based on past experience supplemented by an assessment of specific factors affecting the relevant portfolio. These include an assessment of the impact of economic conditions, regulatory changes and portfolio characteristics such as delinquency trends and early alert trends. The PIP methodology provides for accounts for which an individual impairment provision has not been raised.

For the main unsecured products and loans secured by automobiles, the entire outstanding amount is generally written off at 150 days past due. Unsecured consumer finance loans are similarly written off at 90 days past due. For secured loans (other than those secured by automobiles) individual impairment provisions ('IIP') are generally raised at either 150 days (mortgages) or 90 days (other) past due.

The provisions are based on the estimated present values of future cashflows, in particular those resulting from the realisation of security. Following such realisation any remaining loan will be written off. The days past due used to write off and trigger IIP are broadly driven by past experience, which shows that once an account reaches the relevant number of days past due, the probability or recovery (other than by realising security where appropriate) is low. For all products there are certain situations where the individual impairment provisioning or write off process is accelerated, such as in cases involving bankruptcy, fraud and death. Write off and IIP is accelerated for all restructured accounts to 90 days past due (unsecured and automobile finance) and 120 days past due (secured) respectively.

The procedures for managing problem credits for Private Banking and the medium enterprises in the SME segment of Consumer Banking are similar to those adopted in Wholesale Banking.

Non-performing loans are defined as loans past due by more than 90 days or that are otherwise individually impaired. Consumer Banking has seen significant improvements in the level of non performing loans in Taiwan and Korea due to de-risking actions taken and improvements in collections processes. These have been offset to some extent by increases in India and UAE

The cover ratio is a common metric used in considering trends in provisioning and non-performing loans. It should be noted, however, that, as explained above, a significant proportion of the PIP is intended to reflect losses inherent in the loan portfolio that is less than 90 days delinquent and hence recorded as performing. This metric needs to be considered in conjunction with other credit risk and collateral information including that contained in Note 50 to the financial statements.

Wholesale Banking

Loans are classified as impaired and considered non-performing where analysis and review indicates that full payment of either interest or principal is questionable, or as soon as payment of interest or principal is 90 days overdue. Impaired accounts are managed by our specialist recovery unit, Group Special Assets Managemant (GSAM), which is separate from our main businesses. Where any amount is considered irrecoverable, an individual impairment provision is raised. This provision is the difference between the loan carrying amount and the present value of estimated future cash flows.

The individual circumstances of each customer are taken into account when GSAM estimates future cash flow. All available sources, such as cash flow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees, are considered. In any decision relating to the raising of provisions, we attempt to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount will be written off.

In Wholesale Banking, this is set with reference to historic loss rates and subjective factors such as the economic environment and the trends in key portfolio indicators. The PIP methodology provides for accounts which are identified as delinquent but for which an individual impairment provision has not been raised.

Gross non performing loans in Wholesale Banking have increased by $1.1 billion since 2008, and this is driven by a small number of individually significant accounts, the largest of which are two closely linked customers in Saudi Arabia, included within the MESA region.

The cover ratio reflects the extent to which gross non-performing loans are covered by individual and portfolio impairment provisions. The cover ratio has increased from 61 per cent as at 31 December 2008 to 65 per cent as at 31 December 2009. It continues to be impacted by downgrades of accounts in which recovery of principal is expected and so a low level of provision has been raised, in accordance with IAS 39. The balance uncovered by individual impairment provisions represents the value of collateral held and/or our estimate of the net outcome of any workout strategy.

Standard Chartered Bank

Notes to the financial statements continued

21. Non-Performing Loans and Advances

Consumer Banking
The following tables set out the total non-performing loans for Consumer Banking:

Group

	2009								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances									
Gross non-performing	80	47	190	482	65	263	28	97	1,252
Individual impairment provision	(64)	(20)	(63)	(212)	(17)	(91)	(10)	(61)	(538)
Non-performing loans net of individual impairment provision	16	27	127	270	48	172	18	36	714
Portfolio impairment provision									(519)
Net non-performing loans and advances									195
Cover ratio									84%

[1] Other APR includes Malaysia: Gross non-performing $166 million; Individual impairment provision $(47) million; Non-performing loans and advances, net of individual impairment provision $119 million.

	2008								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances									
Gross non-performing	85	65	287	601	49	170	35	95	1,387
Individual impairment provision	(39)	(18)	(76)	(291)	(10)	(71)	(12)	(26)	(543)
Non-performing loans net of individual impairment provision	46	47	211	310	39	99	23	69	844
Portfolio impairment provision									(449)
Net non-performing loans and advances									395
Cover ratio									72%

[1] Other APR includes Malaysia: Gross non-performing $164 million; Individual impairment provision $(41) million; Non-performing loans and advances, net of individual impairment provision $123 million.

21. Non-Performing Loans and Advances continued

Company

Consumer Banking

	2009						
	Asia Pacific						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances							
Gross non-performing	47	22	64	148	7	20	308
Individual impairment provision	(20)	(3)	(17)	(61)	(4)	(21)	(126)
Non-performing loans net of individual impairment provision	27	19	47	87	3	(1)	182
Portfolio impairment provision							(213)
Net non-performing loans and advances							(31)
Cover ratio							110%

	2008						
	Asia Pacific						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances							
Gross non-performing	65	20	48	67	5	31	236
Individual impairment provision	(18)	(3)	(10)	(47)	(2)	(20)	(100)
Non-performing loans net of individual impairment provision	47	17	38	20	3	11	136
Portfolio impairment provision							(132)
Net non-performing loans and advances							4
Cover ratio							98%

21. Non-Performing Loans and Advances continued

Wholesale Banking

The following table sets out the total non-performing portfolio in Wholesale Banking:

Group

	2009								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances									
Gross non-performing	207	10	352	780	207	855	160	189	2,760
Individual impairment provision	(117)	(7)	(204)	(408)	(74)	(469)	(53)	(115)	(1,447)
Non-performing loans net of individual impairment provision	90	3	148	372	133	386	107	74	1,313
Portfolio impairment provision									(357)
Net non-performing loans and advances									956
Cover ratio									65%

[1] Other APR includes Malaysia: Gross non-performing $37 million; Individual impairment provision $(18) million; Non-performing loans and advances, net of individual impairment provision $19 million.

	2008								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances									
Gross non-performing	201	3	193	533	61	241	80	308	1,620
Individual impairment provision	(125)	(2)	(78)	(314)	(34)	(99)	(42)	(87)	(781)
Non-performing loans net of individual impairment provision	76	1	115	219	27	142	38	221	839
Portfolio impairment provision									(208)
Net non-performing loans and advances									631
Cover ratio									61%

[1] Other APR includes Malaysia: Gross non-performing $16 million; Individual impairment provision $(16) million; Non-performing loans and advances, net of individual impairment provision $nil million.

21. Non-Performing Loans and Advances continued

Company

Wholesale Banking

	2009					
	Asia Pacific					
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Americas UK & Europe $million	Total $million
Loans and advances						
Gross non-performing	10	249	207	687	187	1,340
Individual impairment provision	(7)	(144)	(74)	(254)	(115)	(594)
Non-performing loans net of individual impairment provision	3	105	133	433	72	746
Portfolio impairment provision						(226)
Net non-performing loans and advances						520
Cover ratio						61%

	2008					
	Asia Pacific					
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Americas UK & Europe $million	Total $million
Loans and advances						
Gross non-performing	3	189	61	104	288	645
Individual impairment provision	(2)	(66)	(34)	(27)	(77)	(206)
Non-performing loans net of individual impairment provision	1	123	27	77	211	439
Portfolio impairment provision						(107)
Net non-performing loans and advances						332
Cover ratio						49%

21. Non-Performing Loans and Advances continued

Individually impaired loans and advances

Group

	2009				2008			
	Consumer Banking $million	Wholesale Banking - Loans to Customers $million	Wholesale Banking - Loans to Banks $million	Total $million	Consumer Banking $million	Wholesale Banking – Loans to Customers $million	Wholesale Banking – Loans to Banks $million	Total $million
Individual impaired loans	1,030	2,474	286	3,790	1,062	1,576	35	2,673
Individual impairment provisions	(538)	(1,315)	(132)	(1,985)	(543)	(764)	(17)	(1,324)
Net impaired loans	492	1,159	154	1,805	519	812	18	1,349
Estimated fair value of collateral held	601	557	–	1,158	631	205	–	836

Company

	2009				2008			
	Consumer Banking $million	Wholesale Banking – Loans to Customers $million	Wholesale Banking – Loans to Banks $million	Total $million	Consumer Banking $million	Wholesale Banking – Loans to Customers $million	Wholesale Banking – Loans to Bank– $million	Total $million
Individual impaired loans	219	1,237	103	1,559	148	645	–	793
Individual impairment provisions	(126)	(540)	(54)	(720)	(100)	(206)	–	(306)
Net impaired loans	93	697	49	839	48	439	–	487
Estimated fair value of collateral held	119	93	–	212	99	14	–	113

Collateral held as security against impaired loans primarily relates to property and equipment. Where the fair value of collateral held exceeds the outstanding loan, any excess is paid back to the customers and is not available for offset against other loans.

Notes to the financial statements continued

22. Investment securities

Group

	2009					
	Debt securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables[1] $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	31	16,825	392			
Other public sector securities	–	1,530	18			
	31	18,355	410			
Issued by banks:						
Certificates of deposit	–	5,875	1,795			
Other debt securities	–	17,445	1,852			
	–	23,320	3,647			
Issued by corporate entities and other issuers:						
Other debt securities	–	6,758	2,600			
Total debt securities	31	48,433	6,657			
Of which:						
Listed on a recognised UK exchange	–	5,180	–	105	–	5,285
Listed elsewhere	29	17,451	1,287	289	5,241	24,297
Unlisted	2	25,802	5,370	1,255	13,717	46,146
	31	48,433	6,657	1,649	18,958	75,728
Market value of listed securities	29	22,631	1,270	394	5,241	29,565
Investment securities sold subject to sale and repurchase transactions	–	618	–	72	547	1,237

[1] Includes debt securities of $850 million which are listed or registered on a recognised UK exchange or elsewhere but the markets remain illiquid.

	2008					
	Debt securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables[1] $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	37	17,849	389			
Other public sector securities	–	1,864	–			
	37	19,713	389			
Issued by banks:						
Certificates of deposit	–	6,771	1,969			
Other debt securities	–	13,597	735			
	–	20,368	2,704			
Issued by corporate entities and other issuers:						
Other debt securities	–	3,462	4,363			
Total debt securities	37	43,543	7,456			
Of which:						
Listed on a recognised UK exchange	–	4,096	1,217	35	–	5,348
Listed elsewhere	35	15,479	2,750	586	5,711	24,561
Unlisted	2	23,968	3,489	972	11,002	39,433
	37	43,543	7,456	1,593	16,713	69,342
Market value of listed securities	35	19,575	3,903	621	5,711	29,845
Investment securities sold subject to sale and repurchase transactions	–	1,855	–	–	1,455	3,310

[1] Includes debt securities of $972 million which are listed or registered on a recognised UK exchange or elsewhere but the markets remain illiquid.

Equity shares largely comprise investments in corporates.

22. Investment securities continued

Company

	2009					
	Debt securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables[1] $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	–	8,714	392			
Other public sector securities	–	1,104	18			
	–	9,818	410			
Issued by banks:						
Certificates of deposit	–	3,640	–			
Other debt securities	–	7,377	1,602			
	–	11,017	1,602			
Issued by corporate entities and other issuers:						
Other debt securities	–	2,891	1,859			
Total debt securities	–	23,726	3,871			
Of which:						
Listed on a recognised UK exchange	–	4,197	–	9	–	4,206
Listed elsewhere	–	10,077	1,282	43	5	11,407
Unlisted	–	9,452	2,589	86	3,663	15,790
	–	23,726	3,871	138	3,668	31,403
Market value of listed securities	–	14,274	1,264	52	5	15,595
Investment securities sold subject to sale and repurchase transaction	–	557	–	–	–	557

[1] Includes debt securities of $850 million which are listed or registered on a recognised UK exchange or elsewhere but the markets remain illiquid.

	2008					
	Debt securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables[1] $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	–	10,663	389			
Other public sector securities	–	1,222	–			
	–	11,885	389			
Issued by banks:						
Certificates of deposit	–	4,215	–			
Other debt securities	–	5,332	586			
	–	9,547	586			
Issued by corporate entities and other issuers:						
Other debt securities	–	1,806	3,760			
Total debt securities	–	23,238	4,735			
Of which:						
Listed on a recognised UK exchange	–	3,251	1,217	2	–	4,470
Listed elsewhere	–	9,724	2,750	57	19	12,550
Unlisted	–	10,263	768	67	4,123	15,221
	–	23,238	4,735	126	4,142	32,241
Market value of listed securities	–	12,975	3,903	59	19	16,956
Investment securities sold subject to sale and repurchase transaction	–	1,532	–	–	288	1,820

[1] Includes debt securities of $972 million which are listed or registered on a recognised UK exchange or elsewhere but the markets remain illiquid.

Equity shares largely comprise investments in corporates.

22. Investment securities continued

The change in the carrying amount of investment securities comprised:

Group

	2009				2008			
	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	51,036	1,593	16,713	69,342	40,917	2,690	11,667	55,274
Exchange translation differences	1,635	20	539	2,194	(3,318)	(97)	(2,171)	(5,586)
Acquisitions	–	1	–	1	2,572	4	382	2,958
Additions	86,712	369	42,658	129,739	71,073	933	37,932	109,938
Reclassifications[1]	–	–	–	–	5,237	(69)	43	5,211
Disposal on sale of business	–	–	–	–	–	(9)	–	(9)
Maturities and disposals	(84,857)	(807)	(41,014)	(126,678)	(65,426)	(854)	(31,476)	(97,756)
Impairment, net of recoveries on disposals	(81)	8	–	(73)	(109)	(315)	(1)	(425)
Changes in fair value (including the effect of fair value hedging)	29	465	(53)	441	(106)	(687)	140	(653)
Amortisation of discounts and premiums	647	–	115	762	196	(3)	197	390
At 31 December	55,121	1,649	18,958	75,728	51,036	1,593	16,713	69,342

[1] In 2008, reclassifications for equity shares relates to a security held by the Group's private equity business which became eligible to be designated at fair value through profit or loss as permitted by IAS 28. The remainder of the reclassifications are in respect of securities reclassified as disclosed in note 14

In 2008, the Group took advantage of the Term Auction Facility (TAF) introduced by the Federal Reserve Bank of New York, by borrowing $2,850 million. Under the TAF, no single security was earmarked as collateral for the borrowing. The value of securities that was considered to be encumbered in relation to this borrowing was $3,197 million and the borrowing is included as a sale and repurchase transaction within customer accounts.

At 31 December 2009, unamortised premiums on debt securities held for investment purposes amounted to $669 million (2008: $271 million) and unamortised discounts amounted to $725 million (2008: $743 million).

Income from listed equity shares amounted to $12 million (2008: $20 million) and income from unlisted equity shares amounted to $97 million (2008: $183 million).

Company

	2009				2008			
	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	27,973	126	4,142	32,241	25,355	462	2,612	28,429
Exchange translation differences	661	1	97	759	(861)	(3)	(407)	(1,271)
Acquisitions	–	–	–	–	1,052	1	–	1,053
Additions	28,185	127	13,350	41,662	38,809	44	9,450	48,303
Reclassifications[1]	–	–	–	–	4,596	–	–	4,596
Maturities and disposals	(29,588)	(134)	(13,985)	(43,707)	(40,503)	(310)	(7,663)	(48,476)
Impairment, net of recoveries on disposals	(81)	(10)	–	(91)	(109)	(40)	–	(149)
Transferred to held for sale	–	–	–	–	(13)	–	–	(13)
Changes in fair value (including the effect of fair value hedging)	(39)	28	(3)	(14)	(218)	(28)	9	(237)
Amortisation of discounts and premiums	486	–	67	553	(135)	–	141	6
At 31 December	27,597	138	3,668	31,403	27,973	126	4,142	32,241

[1] In 2008, reclassifications are in respect of securities reclassified as disclosed in note 14

In 2008, the Company has taken advantage of the Term Auction Facility (TAF) introduced by the Federal Reserve Bank of New York, by borrowing $2,850 million. Under the TAF, no single security is earmarked as collateral for the borrowing. The value of securities that is considered to be encumbered in relation to this borrowing is $3,197 million and the borrowing is included as a sale and repurchase transaction within customer accounts.

At 31 December 2009, unamortised premiums on debt securities held for investment purposes amounted to $579 million (2008: $207 million) and unamortised discounts amounted to $514 million (2008: $503 million).

Income from listed equity shares amounted to $5 million (2008: $5 million) and income from unlisted equity shares amounted to $1 million (2008: $1 million).

22. Investment securities continued

The change in impairment provisions is as follows:

Group

	2009				2008			
	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	158	311	1	470	54	22	2	78
Exchange translation differences	1	1	–	2	(4)	–	(2)	(6)
Amounts written off	(49)	(68)	(1)	(118)	(1)	(26)	–	(27)
Impairment, net of recoveries on disposals [1]	81	(8)	–	73	109	315	1	425
At 31 December	191	236	–	427	158	311	1	470

[1] Impairment charge includes recoveries of impairment on disposal of equity investment of $57 million (2008: $nil million). Of the new provisions raised of $124 million (2008: $425 million), $7 million (2008: $8 million) relates to debt securities measured as loans and receivables and is included with impairment losses on loans and advances and other credit provisions, with the balance reported within 'Other Impairment'.

Company

	2009				2008			
	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	153	41	–	194	47	1	–	48
Exchange translation differences	2	(1)	–	1	(3)	–	–	(3)
Amounts written off	(49)	(65)	–	(114)	–	–	–	–
Impairment, net of recoveries on disposals [2]	81	10	–	91	109	40	–	149
At 31 December	187	(15)	–	172	153	41	–	194

[2] Impairment charge includes recoveries of impairment on disposal of equity investment of $57 million (2008: $nil million). Of the new provisions raised of $148 million (2008: $149 million), $7 million (2008: $8 million) relates to debt securities measured as loans and receivables and is included with impairment losses on loans and advances and other credit provisions, with the balance reported within 'Other Impairment'.

23. Investments in subsidiary undertakings, joint ventures and associates

Investment in subsidiary undertakings

	2009 $million	2008 $million
At 1 January	**16,790**	16,597
Additions	**1,577**	1,905
Redemption of capital	**(565)**	(1,425)
Disposals[1]	**–**	(287)
Impairment	**(446)**	–
At 31 December	**17,356**	16,790

[1] In 2008, the Company sold 34 per cent of its stake in Standard Chartered Bank (Hong Kong) Limited to Standard Chartered Holding Limited, a subsidiary of Standard Chartered PLC.

At 31 December 2009, the principal subsidiary undertakings, all directly and 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 First Bank Korea Limited, Korea	Korea	100
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	66
Standard Chartered Bank (China) Limited, China	China	100
Standard Chartered Bank (Thai) Public Company Limited, Thailand	Thailand	99.99
Standard Chartered Bank Nigeria Limited	Nigeria	100
Standard Chartered Bank Kenya Limited	Kenya	74.3
Standard Chartered Private Equity Limited, Hong Kong	Hong Kong	100

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

Joint ventures

The Group and Company have a 44.51 per cent interest through a joint venture company which holds a majority investment in PT Bank Permata Tbk (Permata), in Indonesia. The Group and Company have a 74.9 per cent interest in Standard Chartered STCI Capital Markets (STCI), STCI is a retail brokerage and its main operations are in India. Although the Group's investment in STCI is greater than 50 per cent of the share capital, the Group contractually shares control of the strategic financial and operating policies of STCI and accordingly it is accounted for a joint venture.

The Group proportionately consolidates its share of the assets, liabilities, income and expense of these joint ventures on a line by line basis. Contingent liabilities set out in note 45, include $102 million (2008: $59 million) relating to these joint venture arrangements. These mainly comprise banking guarantees and irrevocable letters of credit. There are no capital commitments related to the Group's investments in these joint ventures. Related party transactions are disclosed in note 55.

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

	2009 $million	2008 $million
Current assets	**1,094**	863
Long-term assets	**1,759**	1,467
Total assets	**2,853**	2,330
Current liabilities	**(2,183)**	(1,722)
Long-term liabilities	**(151)**	(233)
Total liabilities	**(2,334)**	(1,955)
Net assets	**519**	375
Income	**168**	159
Expenses	**(113)**	(111)
Impairment	**(20)**	(6)
Operating profit	**35**	42
Tax	**(13)**	(16)
Share of post tax result from joint venture	**22**	26

Long-term assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

23. Investments in subsidiary undertakings, joint ventures and associates continued

The Company accounts for its joint venture investments at cost

	2009 $million	2008 $million
At 1 January	**297**	297
Additions	**–**	–
At 31 December	**297**	297

Interests in associates

The Group and the Company accounts for its investments in associated at cost

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
At 1 January	**511**	269	**70**	120
Translation	**(2)**	–	**–**	–
Additions	**41**	306	**2**	(4)
Dividends	**(11)**	(13)	**–**	–
Disposals	**(6)**	–	**–**	–
Less: Transfer to subsidiary	**–**	(5)	**–**	–
Less: Impairment	**(19)**	(46)	**(19)**	(46)
At 31 December	**514**	511	**53**	70

The following amounts represent the total profit, assets and liabilities of the Group's associated undertakings.

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
Profit for the year	**163**	25	**(5)**	(8)
Total assets	**25,324**	14,589	**70**	81
Total liabilities	**(23,954)**	(13,319)	**(31)**	(33)
Net assets	**1,370**	1,270	**39**	48

The group principle associates are:

Associate	Main areas of operation	Group interest in ordinary share capital %
China Bohai Bank	China	19.9
Fleming Family & Partners	Asia	20.0
MCashback Limited	UK	30.0
Merchant Solutions Limited	Hong Kong	44.0
Asia Commercial Bank	Vietnam	15.0

The fair value of the investment in Asia Commercial Bank ("ACB") at 31 December 2009 is $236 million (2008: $211 million). The investments in ACB and China Bohai Bank are less than 20 per cent but both ACB and China Bohai Bank are considered to be associates because of the significant influence the Group is able to exercise over the management of these companies and their financial and operating policies. Significant influence is evidenced largely through the inter-change of management personnel and the provision of expertise. The reporting dates of these associates are within three months of the Group's reporting date.

24. Business Combinations

2009 acquisitions

Group

On 30 January 2009, the Group acquired 100 per cent of the share capital of Cazenove Asia Limited (subsequently renamed Standard Chartered Securities (Hong Kong) Limited), a leading Asian equity capital markets, corporate finance and institutional brokerage business.

On 30 June 2009, the Group acquired the remaining 75 per cent minority interest in First Africa, for a consideration of $13 million. Goodwill of $5 million was recognised and $5 million of customer relationship intangibles identified.

During 2009 the Group acquired a further 2 per cent interest in its subsidiary in Ghana for an additional $8 million generating goodwill of $6 million.

At 31 December 2009, under the requirements of IFRS 3 'Business Combinations', the Group was deemed to have paid contingent consideration of $41 million in respect of its 2005 acquisition of Korea First Bank (subsequently renamed SC First Bank), and consequently additional goodwill of $41 million has been recognised.

If the acquisitions had occurred on 1 January 2009 the operating income of the Group would have been approximately $15,214 million and profit before taxation would have been approximately $5,162 million.

The assets and liabilities arising from the acquisition of Cazenove Asia were as follows:

	Fair value $million	Acquiree's carrying amount $million
Loans and advances to banks	34	34
Investment securities	1	1
Intangibles other than goodwill	9	–
Property, plant and equipment	1	1
Other assets	45	45
Total assets	90	81
Other liabilities	39	39
Accruals and deferred income	7	7
Retirement benefit obligations	2	2
Total liabilities	48	48
Net assets acquired	42	33
Purchase consideration settled in cash	(73)	
Cash and cash equivalents in subsidiary acquired	31	
Cash outflow on acquisition	(42)	
Purchase consideration :		
- Cash paid	73	
Total purchase consideration	73	
Less : Fair value of net assets acquired	(42)	
Goodwill	31	
Intangible assets acquired:		
Customer relationships	9	
Total	9	
Contribution from acquisition to 31 December 2009:		
Operating income	39	
Loss before taxation	(3)	

Goodwill arising on the acquisitions is attributable to the synergies expected to arise from their integration with the Group and to those intangibles which are not recognised separately, such as the acquired workforce.

Company

On 31 May 2009, the Company acquired business from its subsidiary American Express Bank (Germany) for a consideration of $218 million and recognised goodwill of $15 million.

24. Business Combinations continued

2008 acquisitions

Group

On 25 February 2008, the Group acquired 100 per cent of the share capital of Yeahreum Mutual Savings Bank (Yeahreum), a Korean banking company. On 29 February 2008, the Group acquired 100 per cent of the share capital of American Express Bank Limited (AEB), a financial services company. The Group also entered into a put and call option agreement with American Express Company, exercisable 18 months from the acquisition of AEB, to purchase 100 per cent of American Express International Deposit Corporation at a purchase price equivalent to its net asset value at the time of exercise. On 27 December 2008, the Group acquired the 'good bank' portion of Asia Trust and Investment Corporation, a Taiwanese banking company.

If the acquisitions had occurred on 1 January 2008, the operating income of the Group would have been approximately $15,131 million and profit before taxation would have been approximately $5,578 million.

During 2008, the Group acquired the remaining 20 per cent minority of A Brain Co. Limited for a consideration of $8 million, generating additional goodwill of $5 million.

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

	AEB		Other acquisitions	
	Fair value $million	Acquiree's carrying amount $million	Fair value $million	Acquiree's carrying amount $million
Cash and balances at central banks[1]	1,041	1,041	131	131
Derivative financial instruments	511	511	–	–
Loans and advances to banks	7,142	7,143	639	667
Loans and advances to customers	4,781	4,783	233	233
Investment securities	2,864	2,883	87	88
Intangibles other than goodwill	88	4	–	–
Property, plant and equipment	27	34	30	23
Deferred tax assets	10	–	4	–
Other assets	527	544	21	23
Total assets	16,991	16,943	1,145	1,165
Derivative financial instruments	514	514	–	–
Deposits by banks	5,519	5,519	–	–
Customer accounts	8,392	8,392	1,192	1,192
Other liabilities	1,848	1,829	47	43
Provisions for liabilities and charges	55	–	–	–
Retirement benefit obligations	46	46	–	–
Subordinated liabilities and other borrowed funds	190	190	–	–
Total liabilities	16,564	16,490	1,239	1,235
Net assets acquired	427	453	(94)	(70)
Purchase consideration settled in cash	(823)		(161)	
Cash and cash equivalents in subsidiary acquired	6,700		551	
Cash inflow on acquisition	5,877		390	
Purchase consideration:				
– Cash paid	798		160	
– Direct costs relating to the acquisition	25		1	
Total purchase consideration	823		161	
Less: Fair value of net assets (liabilities) acquired (assumed)	427		(94)	
Goodwill	396		255	
Intangible assets acquired:				
Customer relationships	84		–	
Capitalised software	4		–	
Total	88		–	
Contribution from acquisition to 31 December 2008:				
Operating income	552		1	
Loss before taxation	(124)		(9)	

[1] Cash and balances at central banks include amounts subject to regulatory restrictions.

Goodwill arising on the acquisition of AEB is attributable to the significant synergies expected to arise from their development within the Group and to those intangibles which are not recognised separately, such as the distribution network and acquired workforce. Goodwill arising on other acquisitions is attributable to those intangibles which are not recognised separately, such as the distribution network.

25. Goodwill and intangible assets

Group

	2009				2008			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	5,467	866	595	6,928	5,785	853	533	7,171
Exchange translation differences	188	14	21	223	(752)	(75)	(24)	(851)
Acquisitions	83	14	–	97	712	88	–	800
Additions	–	–	173	173	–	–	163	163
Disposals	–	(144)	(2)	(146)	(278)	–	(4)	(282)
Amounts written off	–	–	(136)	(136)	–	–	(73)	(73)
At 31 December	5,738	750	651	7,139	5,467	866	595	6,928
Provision for amortisation								
At 1 January	–	309	265	574	–	225	261	486
Exchange translation differences	–	12	9	21	–	(37)	(17)	(54)
Amortisation for the period	–	87	139	226	–	121	94	215
Amounts written off	–	–	(133)	(133)	–	–	(73)	(73)
At 31 December	–	408	280	688	–	309	265	574
Net book value	5,738	342	371	6,451	5,467	557	330	6,354

At 1 January 2008, the net book value was: goodwill, $5,785 million; acquired intangibles, $628million; and software, $272 million.

At 31 December 2009, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $89 million (2008: $69 million).

Company

	2009				2008			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	229	89	428	746	95	–	340	435
Exchange translation differences	1	2	12	15	(2)	(1)	(3)	(6)
Acquisitions	15	14	–	29	217	9	–	226
Additions	–	–	152	152	–	–	128	128
Disposals	–	–	–	–	–	–	–	–
Amounts written off	–	–	(114)	(114)	–	–	(50)	(50)
Other movements[1]	–	–	–	–	(81)	81	13	13
At 31 December	245	105	478	828	229	89	428	746
Provision for amortisation								
At 1 January	–	1	135	136	–	–	116	116
Exchange translation differences	–	1	4	5	–	–	(3)	(3)
Amortisation for the period	–	32	112	144	–	1	72	73
Amounts written off	–	–	(87)	(87)	–	–	(50)	(50)
At 31 December	–	34	164	198	–	1	135	136
Net book value	245	71	314	630	229	88	293	610

[1] In 2008, goodwill on acquisition of AEB included $81 million of acquired intangible, now reclassified and included within acquired intangibles.

At 1 January 2008, the net book value was: goodwill, $95 million; acquired intangibles, $nil million; and software, $224 million.

25. Goodwill and intangible assets continued

At 31 December 2009, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $69 million (2008: $69 million).

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
Acquired intangibles comprise:				
Core deposits	**51**	68	**–**	–
Customer relationships	**117**	146	**71**	88
Brand names	**168**	336	**–**	–
Licences	**6**	7	**–**	–
Net book value	**342**	557	**71**	88

Group

Acquired intangibles primarily comprise those recognised as part of the acquisitions of SC First Bank (SCFB), Permata, Union Bank (now amalgamated into Standard Chartered Bank (Pakistan), Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan), Pembroke, Harrison Lovegrove and AEB. 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.

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

		Goodwill	
Acquisition	Cash Generating Unit	2009 $million	2008 $million
SCFB, A Brain and Yeahreum	Korean business	**1,700**	1,534
Union Bank	Pakistan business	**312**	332
Hsinchu and Asia Trust	Taiwan business	**1,220**	1,192
Manhattan Card Business	Credit card and personal loan – Asia, India & MESA	**618**	618
Grindlays (India) and STCI	India business	**410**	387
Grindlays (MESA)	MESA business	**363**	368
Standard Chartered Bank (Thai)	Thailand business	**310**	298
Permata	Group's share of Permata (Indonesia business)	**163**	138
American Express Bank	Financial Institutions and Private Banking Business	**396**	396
Harrison Lovegrove, Pembroke, Cazenove Asia and First Africa	Corporate advisory business	**64**	23
Other		**182**	181
		5,738	5,467

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 Taiwan business (four years), Korea business (four years) and Thailand business and Permata (four years). Management forecasts projected revenue growth rates greater than long-term GDP rates but which are in line with past performance as adjusted to reflect the current economic climate, especially for 2009 and 2010. Cash flow projections are extrapolated forward for periods of up to a further 19 years using steady long-term forecast GDP growth rates and a terminal value determined based on long-term earning multiples. Where these rates are different from available market data on long-term rates, that fact is stated below. The cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the cash generating unit. Management believes that reasonable possible change in any of the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

Korea businesses

SCFB, A Brain and Yeahreum were acquired in 2005, 2007 and 2008 respectively with initial goodwill recognised of $1,891 million and a further $5 million goodwill recognised in 2008 in respect of A Brain. The businesses comprise Consumer and Wholesale Banking operations in Korea. In assessing impairment of goodwill, the Group has assumed that growth beyond 2012 will take place at a steady rate of 3.5 per cent (2008: 3.7 per cent) in line with the long-term forecast GDP growth of Korea. A pre-tax discount rate of 19.9 per cent (2008: 17.2 per cent) was used.

Pakistan business

Union Bank was acquired in September 2006 with initial goodwill recognised of $414 million. Additional goodwill of $17 million arose as a result of a share swap. Together with the Group's existing operations, the combined business comprises Consumer and Wholesale Banking operations in Pakistan. In assessing impairment of goodwill, the Group has assumed that growth will increase at a steady rate of 4.3 per cent (2008: 5.6 per cent) in line with the long-term forecast GDP growth of Pakistan. A pre-tax discount rate of 28.4 per cent (2008: 25.9 per cent) was used.

25. Goodwill and intangible assets continued

Taiwan businesses
Hsinchu and Asia Trust were acquired in 2006 and 2008 respectively with initial goodwill recognised of $1,142 million and a further $34 million of goodwill recognised in 2007 in respect of Hsinchu. Together with the Group's existing operation, the combined business comprises Consumer and Wholesale Banking operations in Taiwan. In assessing impairment of goodwill, the Group has assumed that growth beyond 2013 will increase at a steady rate of 3.4 per cent (2008: 4.1 per cent) in line with the long-term forecast GDP growth of Taiwan. A pre-tax discount rate of 16.7 per cent (2008: 22.3 per cent) was used.

Credit 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 2009, the goodwill was reduced by $278 million on part disposal of Standard Chartered (Hong Kong) Bank Limited. In assessing impairment of goodwill, the Group has assumed that growth will increase at a steady rate of 3.8 per cent (2008: 3.0 per cent) in line with the long-term forecast global GDP growth. A pre-tax discount rate of 13.9 per cent (2008: 13.7 per cent) was used.

India businesses
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 2008, the Group acquired a 74.9 per cent interest in STCI, with initial goodwill recognised of $52 million. In assessing impairment of goodwill, the Group has assumed that growth will increase at a steady rate of 7.6 per cent (2008: 6.8 per cent) in line with the long-term forecast GDP growth of India. A pre-tax discount rate of 18.5 per cent (2008: 18.6 per cent) was used.

MESA business
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 has assumed that growth will increase at a steady rate of 3.8 per cent (2008: 3.0 per cent) in line with the long term forecast GDP growth of MESA. A pre-tax discount rate of 20.9 per cent (2008: 19.6 per cent) was used.

Thailand business
75 per cent of Standard Chartered Bank (Thai) 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 has assumed that growth beyond 2013 will increase at a steady rate of 4.3 per cent (2008: 4.6 per cent) in line with the long term forecast GDP growth of Thailand. A pre-tax discount rate of 17.7 per cent (2008: 21.5 per cent) was used.

Group's share of 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, generating further goodwill of $57 million. This business comprises Consumer and Wholesale Banking operations in Indonesia. In assessing impairment of goodwill, the Group has assumed that growth beyond 2013 will increase at a steady rate of 6.4 per cent (2008: 5.9 per cent) in line with the long-term forecast GDP growth of Indonesia. A pre-tax discount rate of 27.8 per cent (2008: 24.3 per cent) was used.

Financial institution and Private Banking business
100 per cent of AEB was acquired in February 2008 with initial goodwill recognised of $396 million. The business comprises Consumer and Wholesale Banking operations in the Americas, Europe and Asia. In assessing impairment of goodwill, the Group has assumed that growth will remain at a steady 3.8 per cent (2008: 3.0 per cent), in line with long-term forecast global GDP growth. A pre-tax discount rate of 13.9 per cent (2008: 13.7 per cent) was used.

Corporate finance business
The total goodwill of $64 million generated on the acquisition of Harrison Lovegrove and Pembroke in 2007 and Cazenove Asia and First Africa in 2009 comprises, oil and gas advisory, aircraft leading, capital markets and corporate advisory and leverage finance advisory operations in Europe, Asia and Africa respectively.

In assessing impairment of goodwill, the Group has assumed that growth will remain at a steady 3.8 per cent (2008: 3.0 per cent), in line with long-term forecast global GDP growth. A pre-tax discount rate of 13.9 per cent (2008: 13.7 per cent) was used.

25. Goodwill and intangible assets continued

Company

Acquired intangibles primarily comprise those recognised as part of the acquisitions of American Express Bank. During the year, the Company acquired portions of the business of American Express Bank Limited, a wholly owned subsidiary of the Company.

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

		Goodwill	
		2009	2008
Acquisition	Cash Generating Unit	$million	$million
American Express Bank	Financial Institutions and Private Banking Business	**148**	132
Other		**97**	97
		245	229

All recoverable amounts were measured based on value in use.

The key assumptions and approach to determining value in use calculations, as set out above, 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. These are then extrapolated for periods of up to a further 19 years using steady long term growth forecast GDP growth rates and as terminal value determined based on long term earnings multiples.

Where these rates are different from available market data on long term rates, that fact is stated above. The cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the cash generating unit. Management believes that any reasonably possible change in the key assumptions on which recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

26. Property, plant and equipment

Group

	2009			2008		
	Premises $million	Equipment $million	Total $million	Premises $million	Equipment $million	Total $million
Cost or valuation						
At 1 January	2,576	1,784	4,360	2,711	822	3,533
Exchange translation differences	82	23	105	(407)	(95)	(502)
Additions	133	754	887	363	1,068	1,431
Acquisitions	–	1	1	38	19	57
Disposals and fully depreciated assets written off	(196)	(97)	(293)	(11)	(74)	(85)
Reclassification	5	(5)	–	(44)	44	–
Transfers from/(to) assets held for re-sale	47	–	47	(74)	–	(74)
At 31 December	2,647	2,460	5,107	2,576	1,784	4,360
Depreciation						
Accumulated at 1 January	327	447	774	261	380	641
Exchange translation differences	5	15	20	(32)	(64)	(96)
Charge for the year	119	193	312	98	152	250
Attributable to assets sold or written off	(28)	(74)	(102)	–	(21)	(21)
Accumulated at 31 December	423	581	1,004	327	447	774
Net book amount at 31 December	2,224	1,879	4,103	2,249	1,337	3,586

At 1 January 2008, the net book value was: premises, $2,450million; and equipment, $442million.

Equipment includes operating lease assets of $1,606million (2008: $1,029million) (see note 19).

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

	2009		2008	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Cost	45	16	45	15
Aggregate depreciation	(7)	(11)	(6)	(7)
Net book amount	38	5	39	8

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

	2009 $million	2008 $million
Minimum lease payments under finance leases falling due:		
Within one year	3	5
Later than one year and less than five years	5	7
	8	12
Future finance charges on finance leases	(1)	(2)
Present value of finance lease liabilities	7	10

26. Property, plant and equipment continued

Company

	2009			2008		
	Premises $million	Equipment $million	Total $million	Premises $million	Equipment $million	Total $million
Cost or valuation						
At 1 January	519	238	757	422	173	595
Exchange translation differences	17	9	26	(56)	(20)	(76)
Additions	61	56	117	211	66	277
Acquisitions	–	–	–	3	5	8
Disposals and fully depreciated assets written off	(9)	(36)	(45)	(18)	(29)	(47)
Reclassification	–	–	–	(43)	43	–
Transfers to assets held for re-sale	–	–	–	–	–	–
At 31 December	588	267	855	519	238	757
Depreciation						
Accumulated at 1 January	67	103	170	68	91	159
Exchange translation differences	2	5	7	(4)	(15)	(19)
Charge for the year	33	61	94	24	50	74
Attributable to assets sold or written off	(8)	(31)	(39)	(21)	(23)	(44)
Accumulated at 31 December	94	138	232	67	103	170
Net book amount at 31 December	494	129	623	452	135	587

At 1 January 2008, the net book value was; premises $354million; and equipment $82million.

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

	2009		2008	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Cost	45	8	45	8
Aggregate depreciation	(7)	(4)	(6)	(3)
Net book amount	38	4	39	5

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

	2009 $million	2008 $million
Minimum lease payments under finance leases falling due:		
Within one year	2	2
Later than one year and less than five years	4	5
	6	7
Future finance charges on finance leases	(1)	(2)
Present value of finance lease liabilities	5	5

27. Deferred tax

Group

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

	At 1 January 2009 $million	Exchange & other adjustments $million	Acquisitions/ disposals $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2009 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(29)	(7)	–	(157)	–	(193)
Impairment provisions on loans and advances	(174)	(18)	–	61	–	(131)
Tax losses carried forward	(145)	3	–	(113)	(22)	(277)
Available-for-sale assets	63	6	–	–	6	75
Premises revaluation	17	(2)	–	(14)	–	1
Cash flow hedges	(35)	14	–	–	21	–
Unrelieved foreign tax	(34)	–	–	(19)	–	(53)
Retirement benefit obligations	(89)	(12)	–	19	(37)	(119)
Share based payments	(21)	(13)	–	(80)	(35)	(149)
Other temporary differences	(37)	28	–	(48)	–	(57)
Net deferred tax assets	(484)	(1)	–	(351)	(67)	(903)

	At 1 January 2008 $million	Exchange & other adjustments $million	Acquisitions/ disposals $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2008 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(56)	(3)	3	27	–	(29)
Impairment provisions on loans and advances	(275)	12	(3)	92	–	(174)
Tax losses carried forward	(52)	9	–	(102)	–	(145)
Available-for-sale assets	79	–	(4)	(5)	(7)	63
Premises revaluation	17	–	–	–	–	17
Cash flow hedges	20	(1)	–	–	(54)	(35)
Unrelieved foreign tax	(57)	–	–	23	–	(34)
Retirement benefit obligations	(41)	(1)	–	13	(60)	(89)
Share based payments	(88)	–	–	21	46	(21)
Other temporary differences	(108)	1	(10)	80	–	(37)
Net deferred tax assets	(561)	17	(14)	149	(75)	(484)

Deferred taxation comprises assets and liabilities as follows:

	2009			2008		
	Total $million	Asset $million	Liability $million	Total $million	Asset $million	Liability $million
Deferred taxation comprises:						
Accelerated tax depreciation	(193)	(214)	21	(29)	(57)	28
Impairment provisions on loans and advances	(131)	(227)	96	(174)	(249)	75
Tax losses carried forward	(277)	(277)	–	(145)	(143)	(2)
Available-for-sale assets	75	61	14	63	32	31
Premises revaluation	1	–	1	17	15	2
Cash flow hedges	–	(3)	3	(35)	(42)	7
Unrelieved foreign tax	(53)	(53)	–	(34)	(34)	–
Retirement benefit obligations	(119)	(120)	1	(89)	(93)	4
Share based payments	(149)	(140)	(9)	(21)	(21)	–
Other temporary differences	(57)	(123)	66	(37)	(68)	31
	(903)	(1,096)	193	(484)	(660)	176

27. Deferred tax continued

Company

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

	At 1 January 2009 $million	Exchange & other adjustments $million	Acquisitions/ disposals $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2009 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(84)	(1)	–	(71)	–	(156)
Impairment provisions on loans and advances	(125)	(3)	–	15	–	(113)
Tax losses carried forward	(41)	(1)	–	(65)	(22)	(129)
Available-for-sale assets	21	(2)	–	–	(7)	12
Premises revaluation	11	–	–	(11)	–	–
Cash flow hedges	(27)	–	–	–	26	(1)
Unrelieved foreign tax	(34)	–	–	(19)	–	(53)
Retirement benefit obligations	(60)	–	–	(1)	(39)	(100)
Share based payments	(23)	1	–	(68)	(47)	(137)
Other temporary differences	9	(7)	–	(21)	–	(19)
	(353)	(13)	–	(241)	(89)	(696)

	At 1 January 2008 $million	Exchange & other adjustments $million	Acquisitions/ disposals $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2008 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(62)	–	3	(25)	–	(84)
Impairment provisions on loans and advances	(70)	10	(2)	(63)	–	(125)
Tax losses carried forward	(3)	5	–	(43)	–	(41)
Available-for-sale assets	4	1	(4)	–	20	21
Premises revaluation	11	–	–	–	–	11
Cash flow hedges	28	–	–	–	(55)	(27)
Unrelieved foreign tax	(57)	–	–	23	–	(34)
Retirement benefit obligations	(26)	–	–	3	(37)	(60)
Share based payments	(89)	–	–	19	47	(23)
Other temporary differences	16	(1)	(2)	(4)	–	9
	(248)	15	(5)	(90)	(25)	(353)

Deferred taxation comprises assets and liabilities as follows:

	2009			2008		
	Total $million	Asset $million	Liability $million	Total $million	Asset $million	Liability $million
Deferred taxation comprises:						
Accelerated tax depreciation	(156)	(172)	16	(84)	(95)	11
Impairment provisions on loans and advances	(113)	(113)	–	(125)	(125)	–
Tax losses carried forward	(129)	(129)	–	(41)	(41)	–
Available-for-sale assets	12	8	4	21	21	–
Premises revaluation	–	–	–	11	11	–
Cash flow hedges	(1)	(1)	–	(27)	(31)	4
Unrelieved foreign tax	(53)	(53)	–	(34)	(34)	–
Retirement benefit obligations	(100)	(100)	–	(60)	(60)	–
Share based payments	(137)	(137)	–	(23)	(23)	–
Other temporary differences	(19)	(19)	–	9	9	–
	(696)	(716)	20	(353)	(368)	15

27. Deferred tax continued

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
No account has been taken of the following potential deferred taxation assets/(liabilities):				
Unrelieved foreign tax	**715**	738	**715**	738
Unremitted earnings from overseas subsidiaries[1]	**(296)**	(484)	**(296)**	(484)
Foreign exchange movements on investments in branches	**(48)**	(6)	**(48)**	(6)
Tax losses	**130**	38	**116**	38
Held over gains on incorporations of overseas branches	**(494)**	(418)	**(494)**	(418)

[1] Unremitted earnings from overseas subsidiaries includes $296 million (2008:$99 million) witholding tax. No UK tax liability has been recognised on undistributed earnings because it is probabale that if such amounts are remitted in the future they would be tax free as a result of a change in the UK taxation of foreign dividends post 1 July 2009.

28. Other assets

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
Financial instruments held at amortised cost (note 14)				
Hong Kong SAR Government certificates of indebtedness (note 34)	**3,414**	3,097	**–**	–
Acceptances & Endorsement	**3,080**	2,574	**1,607**	1,718
Cash collateral	**4,557**	9,102	**4,455**	9,102
Other	**130**	–	**130**	–
	11,181	14,773	**6,192**	10,820
Non-financial assets				
Other assets	**5,932**	5,595	**3,883**	2,859
	17,113	20,368	**10,075**	13,679

The Hong Kong SAR government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued.

29. Assets and liabilities classified as held for sale

It was the intention that the Vietnam branches of the Company be transferred into another Group subsidiary company during 2009, and accordingly it was classified as a disposal group. The Vietnam branches are included within the 'Other Asia Pacific' segment and comprise both Consumer and Wholesale Banking operations. The disposal group comprised total assets and liabilities as follows:

	2009 $million	2008 $million
Cash	–	16
Financial assets held at fair value through profit or loss	–	19
Derivative financial instruments	–	–[1]
Loans to banks and customers	–	276
Investment securities	–	64
Due from subsidiary undertakings and related parties	–	–[2]
Other assets	–	12
Total assets	–	387
Deposits by banks and customers	–	384
Derivative financial instruments	–	–[1]
Debt securities in issue	–	19
Due to subsidiary undertakings and related parties	–	–[2]
Other liabilities	–	2
Total liabilities	–	405

[1] Excludes interbranch derivative assets of $nil million (2008: $1 million) and liabilities of $nil million (2008: $1 million).

[2] Excludes interbranch asset balance of $nil million (2008: $81 million) and liabilities of $nil million (2008: $24 million).

The condensed cash flow for the disposal group is as follows:

	2009 $million	2008 $million
Net cash (outflow)/inflow from operating activities	–	(36)
Net cash used in investing activities	–	29
Net (decrease)/increase in cash and cash equivalents	–	(7)

The derivative balances of the disposal group is as follows:

	2009			2008		
	Notional principal amounts $million	Assets $million	Liabilities $million	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts	–	–	–	34	–	–
Interest rate derivative contracts	–	–	–	10	–	–
Total[1]	–	–	–	44	–	–

[1] Excludes interbranch derivative notional principle amounts of $nil million (2008: $78 million).

The contingent liabilities and commitments of the disposal group is as follows:

	2009			2008		
	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						
Other contingent liabilities	–	–	–	26	13	–
	–	–	–	26	13	–
Commitments						
Documentary credits and short term trade-related transactions	–	–	–	–	–	–
	–	–	–	–	–	–

Notes to the financial statements continued

30. Deposits by banks

	Group 2009 $million	Group 2008 $million	Company 2009 $million	Company 2008 $million
Deposits by banks	38,461	31,909	21,526	18,060
Deposits by banks included within:				
Financial liabilities held at fair value through profit or loss (note 14)	482	4,077	466	4,062
	38,943	35,986	21,992	22,122

31. Customer accounts

	Group 2009 $million	Group 2008 $million	Company 2009 $million	Company 2008 $million
Customer accounts	251,244	234,008	104,952	95,403
Customer accounts included within:				
Financial liabilities held at fair value through profit or loss (note 14)	5,502	4,583	1,980	1,387
	256,746	238,591	106,932	96,790

Included in customer accounts were deposits of $1,109million (2008: $1,299million) held for the Group and $21million (2008: $15million) for the Company, as collateral for irrevocable commitments under import letters of credit.

32. Debt securities in issue

Group

	2009			2008		
	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	10,611	13,891	24,502	13,284	8,791	22,075
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 14)	865	3,122	3,987	460	3,162	3,622
	11,476	17,013	28,489	13,744	11,953	25,697

Company

	2009			2008		
	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	4,357	7,636	11,993	7,996	908	8,904
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 14)	523	2,002	2,525	–	2,071	2,071
	4,880	9,638	14,518	7,996	2,979	10,975

33. Structure of deposits

The following tables set out the structure of the Group's deposits by principal geographic areas as at 31 December 2009 and 31 December 2008:

	2009								
	Asia Pacific								
	Hong Kong	Singapore	Korea	Other Asia Pacific[1]	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Non-interest bearing current and demand accounts	6,220	6,343	81	4,393	2,779	6,571	2,274	1,911	30,572
Interest bearing current accounts and savings deposits	42,493	16,544	16,663	24,480	2,051	3,093	3,386	18,016	126,726
Time deposits	22,964	20,731	13,840	27,855	5,101	11,086	1,694	30,611	133,882
Other deposits	73	52	458	1,048	1,291	408	146	1,033	4,509
Total	71,750	43,670	31,042	57,776	11,222	21,158	7,500	51,571	295,689
Deposits by banks	2,898	1,972	8,287	6,673	620	1,353	294	16,846	38,943
Customer accounts	68,852	41,698	22,755	51,103	10,602	19,805	7,206	34,725	256,746
	71,750	43,670	31,042	57,776	11,222	21,158	7,500	51,571	295,689
Debt securities in issue	145	679	12,608	1,695	520	45	326	12,471	28,489
Total	71,895	44,349	43,650	59,471	11,742	21,203	7,826	64,042	324,178

[1] Other Asia Pacific Region (APR) includes Malaysia: Deposits by banks $710 million; customer accounts $9,365 million; debt securities in issue $386 million.

	2008								
	Asia Pacific								
	Hong Kong	Singapore	Korea	Other Asia Pacific[1]	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Non-interest bearing current and demand accounts	4,947	3,550	64	3,299	2,215	5,313	2,031	2,776	24,195
Interest bearing current accounts and savings deposits	27,131	9,340	14,094	22,030	1,634	2,888	2,632	13,343	93,092
Time deposits	31,471	20,875	13,187	32,725	5,313	9,574	1,335	30,726	145,206
Other deposits	52	92	1,079	727	677	1,320	75	8,062	12,084
Total	63,601	33,857	28,424	58,781	9,839	19,095	6,073	54,907	274,577
Deposits by banks	1,140	1,701	8,478	4,748	254	1,687	193	17,785	35,986
Customer accounts	62,461	32,156	19,946	54,033	9,585	17,408	5,880	37,122	238,591
	63,601	33,857	28,424	58,781	9,839	19,095	6,073	54,907	274,577
Debt securities in issue	530	1,291	12,656	1,848	622	29	145	8,576	25,697
Total	64,131	35,148	41,080	60,629	10,461	19,124	6,218	63,483	300,274

[1] Other Asia Pacific Region (APR) includes Malaysia: Deposits by banks $593 million; customer accounts $8,665 million; debt securities in issue $617 million.

Notes to the financial statements continued

33. Structure of deposits continued

Company

	2009						
	Asia Pacific						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Non-interest bearing current and demand accounts	6,343	1,020	2,637	5,711	–	1,218	16,929
Interest bearing current accounts and savings deposits	16,544	2,891	1,795	2,122	764	15,951	40,067
Time deposits	20,730	5,651	5,021	10,173	660	27,123	69,358
Other deposits	53	63	1,286	335	1	832	2,570
Total	43,670	9,625	10,739	18,341	1,425	45,124	128,924
Deposits by banks	1,972	1,761	612	1,159	16	16,472	21,992
Customer accounts	41,698	7,864	10,127	17,182	1,409	28,652	106,932
	43,670	9,625	10,739	18,341	1,425	45,124	128,924
Debt securities in issue	679	677	490	13	276	12,383	14,518
Total	44,349	10,302	11,229	18,354	1,701	57,507	143,442

	2008						
	Asia Pacific						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Non-interest bearing current and demand accounts	3,550	1,322	2,103	4,507	26	2,509	14,017
Interest bearing current accounts and savings deposits	9,340	4,463	1,357	2,051	487	11,429	29,127
Time deposits	20,875	5,933	5,248	8,724	356	25,028	66,164
Other deposits	92	77	673	1,297	–	7,465	9,604
Total	33,857	11,795	9,381	16,579	869	46,431	118,912
Deposits by banks	1,701	2,521	249	1,562	27	16,062	22,122
Customer accounts	32,156	9,274	9,132	15,017	842	30,369	96,790
	33,857	11,795	9,381	16,579	869	46,431	118,912
Debt securities in issue	1,255	101	574	16	114	8,915	10,975
Total	35,112	11,896	9,955	16,595	983	55,346	129,887

34. Other liabilities

	Group 2009 $million	Group 2008 $million	Company 2009 $million	Company 2008 $million
Financial liabilities held at amortised costs (note 14)				
Notes in circulation	3,414	3,097	–	–
Acceptances and endorsements	2,963	2,539	1,606	1,698
Cash collateral	2,136	3,765	2,016	3,496
	8,513	9,401	3,622	5,194
Non-financial liabilities				
Other liabilities	7,571	8,025	3,292	3,683
	16,084	17,426	6,914	8,877

Hong Kong currency notes in circulation of $3,414 million (2008: $3,097 million) which are secured by the Hong Kong SAR government certificates of indebtedness of the same amount included in other assets (note 28).

35. Provisions for liabilities and charges

	Group Provision for credit commitments $million	Group Other provisions $million	Group Total $million	Company Provision for credit commitments $million	Company Other provisions $million	Company Total $million
At 1 January 2009	23	114	137	4	11	15
Exchange translation differences	4	1	5	3	–	3
Acquisitions	–	–	–	–	–	–
Charge against profit	(2)	264	262	97	25	122
Provisions utilised	(3)	(217)	(220)	(2)	(16)	(18)
At 31 December 2009	22	162	184	102	20	122

Provision for credit commitments comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations. Other provisions include a provision of $170million (2008: $nil million) for the buy back of structured notes issued by the PEM Group in Taiwan and sold by Hsinchu International Bank ('HIB') prior its acquisition by the Group in 2006, which were fully utilised during the year following the buy-back of the affected notes.

36. Retirement benefit obligations

Retirement benefit obligations comprise:

	2009 $million	2008 $million
Defined benefit schemes obligation	498	433
Defined contribution schemes obligation	8	14
Net book amount	506	447

	2009 $million	2008 $million
At 1 January	447	322
Exchange translation differences	17	(55)
Acquisitions	2	47
Charge against profit (net of finance income)	138	172
Change in other comprehensive income	150	229
Change in nat liability	(248)	(268)
At 31 December	506	447

Retirement benefit charge comprises:

	2009 $million	2008 $million
Defined benefit schemes	30	45
Defined contribution schemes	108	127
Charge against profit (note 8)	138	172

Notes to the financial statements continued

36. Retirement benefit obligations continued

Group

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 2008 by A Zegelman, Fellow of the Faculty of Actuaries, of Towers Watson Actuaries, using the projected unit method. As part of the 31 December 2008 actuarial valuation, the Trustee reviewed the life expectancy assumptions adopted. The assumptions having the most significant effect on the outcome of this valuation were:

Return from gilts	3.85 per cent per annum
Return from return seeking assets	6.05 per cent per annum
General increase in salaries	2.80 per cent per annum
Rate of price inflation	2.80 per cent per annum
Increase in pensions:	
In deferment (where applicable)	2.80 per cent per annum
In payment[1] (pre April 1997 service)	2.60 per cent per annum
In payment (post April 1997 service)	2.00 – 2.80 per cent per annum

[1] Applies to discretionary increases and some guaranteed increases.

Applying these assumptions, at the valuation date the market value of the assets of the Fund ($1,228 million) was sufficient to cover 89.3 per cent of the benefits that had accrued to members. Additional contributions of $6 million were paid during 2009. Additional contributions of $68 million are payable over the four years to 31 December 2013.

Contributions paid to the Fund during 2009 were $21 million (2008: $18 million) and regular contributions were set at 28 per cent of pensionable salary for all members. 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 Germany, Hong Kong, India, Jersey, Korea, Taiwan and the United States.

All Schemes

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 2009.

Employer contributions to defined benefit plans over 2010 are expected to be $133 million.

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 2009 were:

	Funded defined benefit schemes			
	UK Fund[2]		Overseas Schemes[3]	
	2009 %	2008 %	2009 %	2008 %
Price inflation	**3.50**	2.90	**1.50 – 4.50**	1.50 – 4.50
Salary increases	**3.50**	4.40	**3.50 – 5.00**	3.50 – 6.00
Pension increases	**3.30**	2.90	**0.00 – 3.30**	0.00 – 2.90
Discount rate	**5.70**	6.40	**1.50 – 7.50**	1.20 – 7.50
Post-retirement medical trend rate	**N/A**	N/A	**N/A**	N/A

[2] The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 26 years (2008: 27 years) and a female member 29 years (2008: 30 years) and a male member currently aged 40 will live for 29 years (2008: 28 years) and a female member 31 years (2008: 31 years) after their 60th birthday.

[3] The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the United States. These comprise over 87 per cent of the total liabilities of funded overseas schemes.

36. Retirement benefit obligations continued

	Unfunded schemes			
	Post-retirement medical[1]		Other[2]	
	2009 %	2008 %	2009 %	2008 %
Price inflation	**3.10**	2.70	**1.50 – 7.50**	1.50 – 9.50
Salary increases	**3.10**	4.00	**3.50 – 9.00**	3.50 – 11.00
Pension increases	**N/A**	N/A	**0.00 – 3.30**	0.00 – 2.90
Discount rate	**5.75**	5.50	**1.50 – 10.00**	2.00 – 13.00
Post-retirement medical rate	**10% in 2009 reducing by 1% per annum to 5% in 2014**	8% in 2008 reducing by 1% per annum to 5% in 2011	**N/A**	N/A

[1] The Post-retirement medical plan is in the United States.

[2] The range of assumptions shown is for the main Unfunded Schemes in Austria, India, Indonesia, Taiwan, UAE, UK and the United States.

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2009 were:

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2009	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	**8.00**	**347**	**8.00 – 9.00**	**225**	**N/A**	**N/A**	**N/A**	**N/A**
Bonds	**3.85**	**872**	**2.75 – 7.50**	**184**	**N/A**	**N/A**	**N/A**	**N/A**
Property	**N/A**	**0**	**7.00**	**1**	**N/A**	**N/A**	**N/A**	**N/A**
Others	**8.00**	**259**	**0.50 – 7.50**	**121**	**N/A**	**N/A**	**N/A**	**N/A**
Total market value of assets		**1,478**		**531**		**N/A**		**N/A**
Present value of the schemes' liabilities		**(1,704)**		**(649)**		**(20)**		**(134)**
Net pension liability		**(226)**		**(118)**		**(20)**		**(134)**

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2008	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	8.00	269	8.00 – 8.75	158	N/A	N/A	N/A	N/A
Bonds	3.75	787	5.25 – 5.75	166	N/A	N/A	N/A	N/A
Property	N/A	–	N/A	1	N/A	N/A	N/A	N/A
Others	8.00	176	1.20 – 5.30	164	N/A	N/A	N/A	N/A
Total market value of assets		1,232		489		N/A		N/A
Present value of the schemes' liabilities		(1,296)		(693)		(12)		(153)
Net pension liability		(64)		(204)		(12)		(153)

	Funded defined benefit schemes		Unfunded schemes	
	UK Fund	Overseas schemes	Post-retirement medical	Other
At 31 December 2007	Value $million	Value $million	Value $million	Value $million
Total market value of assets	1,913	575	N/A	N/A
Present value of the schemes' liabilities	(1,931)	(602)	(11)	(257)
Net pension liability	(18)	(27)	(11)	(257)
At 31 December 2006				
Total market value of assets	1,822	517	N/A	N/A
Present value of the schemes' liabilities	(1,982)	(542)	(9)	(347)
Net pension liability	(160)	(25)	(9)	(347)
At 31 December 2005				
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).

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.

36. Retirement benefit obligations continued

Group continued

The pension cost for defined benefit schemes was:

	Funded defined benefit schemes		Unfunded schemes		
Year ending 31 December 2009	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	9	61	1	15	86
Past service cost/(benefit)	3	–	–	(57)	(54)
Gain on settlements and curtailments	–	(5)	–	(6)	(11)
Expected return on pension scheme assets	(83)	(29)	–	–	(112)
Interest on pension scheme liabilities	87	26	1	7	121
Total charge/(credit) to profit before deduction of tax	16	53	2	(41)	30
Gain on assets against expected return[1]	(76)	(38)	–	–	(114)
Experience loss/(gain) on liabilities	236	(4)	7	25	264
Total loss/(gain) recognised directly in statement of comprehensive income before tax	160	(42)	7	25	150
Deferred taxation	(41)	4	–	–	(37)
Total loss/(gain) after tax	119	(38)	7	25	113

[1] The actual return on the UK fund assets was $159 million and on overseas scheme assets was $67 million.

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of $194 million (2008: loss of $43 million).

	Funded defined benefit schemes		Unfunded schemes		
Year ending 31 December 2008	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	12	58	–	18	88
Past service cost	3	1	–	1	5
Loss/(gain) on settlements and curtailments	1	–	–	(55)	(54)
Expected return on pension scheme assets	(104)	(36)	–	–	(140)
Interest on pension scheme liabilities	103	30	1	12	146
Total charge/(credit) to profit before deduction of tax	15	53	1	(24)	45
Loss on assets in excess of expected return[2]	203	130	–	–	333
Experience (gain)/loss on liabilities	(143)	35	–	4	(104)
Total loss recognised directly in statement of comprehensive income before tax	60	165	–	4	229
Deferred taxation	(16)	(44)	–	–	(60)
Total loss after tax	44	121	–	4	169

[2] The actual return on the UK fund assets was $99 million and on overseas scheme assets was $94 million.

Notes to the financial statements continued

36. Retirement benefit obligations continued

Group continued

	Funded defined benefit schemes		Unfunded schemes		
Year ending 31 December 2007	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Gain on assets in excess of expected return[3]	(28)	(2)	–	–	(30)
Experience (gain)/loss on liabilities	(113)	12	2	(108)	(207)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(141)	10	2	(108)	(237)
Deferred taxation	44	–	–	27	71
Total (gain)/loss after tax	(97)	10	2	(81)	(166)
Year ending 31 December 2006					
Gain on assets in excess of expected return[4]	(23)	(27)	–	–	(50)
Experience (gain)/loss on liabilities	(90)	20	(2)	18	(54)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(113)	(7)	(2)	18	(104)
Deferred taxation	34	3	–	1	38
Total (gain)/loss after tax	(79)	(4)	(2)	19	(66)
Year ending 31 December 2005					
Gain on assets in excess of expected return[5]	(91)	(20)	–	–	(111)
Experience loss on liabilities	256	5	–	–	261
Total loss/(gain) recognised directly in statement of comprehensive income before tax	165	(15)	–	–	150
Deferred taxation	(50)	5	–	–	(45)
Total loss/(gain) after tax	115	(10)	–	–	105

[3] The actual return on the UK fund assets was $128 million and on overseas scheme assets was $34 million.

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

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

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

	Funded defined benefit schemes		Unfunded schemes		
Year ending 31 December 2009	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Deficit at 1 January 2009	(64)	(204)	(12)	(153)	(433)
Contributions	21	103	1	9	134
Current service cost	(9)	(61)	(1)	(15)	(86)
Past service (benefit)/cost	(3)	–	–	57	54
Settlement/curtailment costs	–	5	–	6	11
Other finance (charge)/income	(4)	2	(1)	(6)	(9)
Actuarial loss	(160)	42	(7)	(25)	(150)
Acquisitions	–	(2)	–	–	(2)
Exchange rate adjustment	(7)	(3)	–	(7)	(17)
Deficit at 31 December 2009	(226)	(118)	(20)	(134)	(498)

Notes to the financial statements continued

36. Retirement benefit obligations continued

Group continued

Year ending 31 December 2008	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
Deficit at 1 January 2008	(18)	(27)	(11)	(257)	(313)
Contributions	23	72	–	54	149
Current service cost	(12)	(58)	–	(18)	(88)
Past service cost	(3)	(1)	–	(1)	(5)
Settlement/curtailment costs	(1)	–	–	55	54
Other finance income/(charge)	1	6	(1)	(12)	(6)
Actuarial loss	(60)	(165)	–	(4)	(229)
Acquisitions	–	(43)	–	(4)	(47)
Exchange rate adjustment	6	12	–	34	52
Deficit at 31 December 2008	(64)	(204)	(12)	(153)	(433)

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

Year ending 31 December 2009	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2009	**1,721**	**(2,154)**	**(433)**
Contributions	**134**	**–**	**134**
Current service cost	**–**	**(86)**	**(86)**
Past service cost	**–**	**54**	**54**
Settlement/curtailment costs	**–**	**11**	**11**
Interest cost	**–**	**(121)**	**(121)**
Expected return on scheme assets	**112**	**–**	**112**
Benefits paid out	**(227)**	**227**	**–**
Actuarial gain/(loss)	**114**	**(264)**	**(150)**
Acquisitions	**7**	**(9)**	**(2)**
Exchange rate adjustment	**148**	**(165)**	**(17)**
Deficit at 31 December 2009	**2,009**	**(2,507)**	**(498)**

Year ending 31 December 2008	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2008	2,488	(2,801)	(313)
Contributions	149	–	149
Current service cost	–	(88)	(88)
Past service cost	–	(5)	(5)
Settlement/curtailment costs	–	54	54
Interest cost	–	(146)	(146)
Expected return on scheme assets	140	–	140
Benefits paid out	(185)	185	–
Actuarial (loss)/gain	(333)	104	(229)
Acquisitions	22	(69)	(47)
Exchange rate adjustment	(560)	612	52
Deficit at 31 December 2008	1,721	(2,154)	(433)

Notes to the financial statements continued

36. Retirement benefit obligations continued

Company

Retirement benefit obligations comprise:

	2009 $million	2008 $million
Defined benefit schemes obligation	392	179
Defined contribution schemes obligation	1	3
Net book amount	393	182

	2009 $million	2008 $million
At 1 January	182	106
Exchange translation differences	12	(20)
Charge against profit (net of finance income)	96	104
Change in other comprehensive income	166	96
Change in net liability	(63)	(104)
At 31 December	393	182

Retirement benefit charge comprises:

	2009 $million	2008 $million
Defined benefit schemes	50	39
Defined contribution schemes	46	65
Charge against profit	96	104

The 2009 charge is presented net and includes a finance charge of $13 million (2008: $3 million).

36. Retirement benefit obligations continued

Company 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 2008 by A Zegelman, Fellow of the Faculty of Actuaries, of Towers Watson Actuaries, using the projected unit method. As part of the 31 December 2008 actuarial valuation, the Trustee reviewed the life expectancy assumptions adopted. The assumptions having the most significant effect on the outcome of this valuation were:

Return from gilts	3.85 per cent per annum
Return from return seeking assets	6.05 per cent per annum
General increase in salaries	2.80 per cent per annum
Rate of price inflation	2.80 per cent per annum
Increase in pensions:	
In deferment (where applicable)	2.80 per cent per annum
In payment[1] (pre April 1997 service)	2.60 per cent per annum
In payment (post April 1997 service)	2.00 – 2.80 per cent per annum

[1] Applies to discretionary increases and some guaranteed increases.

Applying these assumptions, at the valuation date the market value of the assets of the Fund ($1,228 million) was sufficient to cover 89.3 per cent of the benefits that had accrued to members. Additional contributions of $6 million were paid during 2009. Additional contributions of $68 million are payable over the four years to 31 December 2013.

Contributions paid to the Fund during 2009 were $21 million (2008: $18 million) and regular contributions were set at 28 per cent of pensionable salary for all members. 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 Germany, Hong Kong, India, Jersey, Korea, Taiwan and the United States.

All Schemes
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 2009.

Employer contributions to defined benefit plans over 2010 are expected to be $133 million.

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 2009 were:

	Funded defined benefit schemes			
	UK Fund[2]		Overseas Schemes[3]	
	2009 %	2008 %	2009 %	2008 %
Price inflation	**3.50**	2.90	**2.00 – 4.50**	2.70 – 4.50
Salary increases	**3.50**	4.40	**3.50 – 5.00**	4.00 – 5.00
Pension increases	**3.30**	2.90	**0.00 – 3.30**	–
Discount rate	**5.70**	6.40	**5.30 – 7.50**	5.30 – 5.50
Post-retirement medical trend rate	**N/A**	N/A	**N/A**	N/A

[2] The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 28 years (2008: 27 years) and a female member 29 years (2008: 30 years) and a male member currently aged 40 will live for 29 years (2008: 28 years) and a female member 31 years (2008: 31 years) after their 60th birthday.

[3] The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, India, Jersey and the United States. These comprise over 87 per cent of the total liabilities of funded overseas schemes.

36. Retirement benefit obligations continued

Company continued

	Unfunded schemes			
	Post-retirement medical[1]		Other[2]	
	2009 %	2008 %	2009 %	2008 %
Price inflation	3.10	2.70	2.00 – 7.50	2.70 – 4.50
Salary increases	3.10	4.00	3.50 – 9.00	4.00 – 5.00
Pension increases	N/A	N/A	0.00 – 3.30	–
Discount rate	5.75	5.50	5.30 – 10.00	5.30 – 5.50
Post-retirement medical rate[1]	10% in 2009 reducing by 1% per annum to 5% in 2014	8% in 2008 reducing by 1% per annum to 5% in 2011	N/A	N/A

[1] The Post-retirement Medical plan is in the United States.

[2] The range of assumptions shown is for the main Unfunded Schemes in Austria, India, Indonesia, UAE, UK and the United States.

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2009 were:

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2009	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	8.00	347	8.00 – 9.00	53	N/A	N/A	N/A	N/A
Bonds	3.85	872	2.75 – 7.50	48	N/A	N/A	N/A	N/A
Property	N/A	0	7.00	1	N/A	N/A	N/A	N/A
Others	8.00	259	0.50 – 7.50	17	N/A	N/A	N/A	N/A
Total market value of assets		1,478		119		N/A		N/A
Present value of the schemes' liabilities		(1,704)		(174)		(20)		(91)
Net pension liability		(226)		(55)		(20)		(91)

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2008	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	8.00	269	8.50	37	N/A	N/A	N/A	N/A
Bonds	3.75	787	6.25 – 8.00	42	N/A	N/A	N/A	N/A
Property	N/A	–	N/A	–	N/A	N/A	N/A	N/A
Others	8.00	176	5.00 – 8.00	21	N/A	N/A	N/A	N/A
Total market value of assets		1,232		100		N/A		N/A
Present value of the schemes' liabilities		(1,296)		(140)		(12)		(63)
Net pension liability		(64)		(40)		(12)		(63)

	Funded defined benefit schemes		Unfunded schemes	
	UK Fund	Overseas schemes	Post-retirement medical	Other
At 31 December 2007	Value $million	Value $million	Value $million	Value $million
Total market value of assets	1,913	575	N/A	N/A
Present value of the schemes' liabilities	(1,931)	(602)	(11)	(257)
Net pension liability	(18)	(27)	(11)	(257)
At 31 December 2006				
Total market value of assets	1,822	517	N/A	N/A
Present value of the schemes' liabilities	(1,982)	(542)	(9)	(347)
Net pension liability	(160)	(25)	(9)	(347)
At 31 December 2005				
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)

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.

Notes to the financial statements continued

36. Retirement benefit obligations continued

Company continued

The pension cost for defined benefit schemes was:

Year ending 31 December 2009	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	9	13	–	11	33
Past service cost	3	–	–	–	3
(Gain)/loss on settlements and curtailments	–	–	–	–	–
Expected return on pension scheme assets	(83)	(6)	–	–	(89)
Interest on pension scheme liabilities	87	9	1	6	103
Total charge to profit before deduction of tax	16	16	1	17	50
Gain on assets against expected return[1]	(76)	(9)	–	–	(85)
Experience loss/(gain) on liabilities	237	(7)	–	21	251
Total loss/(gain) recognised directly in statement of comprehensive income before tax	161	(16)	–	21	166
Deferred taxation	(41)	2	–	–	(39)
Total loss/(gain) after tax	120	(14)	–	21	127

[1] The actual return on the UK fund assets was $159 million and on overseas scheme assets was $15 million.

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of $185 million (2008: loss of $19 million).

Year ending 31 December 2008	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	12	11	–	9	32
Past service cost	3	–	–	–	3
Loss on settlements and curtailments	1	–	–	–	1
Expected return on pension scheme assets	(104)	(9)	–	–	(113)
Interest on pension scheme liabilities	103	8	1	4	116
Total charge to profit before deduction of tax	15	10	1	13	39
Loss on assets in excess of expected return[2]	203	33	–	–	236
Experience (gain)/loss on liabilities	(143)	12	–	(9)	(140)
Total loss/(gain) recognised directly in statement of comprehensive income before tax	60	45	–	(9)	96
Deferred taxation	(16)	(12)	–	–	(28)
Total loss/(gain) after tax	44	33	–	(9)	68

[2] The actual return on the UK fund assets was $99 million and on overseas scheme assets was $24 million.

Notes to the financial statements continued

36. Retirement benefit obligations continued

Company continued

	Funded defined benefit schemes		Unfunded schemes		
Year ending 31 December 2007	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Gain on assets in excess of expected return[1]	(28)	(2)	–	–	(30)
Experience (gain)/loss on liabilities	(113)	–	2	5	(106)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(141)	(2)	2	5	(136)
Deferred taxation	44	–	–	1	45
Total(gain)/loss after tax	(97)	(2)	2	6	(91)
Year ending 31 December 2006					
Gain on assets in excess of expected return[2]	(23)	(8)	–	–	(31)
Experience gain on liabilities	(90)	–	(2)	(3)	(95)
Total gain recognised directly in statement of comprehensive income before tax	(113)	(8)	(2)	(3)	(126)
Deferred taxation	34	6	–	1	41
Total gain after tax	(79)	(2)	(2)	(2)	(85)
Year ending 31 December 2005					
Gain on assets in excess of expected return[3]	(91)	–	–	–	(91)
Experience loss on liabilities	256	10	–	7	273
Total loss recognised directly in statement of comprehensive income before tax	165	10	–	7	182
Deferred taxation	(50)	(3)	–	(2)	(55)
Total loss after tax	115	7	–	5	127

[1] The actual return on the UK fund assets was $128 million and on overseas scheme assets was $34 million.

[2] The actual return on the UK fund assets was $116 million and on overseas scheme assets was $15 million.

[3] The actual return on the UK fund assets was $184 million and on overseas scheme assets was $6 million.

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

	Funded defined benefit schemes		Unfunded schemes		
Year ending 31 December 2009	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Deficit at 1 January 2009	(64)	(40)	(12)	(63)	(179)
Contributions	21	18	1	6	46
Current service cost	(9)	(13)	–	(11)	(33)
Past service cost	(3)	–	–	–	(3)
Settlement/curtailment costs	–	–	–	–	–
Other finance charge	(4)	(3)	(1)	(6)	(14)
Actuarial (loss)/gain	(160)	15	(8)	(13)	(166)
Acquisitions	–	(31)	–	–	(31)
Exchange rate adjustment	(7)	(1)	–	(4)	(12)
Deficit at 31 December 2009	(226)	(55)	(20)	(91)	(392)

Notes to the financial statements continued

36. Retirement benefit obligations continued

Company continued

Year ending 31 December 2008	Funded defined benefit schemes UK Fund $million	Overseas schemes $million	Unfunded schemes Post-retirement medical $million	Other $million	Total $million
Deficit at 1 January 2008	(18)	(2)	(11)	(72)	(103)
Contributions	23	16	–	–	39
Current service cost	(12)	(11)	–	(9)	(32)
Past service cost	(3)	–	–	–	(3)
Settlement/curtailment costs	(1)	–	–	–	(1)
Other finance income/(charge)	1	1	(1)	(4)	(3)
Actuarial (loss)/gain	(60)	(45)	–	9	(96)
Exchange rate adjustment	6	1	–	13	20
Deficit at 31 December 2008	(64)	(40)	(12)	(63)	(179)

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

Year ending 31 December 2009	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2009	**1,336**	**(1,515)**	**(179)**
Contributions	**46**	**–**	**46**
Current service cost	**–**	**(33)**	**(33)**
Past service cost	**–**	**(3)**	**(3)**
Settlement/curtailment costs	**–**	**–**	**–**
Interest cost	**–**	**(103)**	**(103)**
Expected return on scheme assets	**89**	**–**	**89**
Benefits paid out	**(93)**	**93**	**–**
Actuarial gain/(loss)	**85**	**(251)**	**(166)**
Acquisitions	**(7)**	**(24)**	**(31)**
Exchange rate adjustment	**141**	**(153)**	**(12)**
Deficit at 31 December 2009	**1,597**	**(1,989)**	**(392)**

Year ending 31 December 2008	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2008	2,025	(2,128)	(103)
Contributions	39	–	39
Current service cost	–	(32)	(32)
Past service cost	–	(3)	(3)
Settlement/curtailment costs	–	(1)	(1)
Interest cost	–	(116)	(116)
Expected return on scheme assets	113	–	113
Benefits paid out	(94)	94	–
Actuarial (loss)/gain	(236)	140	(96)
Exchange rate adjustment	(521)	541	20
Deficit at 31 December 2008	1,326	(1,505)	(179)

37. Subordinated liabilities and other borrowed funds

Subordinated loan capital – issued by subsidiary undertakings	2009 $million	2008 $million
$350 million 4.375 per cent Subordinated Notes 2014 (Floating rate from 2009)	–	358
$300 million Floating Rate Subordinated Note 2017 (Callable 2012)	298	297
$22 million 9.75 per cent fixed to floating rate note 2021 (Callable 2016)	22	–
BWP 75 million Floating Rate Subordinated Notes 2017 (Callable 2012)	11	10
BWP 50 million Floating Rate Subordinated Notes 2015 (Callable 2010)	8	7
HKD 670 million Floating Rate Notes 2014	–	77
HKD 500 million 3.5 per cent Notes 2014 (Floating rate from 2009)	–	66
IDR 500 billion Floating Rate Notes 2016	22	20
KRW 300 billion 7.05 per cent Subordinated debt 2019	259	–
KRW 260 billion 6.08 per cent Subordinated debt 2018	227	219
KRW 205 6.01 per cent billion Subordinated debt 2009	–	158
KRW 90 billion 6.05 per cent Subordinated debt 2010	78	81
KRW 30 billion Floating Rate Subordinated debt 2011	26	24
KRW 3 billion 6.11 per cent Subordinated debt 2011	2	2
MYR 500 million 4.28 per cent Subordinated Bonds 2017 (Callable 2012)	149	150
PKR 1 billion Floating Rate Notes 2013	12	13
PKR 750 million Floating Rate Notes 2011	6	9
TWD 10 billion undated Floating Rate Notes	312	305
TWD 10 billion 2.9 per cent Subordinated debt 2019 (Callable 2014)	310	–
TZS 8 billion Floating Rate Subordinated Notes 2015	6	6
	1,748	1,802
Subordinated loan capital – issued by Company:		
£675 million 5.375 per cent undated Step Up Subordinated Notes (Callable and floating rate from 2020)	658	1,064
£600 million 8.103 per cent Step Up Callable Perpetual Preferred Securities (Callable and floating rate from 2016)	1,164	1,085
£700 million 7.75 per cent Subordinated Notes 2018	1,201	1,090
£300 million 6.0 per cent Subordinated Notes 2018 (Callable and floating rate from 2013)	530	486
£300 million 6.75 per cent Subordinated Notes 2009	–	390
£200 million 7.75 per cent undated Step Up Suboridnated Notes (Callable and floating rate from 2022)	390	360
£30 million Floating Rate Subordinated Notes 2009	–	44
€1,100 million 5.875 per cent Subordinated Notes 2017	1,701	1,609
€750 million 3.625 per cent Subordinated Notes 2017 (Callable and floating rate from 2012)	1,113	1,066
€675 million Floating Rate Subordinated Notes 2018 (Callable 2013)	972	951
€600 million 5.375 per cent Subordinated Notes 2009	–	755
€500 million 8.16 per cent non-cumulative Trust Preferred Securities (Callable 2010)	723	711
$1.8 billion Floating Rate Undated Subordinated Notes (Callable 2014)	1,800	–
$1.5 billion 9.5 per cent Step Up Perpetual Preferred Securities (Callable 2014)	1,509	–
$1 billion 6.4 per cent Subordinated Notes 2017	1,101	1,203
$700 million 8.0 per cent Subordinated Notes 2031	574	1,022
$500 million Floating Rate Subordinated Notes 2016 (Callable 2011)	499	499
$500 million Floating Rate Subordinated Notes 2015 (Callable 2010)	499	499
$100 million Floating Rate Subordinated Notes 2018 (Callable 2013)	100	100
JPY 10 billion 3.35 per cent Subordinated Notes 2023 (Callable 2018)	116	116
SGD 450 million 5.25 per cent Subordinated Notes 2023	325	334
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)	201	200
£150 million	242	217
$925 million 8.15 per cent non-cumulative redeemable preference shares (callable 2013)	974	1,006
Total for Company	17,492	15,907
Total for Group	19,240	17,709

Notes to the financial statements continued

37. 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 the total subordinated liabilities and other borrowings, $11,564 million is at fixed interest rates (2008: $11,865 million).

On 21 April 2009, Standard Chartered First Bank Korea Limited (SCFB) issued KRW300 billion Lower Tier 2 Notes with a coupon of 7.05 per cent maturing due 2019, callable 2014.

During 2009, Standard Chartered Bank (SCB) repurchased a total of $193 million of its 8 per cent subordinated notes due May 2031.

On 27 April 2009, £281 million fixed to floating step up subordinated notes callable 14 July 2020 issued by SCB were exchanged for £198 million senior notes due 2014 issued by Standard Chartered PLC.

On 15 June 2009, SCB issued $1.5 billion 9.5 per cent Step up Perpetual Preferred Securities, callable 2014.

On 17 June 2009, PT Bank Permata Tbk issued $100 million subordinated notes with a coupon of 9.75 per cent maturing June 2021, callable June 2016. The Group subscribed for $50 million of these notes. As PT Bank Permata TBk is a joint venture of the Group, on a proportionately consolidated basis, $22 million is treated as a liability for the Group.

On 28 October 2009, Standard Chartered Bank (Taiwan) Limited issued TWD10 billion subordinated notes with a fixed coupon rate of 2.9 per cent for the first five years, 3.4 per cent for the remaining 5 years, maturing 2019, callable 2014.

On 4 December 2009, Standard Chartered Bank (Hong Kong) Limited exercised the call option on its $350 million 4.375 percent subordinated notes due December 2014; HKD 500 million 3.5 per cent subordinated notes due December 2014 and HKD 670 million floating rate notes due December 2014.

During 2009, £30 million floating rate notes, €600 million 5.375 per cent notes, £300 million 6.75 per cent notes and KRW205 billion subordinated debt matured.

On 30 December 2009, SCB announced the intention to redeem in full the €500 million 8.16 per cent non-cumulative trust preferred securities on the first call date of 23 March 2010.

On 4 February 2010, SCB exercised its right to redeem its $500 million subordinated floating rate notes in full on the first optional redemption date.

38. Share capital, reserves and own shares

Share capital

The authorised share capital of the Company at 31 December 2009 was $15,005 million (2008: $10,005 million) made up of 15 million ordinary shares of $1 each, 1 million non-cumulative preference shares of $5 each.

Group and Company

	Number of ordinary shares (millions)	Ordinary share capital $million	Preference share capital $million	Total $million
At 1 January 2008	8,746	8,746	–	8,746
At 31 December 2008	8,746	8,746	–	8,746
Shares issued	2,500	2,500	–	2,500
At 31 December 2009	11,246	11,246	–	11,246

Reserves

Group

The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001.

The capital redemption reserve represents the nominal value of preference shares redeemed.

The merger reserve represents the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the Companies Act 2006. Shares were issued using this structure in 2005 and 2006 to assist in the funding of certain acquisitions, in 2008 for the shares issued by way of a rights issue and for the shares issued in 2009 in the placing. The funding raised by the 2008 rights issue and 2009 share issue was retained within the Company.

Available-for-sale reserve represents the unrealised fair value gains and losses in respect of financial assets classified as available-for-sale, net of taxation. Gains and losses are deferred in this reserve until such time as the underlying asset is sold, matures or becomes impaired.

Cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria of a cash flow hedge. Gains and losses are deferred in this reserve until such time as the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur.

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 comprehensive income 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.

39. Minority interests

	$300m 7.267% Hybrid Tier 1 Securities $million	Other minority interests $million	Total $million
At 1 January 2008	330	271	601
Arising on acquisitions	–	–	–
Expenses in equity attributable to minority interests	–	(121)	(121)
Other profits attributable to minority interests	19	221	240
Recognised income and expense	19	100	119
Distributions	(22)	(125)	(147)
Other increases[1]	–	1,448	1,448
At 31 December 2008	327	1,694	2,021
Income in equity attributable to minority interests	–	19	19
Other profits attributable to minority interests	19	310	329
Recognised income and expense	19	329	348
Distributions	(22)	(65)	(87)
Other increases	–	1	1
At 31 December 2009	324	1,959	2,283

[1] Other increases mainly relate to the consolidation of a private equity investment.

40. Share based payments

Standard Chartered PLC operates a number of share based payment schemes for its directors and employees in which the Group and Company participate.

The total charge for the year relating to employee share based payment plans was $375 million (2008: $121 million) of which $275 million (2008: $152 million) relates to equity-settled awards, and $100 million (2008: $31 million credit) relates to cash-settled awards. After deferred tax, the total charge to the income statement was $340 million (2008: $89 million). The scheme lives referred to below relate to the remaining period in which options may be granted under the schemes.

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. Awards made under this scheme are not subject to the valuation criteria of IFRS 2, as all awards were granted prior to 7 November 2002, and were all vested as at that date. 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. There are no outstanding options in this scheme.

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. The remaining life of the scheme is one year after which options will not be granted under this scheme.

2001 Performance Share Plan
The PSP is an intrinsic element of total remuneration for our executive directors and executive population. Its significance as a percentage of these individuals' total potential remuneration is one of the strongest indicators of our commitment to paying for sustainable performance. A performance test is applied both at the time of award and upon vesting.

Given that PSP is currently under review, awards to the majority of senior executives for 2009 will be made by way of the Restricted Shares Schemes at the equivalent expected value.

Performance conditions

Half the award is dependent upon our total shareholder return performance compared to that of a group of peers at the end of a three-year period. The other half is subject to a target for earnings per share growth applied over the same three-year period.

The Committee reviewed the performance conditions this year and concluded that, in aggregate, the combination of these measures and targets was appropriate and provided a balance between driving stretching performance and having an effective retention and motivation tool. The rationale for the selection of total shareholder return and earnings per share performance conditions is set out below:

TSR	Relative total shareholder return, which measures the growth in share price plus dividends paid to shareholders, is recognised as one of the best indicators as to whether they have achieved a good return investing in a specific company relative to a basket of similar companies or a single index
EPS	Earnings per share provide an appropriate measure of a company's underlying financial performance

A review of our performance conditions is currently being undertaken and the Committee is considering proposing to the shareholders that a measure relating to economic profit is included in the design of our PSP.

TSR element

The constituents of our comparison peer group for awards made in 2006, 2007 and 2008 are set out below:

For awards made prior to 2009

ABN AMRO [1,2]	ICICI [2]
Bank of America	JP Morgan Chase
Bank of East Asia	Lloyds TSB
Barclays	Overseas Chinese Banking Corporation
Citigroup	Royal Bank of Scotland
DBS Group	United Overseas Bank
Deutsche Bank	Standard Chartered
HBOS [3]	
HSBC	

[1] Following the acquisition of ABN AMRO ('ABN'), for awards granted in 2007, ABN was replaced with a 'synthetic' company comprising the median TSR performance of the remaining comparison companies.

[2] For awards granted in 2008, ABN was removed from the comparison group and substituted with ICICI.

[3] For unvested awards granted in 2007 and 2008, HBOS was replaced by another synthetic company, in view of its acquisition by Lloyds TSB.

40. Share based payments continued

A comprehensive review of the comparison group was made in June 2008 by the Committee, which decided to increase the number of constituents from 15 to 21 for awards to be made in 2009 and beyond. The enlarged group better reflects the increased size and scope of our current business. The Committee used a combination of measures, including size, business scope and geographic spread, to identify the most appropriate companies before agreeing the constituents.

For awards made in 2009	
Banco Santander	JP Morgan Chase
Bank of America	Kookmin
Bank of China	Lloyds Banking Group
Bank of East Asia	Overseas Chinese Banking Corporation
Barclays	Royal Bank of Scotland
Citigroup	Standard Bank
DBS Group	State Bank of India
Deutsche Bank	Unicredito
HSBC	United Overseas Bank
ICBC	Standard Chartered
ICICI	

Following the increase in the number of constituents, the vesting schedule has been re-calibrated to ensure the vesting level at median and upper quintile remains broadly unchanged. The percentage of awards exercisable at the end of the relevant three-year performance period is calculated on a straight-line basis. Minimum vesting occurs if we achieve median ranking, with full vesting achieved if we are ranked in the upper quintile or above position in our comparison group.

Comparison group for awards in 2010 onwards

In December 2009, the Committee reviewed the continued appropriateness of our comparison peer group and decided to make a minor refinement to the constituents, which resulted in the replacement of Lloyds Banking Group by Credit Suisse. This will affect awards made in 2010 and onwards.

The Committee believes that it is preferable to measure total shareholder return performance using a local currency approach. This reflects the international composition of the comparison group, but also takes into account that a significant proportion of each company's profits is generated in the same currency as its primary listing. This approach measures the real impact for a shareholder by focusing on relative stock movement rather than taking into account exchange rate fluctuations.

Awards of nil price options to acquire shares are granted to the executives and will normally be exercisable 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.

The remaining life of the scheme is two years.

1997/2006 Restricted Share Scheme
The Restricted Share Scheme is used as a vehicle for deferring part of annual performance awards for certain employees and as an incentive plan to motivate and retain high performing staff. Except where used for bonus deferral purposes, executive directors are not generally eligible to participate in the RSS. However upon recruitment to the Group, awards may be made on an exceptional basis, for example to newly appointed directors to compensate for share awards forfeited on leaving their previous employer. Under the RSS, the value of shares awarded in any year to any individual may not exceed two times their base salary. Generally half of the award vests two years after the date of grant and the balance after three years. However, the deferred element of the 2009 annual performance award will vest in three equal tranches over one, two and three years with the RSS used wherever possible for the portion of the award vesting after two and three years.

The remaining life of the scheme is seven years.

2007 Supplementary Restricted Share Scheme
The Group operates a Supplementary Restricted Share Scheme which is similar to the RSS. This scheme is principally used for Global Market employees but is also used to defer one third of an employee's deferred annual performance award which vests after one year. Otherwise half of the award vests two years after the date of grant and the balance after three years. Executive directors are specifically prohibited from the plan; no new shares can be issued to satisfy awards; and there is no individual annual limit.

The remaining life of the scheme is eight years.

2004 Deferred Bonus Plan
Under the 2004 Deferred Bonus Plan, shares are conditionally awarded instead of all or part of the executive directors' and certain senior executives' annual cash bonus. Further details are contained in the Directors' remuneration report on pages 48 and 49. The remaining life of the plan is five years.

40. Share based payments continued

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. In 2008 a new Irish sharesave scheme was introduced for all employees of the Group in the Republic of Ireland. 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 all the 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 restrictions. In these countries the Group offers an equivalent cash-based scheme to its employees. The remaining life of the scheme is six years.

1994 Executive Share Option Scheme (1994 ESOS)
A reconciliation of option movements over the year to 31 December 2009 and 2008 is shown below:

	2009		2008	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	–	–	10,806	£6.2
Lapsed	–	–	–	–
Exercised	–	–	(10,806)	£6.20
Outstanding at 31 December	–	–	–	–

The weighted average share price at the time the options were exercised in 2008 was £17.23.

2000 Executive Share Option Scheme (2000 ESOS)
No share awards were granted during 2009 or 2008.

A reconciliation of option movements over the year to 31 December 2009 and 2008 is shown below:

	2009		2008	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	7,485,925	£7.18	8,575,209	£8.28
Additional shares for rights issue	–	–	937,283	–
Lapsed	(5,253)	£8.19	(3,348)	£6.05
Exercised	(4,076,707)	£7.08	(2,023,219)	£7.47
Outstanding at 31 December	3,403,965	£7.29	7,485,925	£7.18
Exercisable at 31 December	3,403,965	£7.29	7,485,925	£7.18

	2009		2008	
Range of exercise price for options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Weighted average exercise price	Weighted average remaining contractual life
£6.04/£9.10 (2008: £6.05/£9.10)	£7.29	3.2 years	£7.18	4.0 years

The intrinsic value of vested 2000 ESOS cash-settled awards as at 31 December 2009 was $3 million (2008: $0.8 million). The weighted average share price at the time the options were exercised during 2009 was £14.28 (2008: £17.23).

40. Share based payments continued

2001 Performance Share Plan (2001 PSP)

Valuation

The fair value of awards is based on the market value less an adjustment to take into account the expected dividends over the vesting period. The same fair value is applied for awards made to both the directors and employees of the Group. As set out above, half the award is dependent on a TSR performance condition and half dependent on an SC Plc EPS performance condition. The fair value of the TSR component is derived by discounting 50 per cent of the award that is subject to the TSR condition by the loss of expected dividends over the performance period together with the probability of meeting the TSR condition, which is calculated by the area under the TSR vesting schedule curve. The EPS fair value is derived by discounting 50 per cent of the award by the loss of expected dividends over the performance period. In respect of the EPS component only, the number of shares expected to vest is adjusted for actual performance when calculating the charge for the year.

	2009				2008		
Grant date	3 December	15 September	23 June	11 March	16 September	24 April	11 March
Share price at grant date	£15.51	£14.44	£11.75	£8.10	£13.86	£17.82	£16.26
Vesting period (years)	3	3	3	3	3	3	3
Expected dividend yield (%)	3.43	3.43	3.41	3.41	2.60	2.60	2.60
Fair value (EPS) (£)	7.13	6.63	5.40	3.73	12.83	16.50	15.06
Fair value (TSR) (£)	2.81	2.61	2.13	1.46	5.04	6.49	5.89

The expected dividend yield is based on the historical dividend yield over the three years prior to grant. 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 yield over the performance period, and the probability of meeting the TSR condition which is calculated by the area under the TSR vesting schedule curve. The EPS fair value is derived by discounting 50 per cent of the award by the loss of expected dividends over the performance period and the number of shares expected to vest is adjusted for actual performance when calculating the charge for the year.

A reconciliation of option movements over the year to 31 December 2009 and 2008 is shown below:

	2009		2008	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	8,458,895	–	5,885,597	–
Granted	4,583,187	–	2,625,696	–
Additional shares for rights issue	–	–	1,067,755	–
Lapsed	(528,627)	–	(105,828)	–
Exercised	(1,737,903)	–	(1,014,325)	–
Outstanding at 31 December	10,775,552	–	8,458,895	–
Exercisable at 31 December	938,782	–	683,870	–

Of the 2,475,008 options granted in 2007 and outstanding as at 31 December 2009, the EPS condition is not expected to be met on 557,372 options. As a result, it is considered that these options will not vest.

	2009		2008	
Range of exercise price for options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Weighted average exercise price	Weighted average remaining contractual life
n/a	–	8.2 years	–	8.1 years

The intrinsic value of vested cash-settled awards as at 31 December 2009 was $2 million (2008: $0.3 million).

The weighted average share price at the time the options were exercised during 2009 was £11.48 (2008: £15.74).

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. The same fair value is applied for awards made to both the directors and employees of the Group.

	2009					2008		
Grant date	3 December	28 September	15 September	23 June	11 March	16 September	24 April	11 March
Share price at grant date	£15.51	£14.98	£14.44	£11.75	£8.10	£13.86	£17.82	£16.26
Vesting period (years)	2/3	2/3	2/3	2/3	2/3	3	3	3
Expected dividend yield (%)	3.45	3.45	3.45	3.73	3.73	2.40	2.40	2.40
Fair value (£)	14.25	13.76	13.27	10.72	7.39	8.25	8.25	8.25

The expected dividend yield is based on the historical dividend for three years prior to grant.

40. Share based payments continued

A reconciliation of option movements over the year to 31 December 2009 and 2008 is shown below:

	2009		2008	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	7,285,927	–	6,275,898	–
Granted	12,675,994	–	2,137,992	–
Additional shares for rights issue	–	–	925,127	–
Lapsed	(528,860)	–	(294,595)	–
Exercised	(2,155,899)	–	(1,758,495)	–
Outstanding at 31 December	17,277,162	–	7,285,927	–
Exercisable at 31 December	1,986,203	–	1,900,102	–

The weighted average share price at the time the options were exercised during 2009 was £11.98 (2008: £15.69).

	2009		2008	
Range of exercise price for options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Weighted average exercise price	Weighted average remaining contractual life
n/a	–	5.6 years	–	5.0 years

The intrinsic value of vested 1997/2006 RSS cash-settled awards as at 31 December 2009 was $12 million (2008: $3 million).

2007 Supplementary Restricted Share Scheme (2007 SRSS)

Valuation

The first awards under this scheme were made on 12 March 2007. 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. The same fair value is applied for awards made to both the directors and employees of the Group.

	2009				2008	
Grant date	3 December	15 September	23 June	11 March	16 September	11 March
Share price at grant date	£15.51	£14.44	£11.75	£8.10	£13.86	£16.26
Vesting period (years)	2/3	2/3	2/3	2/3	2/3	2/3
Expected dividend yield (%)	3.45	3.45	3.73	3.73	2.4	2.4
Fair value (£)	14.25	13.27	10.72	7.39	13.06	12.41

The expected dividend yield is based on the historical dividend for three years prior to grant. A reconciliation of option movements over the year to 31 December 2009 is shown below:

	2009		2008	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	2,442,096	–	187,602	–
Granted	5,172,293	–	2,020,181	–
Additional shares for rights issue	–	–	307,805	–
Lapsed	(51,909)	–	(45,549)	–
Exercised	(147,948)	–	(27,943)	–
Outstanding at 31 December	7,414,532	–	2,442,096	–
Exercisable at 31 December	53,580	–	–	–

	2009		2008	
Range of exercise price for options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Weighted average exercise price	Weighted average remaining contractual life
n/a	–	5.9 years	–	6.2 years

The weighted average share price at the time the options were exercised during 2009 was £14.62 (2008: £nil).

40. Share based payments continued

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 2009 and 2008 is shown below:

	2009		2008	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	**162,982**	**£5.61**	561,107	£5.82
Additional shares for rights issue	–	–	36,060	–
Lapsed	–	–	(227,613)	£4.92
Exercised	**(127,062)**	**£5.61**	(206,572)	£5.35
Outstanding at 31 December	**35,920**	**£5.61**	162,982	£5.61
Exercisable at 31 December	**35,920**	**£5.61**	162,982	£5.61

	2009		2008	
Range of exercise price for options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Weighted average exercise price	Weighted average remaining contractual life
£5.61	**£5.61**	**0 years**	£5.61	0.3 years

The weighted average share price at the time the options were exercised was £10.86 (2008: £13.89) for 1994 UK Sharesave schemes and £10.28 (2008: £13.89) for 1996 International Sharesave schemes.

The intrinsic value of vested 1994/1996 UK and International Sharesave cash-settled awards as at 31 December 2009 was $nil million (2008: $0.1 million).

2008 Irish Sharesave Scheme

The first awards under this scheme were made on 29 September 2008.

Valuation

Options are valued using a binomial option-pricing model. The same fair value is applied for awards made to both the directors and employees of the Group. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	2009 5 October	2008 29 September
Share price at grant date	**£14.92**	£14.52
Exercise price	**£11.46**	£11.62
Vesting period (years)	**3/5**	3/5
Expected volatility (%)	**52.9/42.6**	39.6/48.7
Expected option life (years)	**3.33/5.33**	3.33/5.33
Risk free rate (%)	**1.8/2.5**	2.32/2.53
Expected dividend yield (%)	**3.3/3.2**	2.5/2.73
Fair value (£)	**5.9/5.8**	2.99/3.04

The expected dividend yield is based on the historical dividend for three years prior to grant. A reconciliation of option movements over 2009 and 2008 is shown below:

	2009		2008	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	**14,290**	**£10.18**	–	–
Granted	**4,581**	**£11.46**	12,510	£10.18
Additional shares for rights issue	–	–	1,780	–
Lapsed	–	–	–	–
Exercised	–	–	–	–
Outstanding at 31 December	**18,871**	**£10.48**	14,290	£10.18
Exercisable at 31 December	–	–	–	–

	2009		2008	
Range of exercise price for options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Weighted average exercise price	Weighted average remaining contractual life
£10.18 – 11.46	**£10.48**	**3.6 years**	£10.18	5.3 years

40. Share based payments continued

2004 UK and International Sharesave Schemes

Valuation

Options are valued using a binomial option-pricing model. The same fair value is applied for awards made to both the directors and employees of the Group. The fair value per option granted and the assumptions used in the calculation are as follows:

	2009		2008	
Grant date	9 October	5 October	3 October	16 September
Share price at grant date	**£15.57**	**£14.92**	£14.52	£14.52
Exercise price	**£11.46**	**£11.46**	£11.62	£11.62
Vesting period (years)	**3/5**	**3/5**	3/5	3/5
Expected volatility (%)	**52.9/43.7**	**52.9/43.6**	39.6/48.7	39.6/48.7
Expected option life (years)	**3.33/5.33**	**3.33/5.33**	3.33/5.33	3.33/5.33
Risk free rate (%)	**1.8/2.5**	**1.8/2.5**	2.32/2.53	2.32/2.53
Expected dividend yield (%)	**3.3/3.2**	**3.3/3.2**	2.5/2.73	2.5/2.73
Fair value (£)	**6.4/6.2**	**5.9/5.8**	2.99/3.04	2.99/3.04

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 for three years prior to grant. Where two amounts are shown for volatility, risk free rates, expected dividend 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 2009 and 2008 is shown below:

	2009		2008	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	**20,229,858**	**£9.69**	14,266,731	£10.91
Granted	**3,881,940**	**£11.46**	6,241,929	£10.18
Additional shares rights issue	**–**	**–**	2,579,391	–
Lapsed	**(2,160,450)**	**£10.26**	(2,574,039)	£10.14
Exercised	**(4,484,911)**	**£8.81**	(284,154)	£7.04
Outstanding at 31 December	**17,466,437**	**£10.28**	20,229,858	£9.69
Exercisable at 31 December	**2,018,787**	**£9.17**	3,588,924	£9.69

	2009		2008	
Range of exercise price for options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Weighted average exercise price	Weighted average remaining contractual life
£6.51/£11.46	**£10.28**	**2.2 years**	£9.69	1.9 years

The weighted average share price at the time the options were exercised during 2009 was £14.16 (2008: £13.92) for the UK Sharesave scheme and £12.73 (2008: £13.92) for the International Sharesave scheme.

The intrinsic value of vested UK and International Sharesave cash-settled awards as at 31 December 2009 was $7 million (2008: $0.4 million).

2004 Deferred Bonus Plan

Under this plan shares are issued directly to participants upon vesting.

A reconciliation of share movements over the year to 31 December 2009 and 2008 is shown below:

	2009 No. of shares	2008 No. of shares
Outstanding at 1 January	**352,857**	351,340
Shares vested	**(347,836)**	(324,002)
Shares awarded	**352,633**	307,760
Additional shares for rights issue	**–**	43,756
Shares lapsed	**(7,073)**	(25,997)
Outstanding at 31 December	**350,581**	352,857

Notes:

a) The market value of shares on date of awards (6 March 2009) was 698.5 pence (2008: 1643 pence).

b) The shares vest one year after the date of award.

c) A notional scrip dividend accrues on tha shares held in the Trust. The dividend is normally delivered in the form of shares and is released on vesting.

41. Cash flow statement

Adjustment for non-cash items and other accounts

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
Depreciation and amortisation	538	465	239	155
Gain on disposal of property, plant and equipment	(40)	(10)	(2)	(1)
Gain on disposal of investment securities and loan and receivable financial assets	(592)	(322)	(156)	(95)
Gain arising on repurchase of subordinated-liabilities	(264)	–	(710)	–
Gain arising on initial recognition and partial redemption of Visa Inc. shares	–	(17)	–	(6)
Writedowns relating to asset backed securities	4	49	4	49
Movement in fair value hedges on available-for-sale assets	6	26	7	(20)
Amortisation of discounts and premiums of investment securities	(762)	(390)	(553)	(6)
Pension costs for defined benefit schemes	30	45	50	39
Impairment losses on loans and advances and other credit risk provisions	2,000	1,321	1,069	418
Dividend income from subsidiaries	–	–	(273)	(528)
Profit from associates	(21)	–	–	–
Other impairment	102	469	575	187
Gains arising on acquisition fair values and discount unwind	(101)	(120)	(18)	(3)
Interest expense on subordinated liabilities	399	874	508	893
Loss/(gain) on sale of business	2	(123)	–	(1,463)
Total	1,301	2,267	740	(381)

Change in operating assets

	Group		Company	
	2009 $million	2008[1] $million	2009 $million	2008 $million
Decrease/(increase) in derivative financial instruments	32,293	(47,138)	28,548	(40,192)
Decrease/(increase) in amounts due to parents/subsidiaries	475	599	(5,075)	(905)
Net (increase)/decrease in debt securities, treasury bills and equity shares held at fair value through profit or loss	(6,331)	7,590	(5,336)	6,788
Net (increase) in loans and advances to banks and customers	(21,801)	(39,160)	(13,737)	(27,526)
Decrease in pre-payments and accrued income	233	219	64	86
(Increase)/decrease in other assets	(1,780)	(5,667)	3,434	(13,133)
Total	3,089	(83,557)	7,898	(74,882)

[1] Amounts have been restated as explained in note 53.

Change in operating liabilities

	Group		Company	
	2009 $million	2008[1] $million	2009 $million	2008[1] $million
(Decrease)/increase in derivative financial instruments	(31,360)	44,943	(28,211)	39,594
Net increase in deposits from banks, customer accounts, debt securities in issue and short positions	17,999	58,924	11,528	39,232
Increase in accruals and deferred income	163	854	266	517
(Decrease)/increase in other liabilities	(1,036)	(2,473)	(4,622)	10,547
Total	(14,234)	102,248	(21,039)	89,890

[1] Amounts have been restated as explained in note 53.

Notes to the financial statements continued

42. 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	
	2009 $million	2008 $million	2009 $million	2008 $million
Cash and balances at central banks	18,131	24,161	11,800	17,679
Less restricted balances	(4,971)	(4,616)	(2,380)	(2,154)
Less cash and cash equivalents held in branches for sale	–	–	–	(100)
Treasury bills and other eligible bills	7,748	9,303	2,104	3,108
Loans and advances to banks	37,127	33,911	18,977	16,643
Trading securities	10,036	10,937	4,914	5,994
Total	68,071	73,696	35,415	41,170

43. Capital commitments

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

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
Contracted	36	46	30	42

44. Operating lease commitments

Group

	2009		2008	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	271	8	258	2
Later than one year and less than five years	477	11	470	2
After five years	487	–	509	–
	1,235	19	1,237	4

During the year $257 million (2008: $240 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 2009 are $4 million (2008: $5 million).

Company

	2009		2008	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	107	1	120	2
Later than one year and less than five years	198	1	250	1
After five years	440	–	477	–
	745	2	847	3

The Company 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 2009 are $nil million (2008: $nil million).

45. Contingent liabilities and commitments

The table below shows the contract or underlying principal 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 risk weighted amounts have been calculated in accordance with the FSA guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

Group

	2009	2008
	Contract or underlying principal amount	Contract or underlying principal amount
Contingent liabilities[1]	$million	$million
Guarantees and irrevocable letters of credit	28,731	28,051
Other contingent liabilities	9,927	11,494
	38,658	39,545
Commitments[1]		
Documentary credits and short term trade-related transactions	6,695	5,270
Forward asset purchases and forward deposits placed	874	40
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	20,616	14,450
Less than one year	20,729	14,903
Unconditionally cancellable	45,344	42,388
	94,258	77,051
Risk weighted amount:		
Contingent liabilities	13,422	12,827[2]
Commitments	8,856	6,967[2]

[1] Includes amounts relating to the Group's share of its joint ventures

[2] Amounts have been adjusted to present consistency with 2009, as a result of continuing refinements to Basel II. This has not had an impact on the Group's total risk weighted assets.

Company

	2009	2008
	Contract or underlying principal amount	Contract or underlying principal amount
	$million	$million
Contingent liabilities		
Guarantees and irrevocable letters of credit	20,157	19,577
Other contingent liabilities	8,099	9,563
	28,256	29,140
Commitments		
Documentary credits and short term trade-related transactions	4,775	3,769
Forward asset purchases and forward deposits placed	-	40
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	16,918	11,451
Less than one year	4,671	4,396
Unconditionally cancellable	18,321	18,426
	44,685	38,082

Contingent liabilities

Where the Group undertakes to make a payment on behalf of it's customers for guarantees issued such as for performance bonds or as irrevocable letters of credit as part of the Group's transaction banking business for which an obligation to make a payment has not arisen at the reporting date those are included in these financial statements as Contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit and bonds issued on behalf of customers to customs officials, for bids or offers and as shipping guarantees.

Commitments

Where the Group has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees whether cancellable or not or letters of credit and the Group has not made payments at the balance sheet date those instruments are included in these financial statements as commitments.

46. 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

	Group		Company	
	2009	2008	2009	2008
	Reverse repurchase agreements	Reverse repurchase agreements	Reverse repurchase agreements	Reverse repurchase agreements
	$million	$million	$million	$million
Banks	1,192	1,578	1,123	1,256
Customers	1,603	4,833	1,599	3,788
	2,795	6,411	2,722	5,044

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:

	Group		Company	
	2009	2008	2009	2008
	$million	$million	$million	$million
Securities and collateral which can be repledged or sold (at fair value)	2,624	5,707	2,592	4,517
Thereof repledged/transferred to others for financing activities, to satisfy commitments under short sale transactions or liabilities under sale and repurchase agreements (at fair value)	1,696	4,030	1,669	4,030

Balance sheet liabilities

	Group		Company	
	2009	2008	2009	2008
	Repurchase agreements	Repurchase agreements	Repurchase agreements	Repurchase agreements
	$million	$million	$million	$million
Banks	1,567	5,053	571	3,978
Customers	380	5,177	314	5,158
	1,947	10,230	885	9,136

Collateral pledged against these liabilities is disclosed in note 22. The terms and conditions relating to the collateral pledged typically permits the collateral to be sold or repledged, subject to the obligation to return the collateral at the end of the agreement.

47. Financial risk management

The management of risk lies at the heart of Standard Chartered's business. One of the main risks we incur arises from extending credit to customers through our trading and lending operations. Beyond credit risk, we are also exposed to a range of other risk types such as country, market, liquidity, operational, regulatory, pension, reputational and other risks which are inherent to our strategy, product range and geographical coverage.

Risk management framework
Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of Standard Chartered.

Through our risk management framework we manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our risk appetite.

As part of this framework, we use a set of principles that describe the risk management culture we wish to sustain:

- Balancing risk and reward: risk is taken in support of the requirements of our stakeholders, in line with our strategy and within our risk appetite;
- Responsibility: it is the responsibility of all employees to ensure that risk-taking is disciplined and focused. We take account of our social, environmental and ethical responsibilities in taking risk to produce a return;
- Accountability: risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk-taking must be transparent, controlled and reported;
- Anticipation: We seek to anticipate future risks and maximise awareness of all risks; and
- Competitive advantage: We seek competitive advantage through efficient and effective risk management and control.

Risk governance
Ultimate responsibility for setting our risk appetite and for the effective management of risk rests with the Board of Standard Chartered PLC (the Board). Executive responsibility for risk management is held by the Standard Chartered Bank Court (the Court) which comprises the Group executive directors and other directors of Standard Chartered Bank.

The Court delegates authority for the management of risk to several committees.

The Group Risk Committee (GRC) is responsible for the management of all risks other than those delegated by the Court to the Group Asset and Liability Committee (GALCO) and the Group Pensions Executive Committee. The GRC is responsible for the establishment of, and compliance with, policies relating to credit risk, country risk, market risk, operational risk, regulatory risk and reputational risk. The GRC also defines our overall risk management framework.

The GALCO is responsible for the management of capital ratios and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange rate risk.

The Group Pensions Executive Committee is responsible for the management of pension risk.

Members of the Court are also members of both the GRC and GALCO. The GRC is chaired by the Group Chief Risk Officer (GCRO). The GALCO is chaired by the Group Finance Director.

Risk limits and risk exposure approval authority frameworks are set by the GRC in respect of credit risk, country risk and market risk. The GALCO sets the approval authority framework in respect of liquidity risk. Risk approval authorities may be exercised by risk committees or authorised individuals.

Acting within an authority delegated by the Board, the Audit and Risk Committee (ARC), whose members are all non-executive directors of the Group, reviews specific risk areas and monitors the activities of the GRC and GALCO. The ARC receives regular reports on risk management, including our portfolio trends, policies and standards, adherence with internal controls, regulatory compliance, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference. As of 4 March 2010, the ARC will be split into a Board Risk Committee (BRC) and a Board Audit Committee.

The committee governance structure ensures that risk-taking authority and risk management policies are cascaded down from the Board through to the appropriate functional, divisional and country-level committees. Information regarding material risk issues and compliance with policies and standards is communicated through the country, business and functional committees up to the Group-level committees.

Business governance and functional heads are accountable for risk management in their businesses and functions, and for countries where they have governance responsibilities. This includes:

- implementing across all business activities the policies and standards as agreed by the Group-level risk committees;
- managing risk in line with appetite levels agreed by the Group-level risk committees; and
- developing and maintaining appropriate risk management infrastructure and systems to facilitate compliance with risk policies.

The GCRO directly manages a risk function which is separate from the origination, trading and sales functions of the businesses. The GCRO also chairs the GRC and is a member of the Group Management Committee. Chief Risk Officers for both Wholesale and Consumer Banking have their primary reporting lines into the GCRO. Country Chief Risk Officers take overall responsibility for risk within our principal countries.

The Risk function is responsible for upholding the integrity of our risk/return decisions, and in particular for ensuring that risks are properly assessed, that risk/return decisions are made transparently on the basis of this proper assessment, and are controlled in accordance with our standards.

Notes to the financial statements continued

47. Financial risk management

The Risk function is independent of the origination and sales functions to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues.

The Risk function is also responsible for maintaining our Risk Management Framework (RMF), ensuring it remains appropriate to our activities, and is effectively communicated and implemented across the Group. The Risk function also administers our Risk-related governance and reporting processes.

Our RMF identifies the risk types to which we are exposed, each of which is controlled by a designated risk type owner (RTO). The major risk types are described individually in the following sections. The RTOs have responsibility for establishing minimum standards and for implementing governance and assurance processes. The RTOs report up through specialist risk committees to the GRC or GALCO.

Group Internal Audit is a separate Group function that reports to the Chairman of the ARC and to the Group Chief Executive. It provides independent confirmation of compliance with Group and business standards, policies and procedures. Where necessary, it will recommend corrective action to restore or maintain such standards.

Risk appetite

We manage our risks to build a sustainable franchise in the interests of all our stakeholders.

Risk appetite is an expression of the amount of risk we are willing to take in pursuit of our strategic objectives, reflecting our capacity to sustain losses and continue to meet our obligations arising from a range of different stress trading conditions.

We define our risk appetite in terms of both volatility of earnings and the maintenance of minimum regulatory capital requirements under stress scenarios. We also define a risk appetite with respect to liquidity risks and reputational risk.

Our quantitative risk profile is assessed through a 'bottom-up' analytical approach covering all of our major businesses, countries and products. The risk appetite is approved by the Board and forms the basis for establishing the risk parameters within which the businesses must operate, including policies, concentration limits and business mix.

The GRC is responsible for ensuring that our risk profile is managed in compliance with the risk appetite set by the Board.

Stress testing

Stress testing and scenario analysis are used to assess the financial and management capability of Standard Chartered to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental and social factors.

Our stress testing framework is designed to:

- contribute to the setting and monitoring of risk appetite;
- identify key risks to our strategy, financial position, and reputation;
- examine the nature and dynamics of the risk profile and assess the impact of stresses on our profitability and business plans;
- ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing;
- inform senior management; and
- ensure adherence to regulatory requirements.

A stress-testing forum, led by the Risk function with participation from the businesses, Group Finance, Global Research and Group Treasury, aims to ensure that the earnings and capital implications of specific stress scenarios are fully understood. The stress-testing forum generates and considers pertinent and plausible scenarios that have the potential to adversely affect our business.

In 2009, stress testing activity was intensified at country, business and Group levels, with specific focus on certain asset classes, customer segments and the potential impact of macroeconomic factors. Stress tests have taken into consideration possible future scenarios that could arise as a result of the development of prevailing market conditions.

Stress testing themes such as inflation, US dollar depreciation, declines in asset values, Swine flu, or potential border conflicts are coordinated by the stress testing forum to ensure consistency of impacts on different risk types or countries. Specific stress tests for country or risk type are also performed. Examples of risk type stress testing are covered in the section on Market risk.

47. Financial risk management continued

Risk weighted assets

	2009 $million	2008 $million
Consumer Banking	53,215	52,124
Wholesale Banking	160,708	136,697
Total risk weighted assets	213,923	188,821
Hong Kong	24,706	21,072
Singapore	21,531	15,064
Korea	26,093	27,020
Other Asia Pacific[1]	41,276	37,053
India	17,381	15,578
Middle East & Other S Asia	28,727	22,070
Africa	10,228	7,247
Americas, UK & Europe	52,921	51,744
	222,863	196,848
Less : Intra-group balances[2]	(8,940)	(8,027)
Total risk weighted assets	213,923	188,821

[1] Other APR includes Malaysia risk weighted assets of $7,041 million (2008: $6,314 million).

[2] Intra-group balances are netted in calculating capital ratios.

Risk weighted assets (RWA) increased by $25 billion or 13 per cent compared to 2008, largely driven through Wholesale Banking, whose RWA increased by $24 billion, or 18 per cent. RWA growth was concentrated in Singapore, Hong Kong and MESA.

Credit risk RWA increased by $12 billion, or 7 per cent, largely driven by downgrades in Wholesale Banking resulting in an increase of $13 billion as a result of credit migration. The rate of credit migration eased in the second half of the year, accounting for $2 billion of the $13 billion during the year. Asset growth was muted resulting in an RWA increase of $1.6 billion whereas savings through RWA efficiencies ($5.2billion) were higher through collaterals, better data capture and lower risk weighting of the product mix. Against this savings through the use of CDOs decreased by $1.6 billion due to challenging market conditions. In Consumer Banking the RWA growth was more muted and mainly driven by increases in Other APR, secured on real estate property and SME portfolios, and Singapore, due to the increase in cards, mortgages, SME and Private Banking, partly off-set by a decline in Retail and Personal Loans.

Market risk RWA increased by $11 billion, or 116 per cent, in line with increased trading in energy-related products and as a result of changes in methodology as advised by the FSA in respect of credit default swaps.

Operational risk RWA increased by $2 billion, or 13 per cent, and given that it is primarily determined by the change in income drivers over a rolling three year time horizon, the growth reflects the strong performance of the Wholasale Banking businesses over that period.

Notes to the financial statements continued

48. Country cross-border risk

Country cross border risk is the risk that we will be unable to obtain payment from our customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

The GRC is responsible for the Group's country cross border risk limits and delegates the setting and management of the country limits to the Group Country Risk function.

The business and country Chief Executive Officers manage exposures within these limits and policies. Countries designated as higher risk are subject to increased central monitoring.

Cross border assets comprise loans and advances, interest-bearing deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, derivatives, certificates of deposit and other negotiable paper, investment securities and formal commitments where the counterparty is resident in a country other than that where the assets are recorded. Cross border assets also include exposures to local residents denominated in currencies other than the local currency.

Cross border exposure to China, India, Hong Kong, Singapore and UAE has risen significantly which reflects our focus and continued expansion in our core countries and the execution of underlying business strategies in these key markets.

Cross border exposure to UAE has increased as we grew our Abu Dhabi portfolio. In South Korea growth in the wholesale banking business has been offset by a significant reduction in the marked to market positions on our derivative exposure and short term exposure to the USA has continued to expand primarily in support of our substantial clearing capabilities.

Cross border exposure to countries in which the Group does not have a significant presence predominantly relates to short-dated money market and some global corporate activity. This business is originated in our key markets, but is conducted with counterparties domiciled in the country against which the exposure is reported, as indicated by the increased positions on France, Australia, Netherlands and Switzerland

The following table, based on the Group's internal country cross border risk reporting requirements, shows cross border outstandings where they exceed one per cent of the Group's total assets

	2009			2008		
	One year or less $million	Over one year $million	Total $million	One year or less $million	Over one year $million	Total $million
US	**14,484**	**5,604**	**20,088**	12,839	5,449	18,288
India	**8,370**	**10,470**	**18,840**	8,806	6,862	15,668
Hong Kong	**12,410**	**4,856**	**17,266**	9,481	4,136	13,617
Singapore	**13,135**	**3,411**	**16,546**	9,715	3,003	12,718
South Korea	**8,555**	**6,500**	**15,055**	8,803	7,040	15,843
United Arab Emirates	**5,807**	**9,071**	**14,878**	5,989	4,546	10,535
China	**5,979**	**4,007**	**9,986**	4,480	3,292	7,772
France	**5,680**	**2,328**	**8,008**	3,071	1,835	4,906
Australia	**2,466**	**2,566**	**5,032**	2,000	1,552	3,552
Netherlands	**2,350**	**2,461**	**4,811**	2,445	1,648	4,093
Switzerland	**2,844**	**1,638**	**4,482**	3,147	623	3,770

49. Market risk

We recognise market risk as the risk of loss resulting from changes in market prices and rates. We are exposed to market risk arising principally from customer-driven transactions. The objective of our market risk policies and processes is to obtain the best balance of risk and return whilst meeting customers' requirements.

The primary categories of market risk for Standard Chartered are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;
- Currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options;
- Commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; covering energy, precious metals, base metals and agriculture; and
- Equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

Market risk governance
The Group Risk Committee (GRC) approves our market risk appetite taking account of market volatility, the range of traded products and asset classes, business volumes and transaction sizes. Market risk appetite has remained broadly stable in 2009.

The Group Market Risk Committee (GMRC), under authority delegated by the GRC, is responsible for setting Value at Risk (VaR) and stress loss limits for market risk within our risk appetite. The GMRC is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books of the Group. The trading book is defined as per the FSA Handbook's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). This is more restrictive than the broader definition within IAS 39 'Financial Instruments: Recognition and Measurement', as the FSA only permits certain types of financial instruments or arrangements to be included within the trading book. Limits by location and portfolio are proposed by the businesses within the terms of agreed policy.

Group Market Risk (GMR) approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to a one basis point increase in yields, whereas foreign exchange, commodity and equity sensitivities are measured in terms of the underlying values or amounts involved. Option risks are controlled through revaluation limits on underlying price and volatility shifts, limits on volatility risk and other variables that determine the options' value.

Value at Risk ('VaR')
We measure the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. VaR, in general, is a quantitative measure of market risk which applies recent historic market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit and loss outcome.

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.

We apply two VaR methodologies:

- Historic simulation: 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. This approach is applied for general market risk factors.
- Monte Carlo simulation: this methodology is similar to historic simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for credit spread VaR.

Both methods apply an historical observation period of one year.

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

Back testing
To assess their predictive power, VaR models are back tested against actual results. In 2009 there was only one exception in the regulatory back testing, compared with three in 2008. This is well within the 'green zone' applied internationally to internal models by bank supervisors, and implies that model reliability is statistically greater than 95 per cent.

Stress testing
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.

Group Market Risk complements the VaR measurement by weekly stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books.

The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs.

49. Market risk continued

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. The Group Market Risk Committee has responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. The GRC considers stress testing results as part of its supervision of risk appetite.
Regular stress test scenarios are applied to interest rates, credit spreads, exchange rates, commodity prices and equity prices. This covers all asset classes in the Financial Markets banking and trading books.

Ad hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

Market risk changes

Total average VaR rose in 2009 against 2008. This stemmed mainly from the non-trading book VaR, and reflected sharp increases in the volatility of credit spreads that followed the collapse of Lehman Brothers in September 2008. The one year historic data window applied as an input to the VaR model continued to reflect this period of particularly high credit spread volatility throughout most of 2009. Average trading book VaR rose slightly in 2009, with Commodities and Equities VaR increasing as these businesses continue to expand their activities.

Securities classed as loans and receivables or held to maturity were removed from VaR in June 2009. These non-traded securities are accounted for on an amortised cost basis, so market price movements have no effect on either profit and loss or reserves. This alignment of VaR with accounting treatment resulted in an $8.6 million reduction in total VaR at the time of implementation. The inclusion of the listed part of our private equity portfolio in non-trading VaR from October 2009 resulted in a $3 million increase in total VaR.

Group

Daily value at risk (VaR at 97.5%, 1 day)

	2009				2008			
Trading and Non-trading	Average $million	High[3] $million	Low[3] $million	Actual $million	Average $million	High[3] $million	Low[3] $million	Actual[4] $million
Interest rate risk[1]	37.3	46.7	24.7	25.5	25.1	37.6	14.2	36.7
Foreign exchange risk	7.8	16.1	3.5	5.0	6.0	8.7	3.3	4.8
Commodity risk	3.0	5.5	1.3	3.7	1.3	2.4	0.6	2.1
Equity risk	4.3	11.1	1.1	10.8	1.4	2.4	0.5	0.8
Total[2]	38.9	47.9	27.6	31.8	31.5	42.5	17.8	41.7
Trading								
Interest rate risk[1]	11.7	17.8	8.7	10.5	12.0	16.0	8.5	9.3
Foreign exchange risk	7.8	16.1	3.5	5.0	6.0	8.7	3.3	4.8
Commodity risk	3.0	5.5	1.3	3.7	1.3	2.4	0.6	2.1
Equity risk	2.7	3.6	1.0	2.5	1.4	2.4	0.5	0.8
Total[2]	14.5	19.3	9.9	13.2	14.2	20.6	9.2	9.8
Non-trading								
Interest rate risk[1]	32.4	41.0	20.8	22.2	19.8	39.6	10.6	38.8
Equity risk[5]	1.8	9.9	–	9.1	–	–	–	–
Total[2]	32.7	41.0	22.6	23.5	19.8	39.6	10.6	38.8

[1] Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale.
[2] The total VaR shown in the tables above is not a sum of the component risks due to offsets between them.
[3] Highest and lowest VaR for each risk factor are independent and usually occur on different days.
[4] Actual one day VaR as at period end date.
[5] Non-trading equity risk VaR was included only from October 2009. For the period October to December 2009, non-trading equity risk VaR average was $9.1 million, with a low of $8.7 million.

Average daily income earned from market risk related activities

	2009 $million	2008 $million
Trading		
Interest rate risk	5.0	3.4
Foreign exchange risk	5.3	5.1
Commodity risk	1.0	0.6
Equity risk	0.4	–
Total	11.7	9.1
Non-Trading		
Interest rate risk	4.5	3.2
Total	4.5	3.2

Notes to the financial statements continued

49. Market Risk continued

Company

Daily Value at Risk (VaR at 97.5%, 1 Day)

Trading and non-trading	2009 $million	2008 $million
Interest rate risk[1]	**20.3**	30.1
Foreign exchange risk	**4.7**	5.1
Commodity risk	**3.7**	2.1
Equity risk	**10.8**	0.8
Total[2]	**24.1**	31.0

Trading	2009 $million	2008 $million
Interest rate risk[1]	**10.3**	10.0
Foreign exchange risk	**4.7**	5.1
Commodity risk	**3.7**	2.1
Equity risk	**2.5**	0.8
Total[2]	**11.8**	11.4

Non-trading	2009 $million	2008 $million
Interest rate risk[1]	**15.7**	33.1
Equity risk	**9.1**	–
Total[2]	**19.4**	33.1

[1] Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale.

[2] The total VaR shown in the tables above is not a sum of the component risks due to offsets between them.

Market risk VaR coverage

Interest rate risk from across the non-trading book portfolios is transferred to Financial Markets where it is managed by local Asset and Liability Management (ALM) desks under the supervision of local Asset and Liability Committees (ALCO). The ALM desks deal in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits. The interest rate risk on securities issued by Group Treasury is hedged to floating rate and is not included within Group VaR.

VaR and stress tests are therefore applied to non-trading book exposures in the same way as for the trading book, including listed available for sale securities. Securities classed as 'loans and receivables' or 'held to maturity' are not reflected in VaR or stress tests since they are accounted on an amortised cost basis, so market price movements have no effect on either profit and loss or reserves.

Foreign exchange risk on the non-trading book portfolios is minimised by match funding assets and liabilities in the same currency. Structural foreign exchange currency risks are not included within Group VaR.

Equity risk relating to non-listed private equity and strategic investments is not included within the VaR. It is separately managed through delegated limits for both investment and divestment, and is also subject to regular review by an investment committee.

50. Credit risk

Credit risk is the risk that a counterparty to a financial transaction will fail to discharge an obligation, resulting in financial loss to Standard Chartered. Credit exposures may arise from both the banking and trading books.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

Credit policies

Group-wide credit policies and standards are considered and approved by the Group Risk Committee, which also oversees the delegation of credit approval and loan impairment provisioning authorities.

Policies and procedures specific to each business are established by authorised risk committees within Wholesale and Consumer Banking. These are consistent with our Group-wide credit policies, but are more detailed and adapted to reflect the different risk environments and portfolio characteristics.

Credit rating and measurement

Risk measurement plays a central role, along with judgement and experience, in informing risk-taking and portfolio management decisions. It is a primary area for sustained investment and senior management attention.

For IRB portfolios, a standard alphanumeric credit risk grade (CG) system is used in both Wholesale and Consumer Banking. The grading is based on our internal estimate of probability of default over a one-year horizon, with customers or portfolios assessed against a range of quantitative and qualitative factors. The numeric grades run from 1 to 14 and some of the grades are further sub-classified A, B or C. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1A to 12C are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers.

Our credit grades in Wholesale Banking are not intended to replicate external credit grades, and ratings assigned by external ratings agencies are not used in determining our internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

Advanced IRB models cover a substantial majority of our exposures and are used extensively in assessing risks at customer and portfolio level, setting strategy and optimising our risk-return decisions.

For IRB portfolios, risk measurement models are approved by the responsible risk committee, on the recommendation of the Group Model Assessment Committee (MAC). The MAC supports risk committees in ensuring risk identification and measurement capabilities are objective and consistent, so that risk control and risk origination decisions are properly informed. Prior to review by the MAC, all IRB models are validated in detail by a model validation team, which is separate from the teams which develop and maintain the models. Models undergo a detailed annual review. Such reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process.

Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group Credit Committee (GCC). The GCC derives its authority from the GRC.

All other credit approval authorities are delegated by the GRC to individuals based both on their judgement and experience and a risk-adjusted scale which takes account of the estimated maximum potential loss from a given customer or portfolio. Credit origination and approval roles are segregated in all but a very few authorised cases. In those very few exceptions where they are not, originators can only approve limited exposures within defined risk parameters.

Concentration risk

Credit concentration risk is managed within concentration caps set by counterparty or groups of connected counterparties, by industry sector and country in Wholesale Banking; and by product and country in Consumer Banking. Additional targets are set and monitored for concentrations by credit rating.

Credit concentrations are monitored by the responsible risk committees in each of the businesses and concentration limits that are material to the Group are reviewed and approved at least annually by the Group Credit Committee.

Credit monitoring

We regularly monitor credit exposures, portfolio performance, and external trends which may impact risk management outcomes.

Internal risk management reports are presented to risk committees, containing information on key environmental, political and economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance; as well as IRB portfolio metrics including credit grade migration

The Wholesale Banking Credit Issues Forum, which is a sub-committee of the Wholesale Banking Risk Committee, meets regularly to assess the impact of external events and trends on the Wholesale Banking credit risk portfolio and to define and implement our response in terms of appropriate changes to portfolio shape, underwriting standards, risk policy and procedures.

Corporate accounts or portfolios are placed on Early Alert (EA) when they display signs of weakness or financial deterioration, for example, where there is a decline in the customer's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management.

Such accounts and portfolios are subjected to a dedicated process overseen by Group Special Assets Management (GSAM), our specialist recovery unit. Account plans are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of GSAM.

50. Credit risk continued

In Consumer Banking, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and informs lending decisions. Accounts which are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by specialist recovery teams. In some countries, aspects of collections and recovery functions are outsourced.

The SME business is managed within Consumer Banking in two distinct segments: small businesses and medium enterprises, differentiated by the annual turnover of the counterparty. Medium enterprise accounts are monitored in line with Wholesale Banking procedures, while small business accounts are monitored in line with other Consumer Banking accounts.

Medium enterprise and private banking past due accounts are managed by GSAM.

Credit mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Risk mitigation policies determine the eligibility of collateral types. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit. Standard Chartered also enters into collateralised reverse repurchase agreements.

Collateral is valued in accordance with our risk mitigation policy, which prescribes the frequency of valuation for different collateral types, based on the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired loans is maintained at fair value.

Where appropriate, credit derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility, such derivatives are used in a controlled manner with reference to their expected volatility.

Traded products

Credit risk from traded products is managed within the overall credit risk appetite for corporates and financial institutions.

The credit risk exposure from traded products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements.

For derivative contracts, we limit our exposure to credit losses in the event of default by entering into master netting agreements with certain counterparties. As required by IAS 32, exposures are not presented net in the financial statements.

In addition, we enter into Credit Support Annexes (CSA) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Under a variation margin process, additional collateral is called from the counterparty if total uncollateralised mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is bilateral and requires us to post collateral if the overall mark-to-market value of positions is in the counterparty's favour and exceeds an agreed threshold.

Securities

Within Wholesale Banking, the Underwriting Committee approves the portfolio limits and parameters by business unit for the underwriting and purchase of all pre-defined securities assets to be held for sale. The Underwriting Committee is established under the authority of the GRC. Wholesale Banking operates within set limits, which include country, single issuer, holding period and credit grade limits.

Day-to-day credit risk management activities for traded securities are carried out by Traded Credit Risk Management whose activities include oversight and approval of temporary excesses within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, is controlled by Wholesale Banking Credit Risk, while price risk is controlled by Group Market Risk.

The Underwriting Committee approves individual proposals to underwrite new corporate security issues. Where an underwritten security is held for a period longer than the target sell-down period, the final decision on whether to sell the position rests with the Risk Function.

50. Credit risk continued

Maximum exposure to credit risk

The table below presents the Group and Company's maximum exposure to credit risk of their balance sheet and off-balance sheet financial instruments at 31 December 2009, before taking into account any collateral held or other credit enhancements. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

As set out in note 18, the Group has entered into synthetic loan securitisations and synthetic trade receivable securitisations on which it has mitigated certain of the credit risks. In respect of derivative financial instruments, $30,539 million (2008: $45,896 million) is available for offset as a result of master netting agreements which do not, however, meet the criteria under IAS 32 to enable these balances to be presented on a net basis in the financial statements as in the ordinary course of business they are not intended to be settled net.

Collateral is held to mitigate the credit risk exposures primarily in respect of loans and advances, and consisting of residential, commercial and industrial properties, securities and other assets such as plant and machinery.

The Group's maximum exposure to credit risk has increased by $21 billion compared to 2008, primarily due to growth in lending to banks and customers and credit commitments, offset by a decline in derivatives. Growth in lending of $28.4 billion was split between loans to banks, which increased $4.9 billion, Consumer Banking, which increased by $13.9 billion compared to 2008 as mortgage balances increased, and Wholesale Banking, which increased $9.6 billion largely through increased lending to the Transport and Commerce sectors. Credit commitments increased $12.0 billion as corporate credit lines were increased. Offsetting this, derivatives declined $31.5 billion, driven by reduced volatility as notionals remained largely flat.

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
Financial assets held at fair value through profit or loss[1]	21,229	14,800	14,385	9,111
Derivative financial instruments	38,218	69,657	35,207	63,480
Loans and advances to banks and customers	249,176	220,759	112,456	95,652
Investment securities	74,079	67,749	31,265	32,115
Contingent liabilities	38,658	39,545	28,256	29,140
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	41,345	29,353	21,589	15,847
	462,705	441,863	243,158	245,345

[1] Excludes equity shares.

Summary analysis of the loan portfolio

Group

	2009				2008			
	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million
Individually impaired loans, net of provisions	154	492	1,159	1,651	18	519	812	1,331
Past due but not impaired loans	2	3,389	538	3,927	53	4,391	791	5,182
Neither past due nor impaired loans	52,778	90,702	106,397	197,099	47,879	75,754	96,896	172,650
Total loans and advances	52,934	94,583	108,094	202,677	47,950	80,664	98,499	179,163
Portfolio impairment provision	(2)	(519)	(355)	(874)	(6)	(449)	(202)	(651)
	52,932	94,064	107,739	201,803	47,944	80,215	98,297	178,512
Of which								
Loans and advances held at fair value	2,048	–	3,511	3,511	1,363	–	4,334	4,334

50. Credit Risk continued

Company

	2009				2008			
	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million
Individually impaired loans, net of provisions	49	93	697	790	–	48	439	487
Past due but not impaired loans	2	999	216	1,215	20	1,305	490	1,795
Neither past due nor impaired loans	25,382	24,155	66,715	90,870	22,499	18,234	58,265	76,499
Total loans and advances	25,433	25,247	67,628	92,875	22,519	19,587	59,194	78,781
Portfolio impairment provision	(1)	(213)	(225)	(438)	(1)	(132)	(107)	(239)
	25,432	25,034	67,403	92,437	22,518	19,455	59,087	78,542
Of which:								
Loans and advances held at fair value	2,043	–	3,370	3,370	1,351	–	4,057	4,057

Loans and advances past due but not individually impaired
The following table sets out the ageing of loans and advances which are past due and for which no individual impairment provision has been raised. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due does not necessarily mean that a loan is impaired.

Individual impairment provisions are generally raised at 90 days past due, with the exception of mortgages in Consumer Banking, where individual impairment provisions are raised after 150 days past due. Individual impaired loans for Consumer Banking will therefore not equate to those loans reported as non-performing on page 79. As described on page 78 prior to the raising of an individual impairment provision, impairment on these loans is captured within the portfolio impairment provision.

Group

	2009				2008			
	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million
Up to 30 days past due	2	2,522	369	2,891	44	3,268	566	3,834
Between 31–60 days past due	–	406	98	504	–	515	75	590
Between 61–90 days past due	–	239	71	310	–	283	150	433
Between 91–150 days past due	–	222	–	222	9	325	–	325
	2	3,389	538	3,927	53	4,391	791	5,182
Estimated fair value of collateral held	–	1,980	458	2,438	–	1,961	185	2,146

50. Credit Risk continued

Company

	2009				2008			
	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million
Up to 30 days past due	2	662	193	855	20	975	400	1,375
Between 31–60 days past due	–	155	21	176	–	155	32	187
Between 61–90 days past due	–	93	2	95	–	87	58	145
Between 91–150 days past due	–	89	–	89	–	88	–	88
	2	999	216	1,215	20	1,305	490	1,795
Estimated fair value of collateral held	–	588	100	688	–	458	50	508
Up to 30 days past due	2	662	193	855	20	975	400	1,375

Collateral held against Consumer Banking loans and Wholesale Banking loans largely comprises residential and commercial property and property and securities respectively. Where the fair value of collateral held exceeds the outstanding loan, any excess is paid back to the customers and is not available for offset against other loans.

Loans and advances neither past due nor impaired
The following table sets out an analysis of loans and advances by internal credit grading which are not past due and for which no individual impairment provision has been raised. The credit gradings set out in the table below are based on a probability of default measure as set out on page 138. The banding reflects management's segmentation of the credit risk grades.

The increase in loans to banks compared to 2008 is as a result of the placement of excess liquidity with high quality bank counterparties, resulting in an improvement in the proportion lant to counterparties within credit grades 1 to 5.

Within loans to customers, the proportion of the loan book falling within credit grades 1 to 5 has remained at 45 per cent. The proportion of grade 12 loans has increased to two per cent of the loans to customers portfolio. The $1 billion increase in Consumer Banking grade 12 loans compared to 2008 flowed primarily from the impact of the economic slowdown on the personal loan portfolios in certain markets. Wholesale Banking grade 12 loans increased by $1.6 billion, and this was largely concentrated in the Middle East.

Group

	2009				2008			
	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million
Grades 1 – 5								
– at amortised cost	45,341	44,158	41,719	85,877	41,862	33,212	41,134	74,346
– at fair value	1,192	–	2,092	2,092	710	–	3,888	3,888
Grades 6 – 8								
– at amortised cost	4,630	21,570	37,505	59,075	4,066	19,969	35,604	55,573
– at fair value	855	–	870	870	649	–	239	239
Grades 9 – 11								
– at amortised cost	729	22,728	21,628	44,356	575	21,294	15,400	36,694
– at fair value	1	–	549	549	4	–	207	207
Grade 12								
– at amortised cost	30	2,246	2,034	4,280	13	1,279	424	1,703
Total – at amortised cost	50,730	90,702	102,886	193,588	46,516	75,754	92,562	168,316
Total – at fair value	2,048	–	3,511	3,511	1,363	–	4,334	4,334
Grand Total	52,778	90,702	106,397	197,099	47,879	75,754	96,896	172,650
Of which: renegotiated loans	–	687	1,397	2,084	–	682	365	1,047

50. Credit Risk continued

Company

	2009				2008			
	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million	Loans to banks $million	Loans to customers – Consumer Banking $million	Loans to customers – Wholesale Banking $million	Total loans to customers $million
Grades 1 – 5								
– at amortised cost	19,146	9,529	24,867	34,396	16,462	5,308	24,036	29,344
– at fair value	1,192	–	2,058	2,058	698	–	3,685	3,685
Grades 6 – 8								
– at amortised cost	3,722	9,709	21,859	31,568	4,246	8,830	20,712	29,542
– at fair value	850	–	780	780	649	–	222	222
Grades 9 – 11								
– at amortised cost	444	3,786	14,990	18,776	427	3,268	9,271	12,539
– at fair value	1	–	532	532	4	–	150	150
Grade 12								
– at amortised cost	27	1,131	1,629	2,760	13	828	189	1,017
Total – at amortised cost	23,339	24,155	63,345	87,500	21,148	18,234	54,208	72,442
Total – at fair value	2,043	–	3,370	3,370	1,351	–	4,057	4,057
Grand Total	25,382	24,155	66,715	90,870	22,499	18,234	58,265	76,499
Of which: renegotiated loans	–	149	1,189	1,338	–	89	170	259

Renegotiated loans in the above table represent the carrying amount of loans that would otherwise be past due or impaired if their terms had not been renegotiated. Although not considered to be non-performing in nature, these loans continue to be monitored in the same way as non-performing loans until a minimum number of payments have been received under the new terms.

Within Wholesale Banking, renegotiated loans increased by $1 billion compared to 2008, primarily arising in the Middle East within the financing and real estate sectors.

Notes to the financial statements continued

50. Credit risk continued

Collateral and other credit enhancements possessed or called upon

During the year, the Group obtained assets by taking possession of collateral or calling upon other credit enhancements (such as guarantees) as detailed in the table below. Repossessed properties are sold in an orderly fashion. Where the proceeds are excess of the outstanding loan balance they are returned to the borrower. Certain of the equity securities acquired continue to be held by the Group for investment purposes and are classified as available-for-sale, and the related loan derecognised.

Group

	2009			2008		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Property	135	7	142	150	1	151
Debt securities and equity shares	–	2	2	2	4	6
Guarantees	25	–	25	28	–	28
Other	91	42	133	54	1	55
	251	51	302	234	6	240

Company

	2009			2008		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Property	3	–	3	6	–	6
Debt securities and equity shares	–	–	–	3	–	3
Other	2	2	4	4	–	4
	5	2	7	13	–	13

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

Group

	2009			2008		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
Impaired securities	231	–	231	185	106	291
Impairment provisions	(191)	–	(191)	(158)	(1)	(159)
Net impaired securities	40	–	40	27	105	132
Securities neither past due nor impaired	65,192	24,517	89,709	57,405	19,315	76,720
	65,232	24,517	89,749	57,432	19,420	76,852
Of which:						
Held at fair value	10,111	5,559	15,670	6,396	2,707	9,103

50. Credit Risk continued

Company

	2009			2008		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
Impaired securities	202	–	202	179	106	285
Impairment provisions	(187)	–	(187)	(153)	–	(153)
Net impaired securities	15	–	15	26	106	132
Securities neither past due nor impaired	34,710	5,512	40,222	31,376	4,310	35,686
	34,725	5,512	40,237	31,402	4,416	35,818
Of which:						
Held at fair value	7,128	1,844	8,972	3,429	274	3,703

Movements in provisions on impaired securities are disclosed in note 22. The impaired debt securities largely include the Group's holdings of ABS CDOs, on which a $73 million (2008: $41 million) impairment charge in 2009.

Collateral is held against impaired securities and primarily consist of properties. The undiscounted fair value of collateral held relating to impaired securities is estimated at $30 million (2008: $22 million). Where the fair value of collateral held exceeds the outstanding securities obligations, any excess is paid back to the customers and is not available for offset against other securities obligations.

Securities neither past due nor impaired
The following table analyses debt securities and treasury bills which are neither past due or impaired by external credit rating. The standard credit ratings used by the Group are those used by Standard & Poors or their equivalent. Debt securities held which have a short-term rating are reported against the long-term rating of the issuer. For securities which are unrated, the Group applies an internal credit rating as described under Loans and Advances.

Group

	2009			2008		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
AAA	10,706	630	11,336	9,551	18	9,569
AA- to AA+	21,246	9,618	30,864	22,522	5,269	27,791
A- to A+	17,770	10,757	28,527	14,361	10,862	25,223
BBB- to BBB+	7,243	1,930	9,173	4,939	2,246	7,185
Lower than BBB-	2,422	1,193	3,615	2,367	615	2,982
Unrated	5,805	389	6,194	3,665	305	3,970
	65,192	24,517	89,709	57,405	19,315	76,720

Unrated securities primarily relate to corporate issues. Using internal credit ratings $5,674 million (2008: $3,525 million) of these securities are considered to be investment grade and $520 million (2008: $445 million) sub-investment grade.

Company

	2009			2008		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
AAA	9,131	624	9,755	9,317	12	9,329
AA- to AA+	10,532	436	10,968	11,565	34	11,599
A- to A+	4,843	2,767	7,610	4,512	2,194	6,706
BBB- to BBB+	4,542	1,059	5,601	2,963	1,541	4,504
Lower than BBB-	646	340	986	715	353	1,068
Unrated	5,016	286	5,302	2,304	176	2,480
	34,710	5,512	40,222	31,376	4,310	35,686

Using internal credit ratings, $4,976 million (2008: $2,240 million) of these securities are considered to be investment grade and $326 million (2008: $240 million) sub-investment grade.

50. Credit risk continued

Derivative financial instruments
The Group measures all derivatives at fair value with the gains or losses on derivatives taken to income except where derivatives are used as hedging instruments for cash flow hedges where the effective portion of the hedge is taken through to cash flow hedge reserve. The credit quality of derivative assets is assessed and monitored on a regular basis. The Group mitigates credit risk on derivative assets where possible through netting arrangements as set out on page 139. Where netting agreements are not in place the Group obtains collateral from counter parties depending on the nature of transaction or the credit worthiness of the counter party. Collateral obtained is normally cash or liquid government securities.

51. Liquidity Risk

Liquidity risk is the risk that we either do not have sufficient financial resources available to meet all our obligations and commitments as they fall due, or can only access these financial resources at excessive cost.

It is our policy to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet all obligations as they fall due. We manage liquidity risk both on a short-term and medium-term basis. In the short-term, our focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and wholesale funding where required. In the medium-term, the focus is on ensuring the balance sheet remains structurally sound.

The GALCO is the responsible governing body that approves our liquidity management policies. The Liquidity Management Committee (LMC) receives authority from the GALCO and is responsible for setting liquidity limits and proposing liquidity risk policies and practices. Liquidity in each country is managed by the Country ALCO within the pre-defined liquidity limits set by the LMC and in compliance with Group liquidity policies and local regulatory requirements. The Group Treasury and Group Market Risk functions propose and oversee the implementation of policies and other controls relating to the above risks.

We seek to manage our liquidity prudently in all geographical locations and for all currencies. Exceptional market events can impact us adversely, thereby affecting our ability to fulfill our obligations as they fall due. The principal uncertainties for liquidity risk are that customer depositors withdraw their funds at a substantially faster rate than expected, or that repayment for asset maturities is not received on the intended day. To mitigate these uncertainties, our customer deposit base is diversified by type and maturity. In addition we have a portfolio of liquid assets that can be realised if a liquidity stress occurs, as well as ready access to wholesale funds under normal market conditions.

Policies and procedures
Due to the diversified nature of our business, our policy is that liquidity is more effectively managed locally, in-country. Each ALCO is responsible for ensuring that the country is self-sufficient, able to meet all its obligations to make payments as they fall due, and operates within the local regulations and liquidity limits set for the country.

Our liquidity risk management framework requires limits to be set for prudent liquidity management. There are limits on:

- The mismatch in local and foreign currency behavioural cash flows;
- The level of wholesale borrowing to ensure that the size of this funding is proportionate to the local market and our local operations;
- Commitments, both on and off balance sheet, to ensure there are sufficient funds available in the event of drawdown on these commitments;
- The advances to deposits ratio to ensure that commercial advances are funded by stable sources and that customer lending is funded by customer deposits;
- The amount of medium-term funding to support the asset portfolio; and
- The amount of local currency funding sourced from foreign currency sources.

In addition, we prescribe a liquidity stress scenario that assumes accelerated withdrawal of deposits over a period of time. Each country has to ensure that cash inflows exceed outflows under such a scenario.

All limits are reviewed at least annually, and more frequently if required, to ensure that they remain relevant given market conditions and business strategy. Compliance with limits is monitored independently on a regular basis by Group Market Risk. Limit excesses are escalated and approved under a delegated authority structure and reviewed by ALCO. Excesses are also reported monthly to the LMC and GALCO which provide further oversight.

In addition, regular reports to the ALCO include the following:

- Information on the concentration and profile of debt maturities; and
- Depositor concentration report to monitor reliance on large individual depositors.

We have significant levels of marketable securities, principally government securities and bank paper, which can be realised, repo'd or used as collateral in the event that there is a need for liquidity in a crisis. In addition, liquidity crisis management plans are maintained by Group and within each country, and are reviewed and approved annually. The liquidity crisis management plan lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by senior management.

51. Liquidity Risk continued

Primary sources of funding
A substantial portion of our assets is funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. The Asset and Liability Committee in each country monitors trends in the balance sheet and ensures that any concerns that might impact the stability of these deposits are addressed effectively. ALCO also reviews balance sheet plans to ensure that projected asset growth is matched by growth in the stable funding base.

We maintain access to the interbank wholesale funding markets in all major financial centres and countries in which we operate. This seeks to ensure that we have flexibility around maturity transformation, have market intelligence, maintain stable funding lines and can obtain optimal pricing when we perform our interest rate risk management activities.

Liquidity metrics
We monitor key liquidity metrics on a regular basis. Liquidity is managed on a country basis and in aggregate across the Group. The key metrics are:

Advances to deposit ratio
This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposits ratio demonstrates that customer deposits exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.

	Group		Company	
	2009 $million	2008 $million	**2009 $million**	2008 $million
Loans and advances to customers[1]	**201,803**	178,512	**92,437**	78,542
Customer accounts[2]	**256,746**	238,591	**106,932**	96,790
	%	%	**%**	%
Advances to deposits ratio	**78.6**	74.8	**86.4**	81.1

[1] see note 18 to the financial statements on page 68.

[2] see note 31 to the financial statements on page 102.

Liquid asset ratio
This is the ratio of liquid assets to total assets. The significant level of holdings of liquid assets in the balance sheet reflects the application of our liquidity policies and practices. The following table shows the ratio of liquid assets to total assets:

	Group		Company	
	2009 %	2008 %	**2009 %**	2008 %
Liquid assets[1] to total assets ratio	**26.2**	23.1	**19.9**	17.7

[1] Liquid assets are the total of Cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.

51. Liquidity risk continued

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

Group

	2009				
	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	13,159	–	–	4,972	18,131
Derivative financial instruments	9,916	7,508	16,207	4,587	38,218
Loans and advances to banks[1]	37,126	14,182	1,289	335	52,932
Loans and advances to customers[1]	63,162	34,939	44,406	59,296	201,803
Investment securities[1]	18,939	30,185	32,717	10,774	92,615
Other assets[1]	5,755	710	315	25,941	32,721
Total assets	148,057	87,524	94,934	105,905	436,420
Liabilities					
Deposits by banks[1]	34,721	2,967	1,140	115	38,943
Customer accounts[1]	230,332	22,198	3,971	245	256,746
Derivative financial instruments	8,644	7,969	15,757	4,505	36,875
Debt securities in issue[1]	11,392	9,134	6,288	1,675	28,489
Due to parent companies	2,588	–	–	–	2,588
Subordinated liabilities and other borrowed funds	723	–	1,195	17,322	19,240
Other liabilities[1]	12,649	1,089	146	12,467	26,351
Total liabilities	301,049	43,357	28,497	36,329	409,232
Net liquidity gap	(152,992)	44,167	66,437	69,576	27,188

[1] Amounts include financial instruments held at fair value through profit or loss (see note 14).

	2008				
	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	19,546	–	–	4,615	24,161
Derivative financial instruments	13,791	18,743	27,821	9,302	69,657
Loans and advances to banks[2]	33,911	11,748	2,132	153	47,944
Loans and advances to customers[2]	63,829	27,541	38,044	49,098	178,512
Investment securities[2]	20,736	28,137	21,758	8,439	79,070
Other assets[2]	12,791	1,169	27	21,658	35,645
Total assets	164,604	87,338	89,782	93,265	434,989
Liabilities					
Deposits by banks[2]	31,168	3,382	1,359	77	35,986
Customer accounts[2]	210,449	21,674	4,824	1,644	238,591
Derivative financial instruments	15,004	18,207	25,430	9,134	67,775
Debt securities in issue[2]	12,568	5,801	5,423	1,905	25,697
Due to parent companies	2,113	–	–	–	2,113
Subordinated liabilities and other borrowed funds	845	1,304	2,189	13,371	17,709
Other liabilities[2]	12,163	1,645	503	11,749	26,060
Total liabilities	284,310	52,013	39,728	37,880	413,931
Net liquidity gap	(119,706)	35,325	50,054	55,385	21,058

[2] Amounts include financial instruments held at fair value through profit or loss (see note 14).

51. Liquidity risk continued

Company

	2009				
	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	9,418	–	–	2,382	11,800
Derivative financial instruments	8,661	9,656	12,340	4,550	35,207
Loans and advances to banks[1]	18,921	5,068	1,108	335	25,432
Loans and advances to customers[1]	36,263	18,382	20,562	17,230	92,437
Investment securities[1]	6,444	10,768	16,527	7,225	40,964
Investment in subsidiary undertakings	–	–	–	17,356	17,356
Other assets[1]	1,896	260	14	12,092	14,262
Due from subsidiary undertakings	14,685	–	–	–	14,685
Total assets	96,288	44,134	50,551	61,170	252,143
Liabilities					
Deposits by banks[1]	20,902	769	288	33	21,992
Customer accounts[1]	95,686	9,764	1,408	74	106,932
Derivative financial instruments	8,313	9,907	12,222	4,163	34,605
Debt securities in issue[1]	7,904	4,230	2,003	381	14,518
Other liabilities[1]	4,682	327	94	6,175	11,278
Due to subsidiary undertakings	26,506	–	–	–	26,506
Subordinated liabilities and other borrowed funds	723	–	892	15,877	17,492
Total liabilities	164,717	24,997	16,907	26,703	233,324
Net liquidity gap	(68,429)	19,137	33,644	34,467	18,819

[1] Amounts include financial instruments held at fair value through profit or loss (see note 14).

Company

	2008				
	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	15,525	–	–	2,154	17,679
Derivative financial instruments	16,614	8,186	28,753	9,927	63,480
Loans and advances to banks[2]	16,484	3,996	1,894	144	22,518
Loans and advances to customers[2]	36,722	12,641	15,923	13,256	78,542
Investment securities[2]	9,653	10,197	9,080	7,179	36,109
Investment in subsidiary undertakings	–	–	–	16,790	16,790
Other assets[2]	9,681	503	5	7,571	17,760
Assets classified as held for sale	–	–	387	–	387
Due from subsidiary undertakings	13,025	–	–	–	13,025
Total assets	117,704	35,523	56,042	57,021	266,290
Liabilities					
Deposits by banks[2]	21,256	553	279	34	22,122
Customer accounts[2]	90,444	4,631	1,392	323	96,790
Derivative financial instruments	18,698	6,932	27,828	9,103	62,561
Debt securities in issue[2]	8,293	487	2,004	191	10,975
Other liabilities[2]	5,712	382	483	6,102	12,679
Due to subsidiary undertakings	29,921	–	–	–	29,921
Liabilities classified as held for sale	–	–	405	–	405
Subordinated liabilities and other borrowed funds	138	1,145	1,842	12,782	15,907
Total liabilities	174,462	14,130	34,233	28,535	251,360
Net liquidity gap	(56,758)	21,393	21,809	28,486	14,930

[2] Amounts include financial instruments held at fair value through profit or loss (see note 14).

51. Liquidity risk continued

Within the tables above cash and balances with central banks, loans and advances to banks, treasury bills and debt securities classified as trading, held at fair value or available for sale included within investment securities are used by the Group principally for liquidity management purposes.

Behavioural maturity of financial liabilities on a discounted basis

The Group seeks to manage its liabilities both on a contractual and behavioural basis primarily by matching the maturity profiles of assets and liabilities. The cash flows presented in the tables above reflect the cash flows which will be contractually payable over the residual maturity of the instruments. In practice, however, liability instruments behave differently from their contractual terms and typically, for short term customer accounts, extend to a longer period than their contractual maturity. The Group's expectation of when such liabilities are likely to become payable is provided in the table below.

	2009[1]				
Group	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
Deposits by banks	34,764	3,252	812	115	38,943
Customer accounts	128,958	53,844	44,032	29,912	256,746
Total	163,722	57,096	44,844	30,027	295,689

[1] As required by IFRS 7: Financial Instruments: Disclosure no comparatives have been presented.

	2009[2]				
Company	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
Deposits by banks	20,639	1,107	212	34	21,992
Customer Accounts	50,952	18,260	21,335	16,385	106,932
Total	71,591	19,367	21,547	16,419	128,924

[2] As required by IFRS 7: Financial Instruments: Disclosure no comparatives have been presented.

51. Liquidity risk continued

Financial liabilities excluding derivative financial instruments on an undiscounted basis

The following table analyses the contractual cash flows payable for the Group and Company's cash flows payable for the Group and Company's financial liabilities by remaining on contractual maturities as an undiscounted basis. The financial liability balances in the above table will not agree to the balances reported in the consolidated balance sheet as the table incorporates all contractual cash flow on an undiscounted basis, relating to both principal and interest payments.

Within the 'More than five years' maturity band are undated financial liabilities of $6,408 million (2008: $3,129 million) in the Group and Company, all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful. Interest payments on these instruments are included within the maturities up to five years.

	2009				2008			
Group	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million
Deposits by banks	34,548	2,930	982	84	28,449	3,612	1,160	205
Customer accounts	219,763	25,469	4,351	536	208,355	22,792	4,698	1,628
Financial liabilities at fair value	8,763	2,644	2,508	1,676	9,396	2,212	3,438	1,885
Debt securities in issue	8,959	6,770	4,810	931	12,572	5,816	4,831	5,088
Due to parent companies	21,759	–	–	–	2,113	–	–	–
Subordinated liabilities and other borrowed funds	1,435	877	6,402	20,894	156	2,235	5,323	18,936
Other liabilities	14,838	1,046	387	7,853	13,258	1,903	170	7,064
Total liabilities	310,065	39,736	19,440	31,974	274,299	38,570	19,620	34,806
Gross loan commitments	45,910	12,751	18,552	539	40,005	9,871	13,265	1,053

	2009				2008			
Company	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million
Deposits by banks	20,764	738	103	–	17,529	1,073	120	–
Customer accounts	95,375	9,424	917	25	89,018	5,577	997	30
Financial liabilities at fair value	6,295	1,534	1,287	96	6,502	546	1,856	150
Debt securities in issue	5,546	2,036	1,027	130	8,076	312	472	144
Subordinated liabilities and other borrowed funds	1,112	862	6,160	19,830	64	1,945	4,722	16,471
Due to parent companies	37,359	–	–	–	29,921	–	–	–
Other liabilities	7,969	326	476	3,644	7,035	891	209	3,044
Total liabilities	174,420	14,920	9,970	23,725	158,145	10,344	8,376	19,839
Gross loan commitments	15,035	3,026	15,141	232	13,696	3,619	11,191	851

Derivative financial instruments include those net settled derivative contracts in a net liability position, together with the pay leg of gross settled contracts regardless of whether the overall contract is in an asset or liability position. The receive leg is not shown in this table and as a result the derivative amounts in this table are inflated by their exclusion.

	2009				2008			
Group	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million
Derivative financial instruments	224,831	119,179	119,009	17,328	529,175	251,250	138,445	17,593

	2009				2008			
Company	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million
Derivative financial instruments	210,038	110,440	113,465	16,369	531,169	258,638	153,289	21,270

52. Currency risk

We have investments in foreign operations (subsidiaries and branches) in currencies other than our functional currency, US dollars. Foreign exchange movements on those net investments in foreign currencies are taken to our reserves; these reserves form part of the capital base. The effect of exchange rate movements on the capital ratio is partially mitigated by the fact that both the value of these investments and the risk weighted assets in those currencies follow broadly the same exchange rate movements. We hedge the net investments in limited circumstances if it is anticipated that the capital ratio will be materially affected by exchange rate movements.

Foreign exchange risk arising within the non-trading portfolio, excluding structural positions, is minimised by match funding assets and liabilities in the same foreign currency

Structural foreign exchange risks arise from net investments in currencies other than US dollars. The Group has made net investments in Group undertakings in a number of currencies.

The resulting foreign exchange exposures are managed on an individual basis, and are assessed regularly taking account of foreign exchange rate expectations. The positions are treated as long-term embedded exposures, and are not treated as trading positions. Hedges of the foreign exchange exposures may be considered in certain limited cases. At 31 December 2009, the Group had taken net investment hedges of $644 million (2008: $600 million) to partly cover its exposure to Korean won and $93 million (2008: $nil million) to partly cover its exposure to Taiwanese dollars.

The table below sets out the principal structural foreign exchange exposures (net of investment hedges) of the Group and Company at 31 December 2009 and 2008:

	Group		Company	
	2009 $million	2008 $million	2009 $million	2008 $million
Hong Kong dollar	**5,852**	4,985	**–**	–
Korean won	**5,133**	4,469	**169**	153
Indian rupee	**2,828**	2,369	**2,228**	1,799
Taiwanese dollar	**2,071**	2,112	**15**	17
Thai baht	**1,291**	991	**–**	–
UAE dirham	**1,008**	1,075	**1,008**	1,075
Singapore dollar	**986**	532	**896**	460
Malaysian ringgit	**834**	731	**–**	–
Chinese yuan	**795**	883	**–**	–
Indonesian rupiah	**595**	428	**199**	117
Pakistani rupee	**562**	563	**–**	–
Other	**2,293**	1,985	**1,069**	979
	24,248	21,123	**5,584**	4,600

An analysis has been performed on the Group exposure to assess the impact of a one per cent fall in the US dollar exchange rates adjusted to incorporate the impacts of correlations between different currencies. The impact on these on the Group positions above would be an increase of $176 million (2008: $143 million). Changes in the valuations of these positions are taken to reserves.

53. Restatement of prior periods

Cash flow statement

None of the following restatements impacted the Group balance sheet as at 1 January 2008 and accordingly no balance sheet has been presented for that period.

Following an amendment to IAS 7: Cash flow statements, cash paid to acquire assets leased to customers and proceeds from the disposal is required to be presented as part of cash flow from operating activities and not cash flows from investing activities. In addition, the contribution to defined benefit schemes has been presented separately. Details of the representation are set out below:

Group

	As reported at 2008 $million	Re-presentation $million	Restated at 2008 $million
Change in operating assets	(82,705)	(852)	(83,557)
Purchase of property, plant and equipment	(1,431)	852	(579)
Change in operating liabilities	102,145	103	102,248
Contributions to defined benefit schemes	8	(103)	(95)

Company

	As reported at 2008 $million	Re-presentation $million	Restated at 2008 $million
Change in operating liabilities	89,822	68	89,890
Contributions to defined benefit schemes	29	(68)	(39)

Notes to the financial statements continued

53. Restatement of prior periods continued

Entity-wide information

By Geography

In 2009 the Group has re-aligned its geographic reporting with underlying organisational changes to better reflect asset and income distribution and management. In order to facilitate a more meaningful comparison, the 2008 numbers in the geography segmental information have been restated so as to be on a consistent basis with 2009.

The Group has a Global Booking Unit (GBU) within its Wholesale Banking business which comprises the private equity portfolio, portfolio management and some Financial Markets (FM) products. In 2008 income and expenses relating to the private equity portfolio were reported in the geography of the underlying investment and the remainder of the GBU was reported within Americas, UK & Europe. In 2009, the income and expenses on both the private equity portfolio and FM products in the GBU have been allocated, the latter to geographies where dealers are based. Portfolio management continues to be reported within Americas, UK & Europe.

In addition, the Group has changed the basis of reporting total assets employed. In 2008, the 'total assets employed' included both the balances between the entities within the same geography (intra-geography) as well as those across geographies (inter-geography). In 2009, the intra-geography balances have been eliminated. The 2008 total assets employed have therefore been restated to be consistent. As a result of the change the distribution of assets held centrally to geographies also changed. The 2008 margins have been restated utilising the revised assets employed.

	Reported at 31 December 2008								
	Asia Pacific								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Net trading income	372	471	194	699	352	261	167	(85)	2,431
Other income	1,906	969	1,396	2,273	1,403	1,487	746	1,059	11,239
Operating income	2,278	1,440	1,590	2,972	1,755	1,748	913	974	13,670
Operating expenses	(1,022)	(640)	(959)	(1,729)	(649)	(817)	(566)	(1,265)	(7,647)
Operating profit before impairment losses and taxation	1,256	800	631	1,243	1,106	931	347	(291)	6,023
Impairment losses and share of profits from associates	(236)	(45)	(263)	(534)	(157)	(185)	(33)	(336)	(1,789)
Profit before taxation	1,020	755	368	709	949	746	314	(627)	4,234
Net interest margin (%)	2.1	0.8	2.5	2.4	3.4	3.0	4.4	0.4	2.5
Total assets employed	76,198	57,449	70,472	82,706	31,378	38,212	12,160	147,727	516,302

	Restatement								
	Asia Pacific								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Net trading income	(12)	(109)	(29)	7	(52)	(76)	1	270	–
Operating income	(12)	(109)	(29)	7	(52)	(76)	1	270	–
Operating expenses	(13)	(27)	–	–	–	(8)	–	48	–
Profit before taxation	(25)	(136)	(29)	7	(52)	(84)	1	318	–
Net interest margin (%)	–	0.5	(0.2)	–	0.1	0.7	0.1	0.7	–
Total assets employed	1,465	(6,176)	(6,088)	(474)	908	(3,830)	(50)	(18,896)	(33,141)

	Restated at 31 December 2008								
	Asia Pacific								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Net trading income	360	362	165	706	300	185	168	185	2,431
Other income	1,906	969	1,396	2,273	1,403	1,487	746	1,059	11,239
Operating income	2,266	1,331	1,561	2,979	1,703	1,672	914	1,244	13,670
Operating expenses	(1,035)	(667)	(959)	(1,729)	(649)	(825)	(566)	(1,217)	(7,647)
Operating profit before impairment losses and taxation	1,231	664	602	1,250	1,054	847	348	27	6,023
Impairment losses and share of profits from associates	(236)	(45)	(263)	(534)	(157)	(185)	(33)	(336)	(1,789)
Profit before taxation	995	619	339	716	897	662	315	(309)	4,234
Net interest margin (%)	2.1	1.3	2.3	2.4	3.5	3.7	4.5	1.1	2.5
Total assets employed	77,663	51,273	64,384	82,232	32,286	34,382	12,110	128,831	483,161

54. Special purpose entities

The Group uses Special Purpose Entities ('SPEs') in the normal course of business across a variety of activities. SPEs are established for specific limited purposes and take a number of legal forms. The main types of activities for which the Group utilises SPEs cover synthetic credit default swaps for portfolio management purposes, managed investment funds (including specialised principal finance funds) and structured finance. SPEs are consolidated into the Group's financial statements where the Group bears the majority of the residual risk or reward. Most of the Group's consolidated SPEs are in respect of the Group's securitised portfolios of residential mortgages (see note 18).

The total assets of unconsolidated SPEs in which the Group has an interest are set out below.

	2009		2008	
	Total assets $million	Maximum exposure $million	Total assets $million	Maximum exposure $million
Portfolio management vehicles	**1,694**	**339**	1,694	252
Principal Finance Funds[1]	**988**	**130**	898	124
AEB Funds	**–**	**–**	2,487	4
Structured Finance	**–**	**–**	290	–
	2,682	**469**	5,369	380

[1] Committed capital for these funds is $375 million (2008: $375 million) of which $130 million (2008: $124 million) has been drawn down net of provisions for impairment of $33 million (2008: $nil million)

For the purposes of portfolio management, the Group has entered into synthetic credit default swaps with note-issuing SPEs. The referenced assets remain on the Group's balance sheet as the credit risk is not transferred to these SPEs. The Group's exposure arises from (a) the capitalised start-up costs in respect of the swap vehicles and (b) interest in the first loss notes and investment in a minimal portion of the mezzanine and senior rated notes issued by the note issuing SPEs. The proceeds of the notes issuance are typically invested in AAA-rated Government securities, which are used to collateralise the SPE's swap obligations to the Group, and to repay the principal to investors at maturity. The SPEs reimburse the Group on actual losses incurred, through the realisation of the collateral security. Correspondingly, the SPEs write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All the funding is committed for the life of these vehicles and hence the Group has no indirect exposure in respect of the vehicles' liquidity position.

Following the acquisition of AEB, the Group is also the investment manager for a number of AEB's investment funds, in which it had a limited amount of capital invested. During 2009 these funds were sold and at 31 December 2009 the Group had no capital invested in these funds.

The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the SPEs have Standard Chartered branding.

55. Related party transactions

The ultimate parent company of the Group is Standard Chartered PLC, a company registered in England and Wales, and the immediate parent company is Standard Chartered Holdings Limited. The consolidated financial statements of Standard Chartered PLC are available at the registered address located at 1 Aldermanbury Square, London, EC2V 7SB, England.

Directors and officers

Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the Directors' remuneration report on pages 48 to 49.

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

	2009 $million	2008 $million
Salaries, allowances and benefits in kind	**16**	20
Pension contributions	**6**	6
Bonuses paid or receivable	**9**	18
Share based payments	**37**	25
	68	69

Transactions with directors, officers and others

At 31 December 2009, the total amounts to be disclosed under the Companies Act 2006 (the Act) about loans to directors and officers were as follows:

	2009		2008	
	Number	$000	Number	$000
Directors	**3**	**228**	3	3,131
Officers[1]	**3**	**5,280**	2	5,402

[1] 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.

55. Related party transactions continued

Other than as disclosed in the Directors' Report and these financial statements, 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.

Group

	2009				2008			
	Due from/to subsidiary undertakings and other related parties $million	Derivatives $million	Subordinated liabilities and other borrowed funds $million	Accruals $million	Due from/to subsidiary undertakings and other related parties $million	Derivatives $million	Subordinated liabilities and other borrowed funds $million	Accruals $million
Assets								
Ultimate parent company	30	25	–	21	–	26	–	–
	30	25	–	21	–	26	–	–
Liabilities								
Ultimate parent company	2,588	291	49	–	2,113	–	2,442	17
	2,588	291	49	–	2,113	–	2,442	17

Several inter-company balances were settled in cash during the year. The asset due from the ultimate parent company relates to the partial rebate of the licence value as explained below.

	2009		2008	
	Interest expense $million	Dividend expense $million	Interest expense $million	Dividend expense $million
Ultimate parent company	–	270	105	1,819
	–	270	105	1,819

In 2006, SC PLC licensed intellectual property rights related to its main brands to a wholly owned subsidiary of the Company, Standard Chartered Strategic Brand Management ('SCSBM'). In 2009, SC PLC transferred part of the intellectual property rights to the Company for $1. The intangible asset is held on SCSBM's and the Company's balance sheet and amortised to the income statement over the term of the licence. At 31 December 2009, $109 million (2008: $271 million) has been included as intangible asset in the Group's balance sheet in relation to this licence.

The Group contributes to employee pension funds and provides banking services free of charge to the UK fund. For details of the funds see note 36.

The Group's employees participate in the Standard Chartered PLC group's share based compensation plans (see note 40). The cost of the compensation is recharged from SC PLC to the Group's branches and subsidiaries.

Joint ventures
The Group has loans and advances to PT Bank Permata Tbk totalling $3 million at 31 December 2009 (2008: $5 million), and deposits of $16 million (2008: $16 million). The Group has investments in subordinated debt issued by PT Bank Permata TBK of $50 million (2008: $nil million)

The Group has loans and advances to STCI totalling $12 million (2008: $12 million).

Associates
The Group has amounts due from Merchant Solutions totalling $32 million at 31 December 2009 (2008: $nil million). Except as disclosed, the Group did not have any amounts due to or from other associate investments.

55. Related party transactions continued

Company

	2009				2008			
	Due from/to subsidiary undertakings and other related parties	Derivatives	Subordinated liabilities and other borrowed funds	Accruals	Due from/to subsidiary undertakings and other related parties	Derivatives	Subordinated liabilities and other borrowed funds	Accruals
	$million	$million	$million	$million	$million	$million	$million	$million
Assets								
Ultimate parent company	-	25	–	–	–	26	–	–
Subsidiaries and fellow subsidiaries of SC PLC Group	14,683	3,973	737	11	13,020	6,886	717	52
Joint ventures	2	–	–	–	5	–	–	–
	14,685	3,998	737	11	13,025	6,912	717	52
Ultimate parent company	2,277	291	517	21	2,111	–	509	17
Subsidiaries and fellow subsidiaries of SC PLC Group	24,214	4,012	–	85	27,794	5,850	–	254
Joint ventures	15	–	–	–	16	–	–	–
	26,506	4,303	517	106	29,921	5,850	509	271

	2009					
	Fees and commission income	Fees and commission expense	Interest income	Interest expense	Dividend income	Dividend expense
	$million	$million	$million	$million	$million	$million
Ultimate parent company	–	–	–	171	–	–
Subsidiaries and fellow subsidiaries of SC PLC Group	46	61	149	562	–	–
	46	61	149	733	–	–

	2008					
	Fees and commission income	Fees and commission expense	Interest income	Interest expense	Dividend income	Dividend expense
	$million	$million	$million	$million	$million	$million
Ultimate parent company	–	–	–	105	–	1,819
Subsidiaries and fellow subsidiaries of SC PLC Group	19	63	445	896	–	–
	19	63	445	1,001	–	1,819

As at 31 December 2009, the Company had created a charge over $31 million (2008: $24 million) of cash assets in favour of the independent trustees of its employer financial retirement benefit schemes.

The Company has provided a letter of support to its subsidiary undertaking Standard Chartered Overseas Holdings Limited.

The Company contributes to employee pension funds and provides banking services free of charge to the UK fund. For details of the funds see note 36.

In the normal course of business the Company has guaranteed credit risk on credit exposures to customers of certain subsidiaries of $350 million (2008: $367 million).

The Company has entered into risk participation agreements with its subsidiary undertakings which transferred exposures of $2,567 million (2008: $1,069 million).

As at 31 December 2009 the Company holds debt securities issued by subsidiary undertakings of $226 million (2008: $238 million) and has issued debt securities to subsidiary undertakings of $130 million (2008: $148 million).

The Company's employees participate in the Standard Chartered PLC group's share based compensation plans (see notes 1 and 40).

The Company has an agreement with Standard Chartered PLC that in the event of the Company defaulting on its debt coupon interest payments, where the terms of such debt requires it, Standard Chartered PLC shall issue shares as settlement for non-payment of the coupon interest.

Joint ventures

The Company has loans and advances to PT Bank Permata Tbk totalling $3 million at 31 December 2009 (2008: $5 million), and deposits of $16 million (2008: $16 million).

56. Significant accounting estimates and judgements

The Company has loans and advances to STCI totalling $12 million (2008: $12 million). 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 as a result of uncertainties arising from the economic environment, 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.

The total amount of the Group's impairment allowances is inherently uncertain being sensitive to changes in economic and credit conditions across the geographies that the Group operates in. Economic and credit conditions are interdependent within each geography and as a result there is no single factor to which the Group's loan impairment allowances as a whole are sensitive. It is possible that actual events over the next year differ from the assumptions built into the model resulting in material adjustments to the carrying amount of loans and advances.

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value, with changes in fair value either reported within the income statement or within equity until the instrument is sold or becomes impaired. Details of the type and classification of the Group's financial instruments are set out in notes 14 and 15 to the accounts and the accounting policy set out in note 1 to the accounts. In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument, and for unlisted securities, is not active, 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.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters. The most significant element of Group assets in which observable prices are not available relates to certain instruments held within the asset backed securities portfolio. At 31 December 2009, level 3 assets with a market value of $2 billion were held in respect of which there was no observable market data. For these instruments, a sensitivity analysis is presented in note 14 in respect of reasonably possible changes to the valuation assumptions.

Equity investments that do not have an observable market price are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering, after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

Notes to the financial statements continued

56. Significant accounting estimates and judgements continued

Goodwill impairment
An annual assessment is made, as set out in note 25, 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.

Pensions
Actuarial assumptions are made in valuing future defined benefit pension obligations as set out in note 36 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 25 basis points, the liability would reduce by approximately $55 million, and vice versa. Whilst changes in other assumptions would have an impact, the effect would not be as significant.

Taxes
Determining income tax provisions involves judgement on the 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 future taxable revenues being generated against which tax losses will be available for offset.

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 2009 would increase by approximately £0.37 for three year grants, and by £0.43 for five year grants (or decrease by approximately £0.37 for three year grants, and by £0.43 for five year grants).

57. Recently issued accounting pronouncements

The following pronouncements relevant and applicable to the Group and Company were issued as at 31 December 2009 but have effective dates for periods beginning after 31 December 2009. The use of IFRSs and certain IFRIC Interpretations that have yet to be endorsed by the European Union is not permitted.

The full impact of these IFRSs and IFRIC Interpretations is currently being assessed by the Group; other than IFRS 9 – Financial Instruments none of these pronouncements are expected to result in any material adjustments to the financial statements. The Group continues to evaluate the potential impact on its financial statements in respect of IFRS 9.

Pronouncement	Description of Impact	Latest effective date for the Group and Company
Amendment to IAS 27 Consolidated and Separate Financial Statements	This amendment changes the treatment for part disposals, both when control is retained (which is accounted for as an equity transaction, generating no profit or loss in the income statement) and when control is lost (where the residual holding is measured at fair value with any changes reflected in income).	1 January 2010
IFRS 3 Revised Business Combinations	IFRS 3 Revised requires acquisition costs to be expensed and not capitalised; an estimate of cash contingent consideration to be made at the date of acquisition, with any future changes recognised in income; provides the option to recognise 100 per cent of the goodwill of an acquired entity in a partial acquisition.	1 January 2010
Amendment to IFRS 2 Share-based Payment	The amendments clarify that where employees in a subsidiary are given share options in the parent company's shares the subsidiary would account for those options as equity settled in its separate financial statements.	1 January 2010
Amendment to IAS 39 - Financial Instruments: Hedging	The amendment clarifies the 'portions' of cash flows or fair values that can be hedged	1 January 2010
Improvements (issued 2009)[1]	Amendments to IFRS 2 (scope), IFRS 8 (disclosure about segment assets), IAS 1 (current/non-current classification of convertible instruments), IAS 7 (classification of land and buildings), IAS 18 (principal or agent), IAS 39 (treating loan prepayment penalties as closely related embedded derivatives), and IFRIC 16 (any entity within the Group that can hold hedging instruments including the foreign operation that is itself being hedged). These amendments are to be applied retrospectively. Amendments to IFRS 5 (disclosure of non-current assets held for sale), IAS 36 (unit of account for goodwill impairment), IAS 38 (measuring fair value of intangible acquired in a business combination), and IFRIC 9 (scope). These amendments are to be applied prospectively.	1 January 2010
Amendment to IAS 24: Related party transactions[1,2]	Change to IAS 24 to clarify the definition of related parties and to provide exemption from the disclosure of certain transactions with government entities.	1 January 2011
IFRS 9 – Financial Instruments[1,2]	IFRS 9 replaces certain elements of IAS 39 in respect of the classification and measurement of financial assets. The standard requires all financial assets to be classified as fair value or amortised cost. Amortised cost classification is only permitted where the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and where these contractual cash flows are solely payment of principal and interest. Gains or losses on assets measured at fair value are recognised in the income statement unless the asset is an equity investment and the Group has elected to present in such gains or losses in other comprehensive income.	1 January 2013

[1] This IFRS or IFRIC Interpretation has not yet been endorsed by the EU.

[2] Subject to endorsement of the European Union the Group has not yet made a final decision as to whether it will apply in the 2010 financial statements those pronouncements marked in the table above.

58. Capital management

Our approach to capital management is driven by our desire to maintain a strong capital base to support the development of our business, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic, business and capital plans are drawn up annually covering a three year horizon and are approved by the Board. The capital plan is designed to ensure that adequate levels of capital and an optimum mix of the different components of capital are maintained to support our strategy.

The capital plan takes the following into account:

- regulatory capital requirements;
- forecast demand for capital to support the credit ratings;
- increases in demand for capital due to business growth, market shocks or stresses;
- available supply of capital and capital raising options; and
- internal controls and governance for managing the Group's risk, performance and capital.

We use a capital model to assess the capital demand for material risks, and support our internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined. The capital modelling process is a key part of our management disciplines.

A strong governance and process framework is embedded in our capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board. The Audit & Risk Committee reviews specific risk areas and the issues discussed at the key capital management committees. The Group Asset and Liability Committee (GALCO) sets internal triggers and target ranges for capital management and oversees adherence with these.

Current compliance with Capital Adequacy Regulations
Our lead supervisor is the FSA. The capital that we are required to hold by the FSA is determined by our balance sheet, off-balance sheet, counterparty and other risk exposures.

Capital in branches and subsidiaries is maintained on the basis of host regulators' regulatory requirements. Suitable governance and processes are in place to ensure compliance with local regulatory ratios in all our legal entities. We have processes and controls in place to monitor and manage capital adequacy, and no breaches were reported during the period.

The table on page 162 summarises the consolidated capital position of the Group. The principal forms of capital are included in the following items on the consolidated balance sheet: share capital and reserves (called-up ordinary share capital and preference shares, and eligible reserves), subordinated liabilities (innovative Tier 1 securities and qualifying subordinated liabilities), and loans to banks and customers (portfolio impairment provision).

Movement in capital
On a Basel II basis, total capital increased by $9,021 million during the year. Our equity placement in August 2009, increased ordinary share capital by $2,500 million and the $3,675 million increase in eligible reserves is primarily on account of retained profits less dividends paid. We issued $1,500 million of Innovative Tier 1 securities in the period, $1,800 million perpetual subordinated debt, and gave notice of redemption of EUR500 million of Preferred Securities in full. Qualifying subordinated liabilities, net of associated amortisations, increased on account of the redemption of a variety of Upper and Lower Tier 2 securities, the impact of which was offset by the issuance of TWD10 billion and KRW300 billion Lower Tier 2 subordinated debt.

Basel II
The Basel Committee on Banking Supervision published a framework for the International Convergence of Capital Measurement and Capital Standards (commonly referred to as 'Basel II'), which replaced the original 1988 Basel I Accord. Basel II is structured around three 'pillars' which are outlined below:

- Pillar 1 sets out minimum regulatory capital requirements – the minimum amount of regulatory capital banks must hold against the risks they assume;
- Pillar 2 sets out the key principles for supervisory review of a bank's risk management framework and its capital adequacy. It sets out specific oversight responsibilities for the Board and senior management, reinforcing principles of internal control and other corporate governance practices; and
- Pillar 3 aims to bolster market discipline through enhanced disclosure by banks.

Basel II provides three approaches of increasing sophistication for the calculation of credit risk capital; the Standardised Approach, the Foundation Internal Ratings Based Approach and the Advanced Internal Ratings Based Approach. Basel II also introduces capital requirements for operational risk for the first time.

The EU Capital Requirements Directive (CRD) is the means by which Basel II has been implemented in the EU. In the case of the provisions relating to the advanced approaches for credit risk and operational risk, implementation commenced from 1 January 2008. In the UK the CRD is implemented by the FSA through its General Prudential Sourcebook and its Prudential Sourcebook for Banks, Building Societies and Investment Firms.

From 1 January 2008, we have been using the Advanced Internal Ratings Based approach for the measurement of credit risk capital. This approach builds on our risk management practices and is the result of a significant investment in data warehousing and risk models.

We use Value at Risk (VaR) models for the measurement of market risk capital for part of our trading book exposures where permission to use such models has been granted by the FSA. Where our market risk exposures are not approved for inclusion in VaR models, the capital requirements are determined using standard rules provided by the regulator which are less risk sensitive.

58. Capital management continued

We apply the Standardised Approach for determining the capital requirements for operational risk. During the initial years of Basel II implementation, the minimum capital requirements were restricted by reference to the Basel I framework, so they could not fall below 80 per cent of the Basel I capital requirements in 2009. This reduction was due to expire at the end of 2009, but the FSA has decided to retain this capital floor indefinitely. The GALCO targets Tier 1 and total capital ratios within a range of 7 to 9 per cent and 12 to 14 per cent respectively. In light of the uncertain economic environment and evolving regulatory debate on banks' capital structures, we believe it is appropriate to remain strongly capitalized above our target ranges.

	2009 $million	2008[1] $million
Core Tier 1 capital		
Called-up ordinary share capital	11,246	8,746
Eligible reserves[1]	12,316	8,641
Minority interests	1,961	1,694
Less: excess expected losses[2]	(502)	(483)
Less: securitisations	(97)	(85)
Goodwill and other intangible assets	(6,451)	(6,354)
Other regulatory adjustments	51	5
Total Core Tier 1 capital	18,524	12,164
Tier 1 capital		
Innovative Tier 1 securities	2,860	1,974
Preference shares	2,694	2,664
Tax on excess expected losses[1]	163	130
Less: material holdings	(237)	(216)
Total Tier 1 capital	24,004	16,716
Tier 2 capital		
Eligible revaluation reserves	258	107
Portfolio impairment provision	242	251
Less: excess expected losses[2]	(502)	(483)
Qualifying subordinated liabilities		
Perpetual subordinated debt	4,360	2,848
Other eligible subordinated debt	9,547	10,520
Less: amortisation of qualifying subordinated liabilities	–	(1,126)
Less: material holdings and securitisations	(335)	(301)
Total Tier 2 capital	13,570	11,816
Deductions from Tier 1 and Tier 2 capital	(57)	(36)
Total capital base	37,517	28,496

[1] The capital has been restated in accordance with the definitions of core Tier 1 capital as advised by the FSA on 1 May 2009.

[2] The tax benefit on excess expected losses is included 50 per cent in eligible reserves and 50 percent in tax on excess expected losses.

[3] Excess expected losses are shown gross.

[4] Subsequent to the reporting date notice has been given for the redemption of USD500 million FRN from other eligible subordinated debt.

Notes to the financial statements continued

Glossary

Advances to deposit ratio	The ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposits ratio demonstrates that customer deposits exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.
Asset Backed Securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and in the case of Collateralised Obligation (CDOs), the reference pool may be ABS.
Alt-A	Loans regarded as lower risk than sub-prime, but they share higher risk characteristics than lending under normal criteria.
Attributable profit to ordinary shareholders	Profit for the year after minority interests and the declaration of dividends on preference shares classified as equity.
Collateralised Debt Obligations (CDOs)	Securities issued by a third party which reference ABSs and/or certain other related assets purchased by the issuer. CDOs may feature exposure to sub-prime mortgage assets through the underlying assets.
Collateralised Loan Obligation (CLO)	A security backed by the repayments from a pool of commercial loans. The payments may be made to different classes of owners (in tranches).
CMBS	Commercial Mortgage Backed Securities are securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Commercial Real Estate	Commercial real estate includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multifamily housing buildings, warehouses, garages, and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets.
Contractual maturities	Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.
Cost:income ratio	Represents the proportion of total costs to total income.
Cover ratio	Represents the extent to which non-performing loans are covered by impairment allowances.
Commercial paper (CP)	Commercial paper is an unsecured promissory note issued to finance short-term credit needs. It specifies the face amount paid to investors on the maturity date.
Core Tier 1 Capital	Core Tier 1 capital comprises called-up ordinary share capital and eligible reserves plus minority interests, less goodwill and other intangible assets and deductions relating to excess expected losses over eligible provisions and securitisation positions as specified by the FSA (Financial Services Authority).
Core Tier 1 Capital ratio	Core Tier 1 capital as a percentage of risk weighted assets.
Credit Default Swaps (CDSs)	A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.
Credit risk spread	The credit spread is the yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.
Customer deposits	Money deposited by all individuals and companies which are not credit institutions. Such funds are recorded as liabilities in the Group's balance sheet under Customer accounts.
Debt restructuring	This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.
Debt securities	Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by Central Banks.
Debt securities in issue	Debt securities in issue are transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.
Delinquency	A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans are considered to be delinquent when consecutive payments are missed.
Dividend per share	Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.
Exposures	Credit exposures represent the amount lent to a customer, together with an undrawn commitments.
First/ Second Lien	First lien: debt that places its holder first in line to collect compensation from the sale of the underlying collateral in the event of a default on the loan. Second lien: debt that is issued against the same collateral as higher lien debt but that is subordinate to it. In the case of default, compensation for this debt will only be received after the first lien has been repaid and thus represents a riskier investment than the first lien.

Notes to the financial statements continued

Funded/unfunded exposures	Exposures where the notional amount of the transaction is funded. Represents exposures where there is a commitment to provide future funding is made but funds are not released.
Guaranteed mortgages	Mortgages for which there is a guarantor to provide the lender a certain level of financial security in the event of default of the borrower.
Home Loan	A loan to purchase a residential property which is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a residential mortgage.
Impaired loans	'Impaired loans' comprise loans where individual identified impairment allowance has been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.
Impairment allowances	Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual or collective.
Individually/ Collectively Assessed	Impairment is measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available. Typically assets within the Wholesale banking business of the Group are assessed individually whereas assets within the Consumer banking business are assessed on a portfolio basis.
Internal Ratings Based (IRB) approach	The IRB approach is used to calculate risk weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters.
Leveraged Finance	Loans or other financing agreements provided to companies whose overall level of debt is high in relation to their cash flow (net debt : EBITDA) typically arising from private equity sponsor led acquisitions of the businesses concerned.
Liquidity and Credit enhancements	Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through overcollateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing commercial paper.
Loans and advances	This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument. An example of a loan product is a Home loan.
Loan-to-value ratio	The loan-to-value ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.
Loans past due	Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.
Mezzanine capital	Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.
Mortgage Backed Securities (MBS)	Securities that represent interests in a group of mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Mortgage related assets	Assets which are referenced to underlying mortgages.
MTNs	Medium term notes are corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years.
Net asset value per share	Ratio of net assets (total assets less total liabilities) to number of shares outstanding.
Net interest income	The difference between interest received on assets and interest paid on liabilities. Group net interest income includes the impact of structural hedges which function to reduce the impact of the volatility of short term interest rate movements on equity and customer balances that do not re-price with market rates.
Net interest margin	The margin is expressed as net interest income divided by the sum of the average assets and average liabilities.
Net interest yield	Interest income divided by average interest earning assets less interest expense divided by average interest bearing liabilities.
Net principal exposure	Net principal exposure is the gross principal amount of assets that are not protected by CDSs. It includes assets that benefit from monoline protection, except where this protection is purchased with a CDS.
Normalised earnings	Profit attributable to ordinary shareholders adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.
Prime	Prime mortgages have a higher credit quality and would be expected to satisfy the criteria for inclusion into Government programs.

Notes to the financial statements continued

Private equity investments	Equity securities in operating companies generally not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.
Profit attributable to ordinary shareholders'	Profit for the year after minority interests and dividends declared in respect of preference shares classified as equity.
Renegotiated loans	Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.
Repo / Reverse repo	A repurchase agreement is a short term funding agreements which allow a borrower to sell a financial asset, such as ABS or Government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.
Retail Loans	Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays, and other consumer uses.
Return on equity	Represents the ratio of the current year's profit available for distribution to the weighted average shareholders equity over the period under review.
Risk weighted assets	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the FSA.
RMBS	Residential Mortgage Backed Securities are securities that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Securitisation	Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to an SPE (special purpose entity) who then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.
SPEs	SPEs are entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities. Transactions with SPEs take a number of forms, including: – The provision of financing to fund asset purchases, or commitments to provide finance for future purchases. – Derivative transactions to provide investors in the SPE with a specified exposure. – The provision of liquidity or backstop facilities which may be drawn upon if the SPE experiences future funding difficulties. – Direct investment in the notes issued by SPEs.
Structured finance / notes	A Structured note is an investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.
Student loan related assets	Assets which are referenced to underlying student loans.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
Sub-Prime	Sub-prime is defined as loans to borrowers typically having weakened credit histories that include payment delinquencies and potentially more severe problems such as court judgements and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, high debt-to-income ratios, or other criteria indicating heightened risk of default.
Tier 1 capital	Tier 1 capital comprises Core Tier 1 capital plus innovative Tier 1 securities and preference shares and tax on excess expected losses less material holdings in credit or financial institutions.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.
VaR	Value at Risk is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.
Write Downs	The depreciation or lowering of the value of an asset in the books to reflect a decline in their value, or expected cash flows.

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