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 base listing 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 base listing document.

This base listing 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 base listing document. The issuer accepts full responsibility for the accuracy of the information contained in this base listing 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 base listing 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 base listing 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 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 base listing 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 sponsor of any underlying index to which the structured products relate.

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" to 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 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 18 April 2012

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文譯本)連同本基本上市文件之「本人從何處可查閱發行人的文件?」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 warrants relating to the units of a fund or trust, cash-settled index warrants, cash-settled CBBCs relating to a share, cash-settled CBBCs relating to an index and cash-settled 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 day immediately preceding the date of this base listing document):	AA– by Standard and Poor's Ratings Services A1 by Moody's Investors Service, Inc.
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:	Standard Chartered Securities (Hong Kong) Limited or such other entity appointed by us as may be specified in the relevant supplemental listing document. 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) or another nominee of Hong Kong Securities Clearing Company Limited 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:	The net proceeds from the issue of our structured products will be used for the general business purposes of Standard Chartered PLC and its subsidiaries (the "**Group**").

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, fund or trust underlying our structured products:	If the shares of the company 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 or the underlying exchange (as the case may be), 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, fund, trust or the index underlying our structured products:	If certain corporate events occur in connection with the company, 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.
Early termination for illegality or impracticability:	We may early terminate our structured products due to illegality or impracticability as further detailed in the section headed "Risk Factors" in this base listing document.
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 shares of a company, units in a fund or trust or an index.

- 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.

  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 each board lot of warrants, we will pay the warrantholder a cash amount equal to (1) the product of (i) the entitlement, (ii) the difference between the average price of underlying share and the exercise price (in the case of call warrants) or the exercise price and the average price of underlying share (in the case of put warrants), and (iii) one board lot, and divided by (2) the number of warrant(s) per entitlement, converting such amount into the settlement currency if necessary, and in each case less any exercise expenses, so long as such amount is greater than zero.

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

  Our cash-settled index call warrant gives its holders a right upon exercise of each board lot of warrants, to receive from us a cash amount equal to (1) the product of (i) the difference between the closing level of the index on the valuation date and the predetermined strike level, (ii) one board lot, and (iii) the index currency amount and divided by (2) the divisor, converting such amount into the settlement currency if necessary and less any exercise expenses.

  Our cash-settled index put warrant gives its holders a right upon exercise of each board lot of warrants, to receive from us a cash amount equal to (1) the product of (i) the difference between the predetermined strike level and the closing level of the index on valuation date, (ii) one board lot, and (iii) the index currency amount and divided by (2) the divisor, converting such amount into the settlement currency if necessary and less any exercise expenses.

  The closing level of the index on the valuation date 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.

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 each board lot of warrants, we will pay the warrantholder a cash amount equal to (1) the product of (i) the entitlement, (ii) the difference between the average price of the underlying unit and the exercise price (in the case of call warrants) or the exercise price and the average price of underlying unit (in the case of put warrants), and (iii) one board lot, and divided by (2) the number of warrant(s) per entitlement, converting such amount into the settlement currency if necessary, 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, cash-settled 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 Annex 1 to 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 stock warrants only)
Company	Name of the company which issues the underlying shares (for our stock warrants 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)
Exercise price	Predetermined exercise price of the underlying share/unit (for our warrants over stock and warrants relating to the units of a fund or trust only)
Strike level	Predetermined level of the underlying index (for our index warrants only)
Closing level	The level of the underlying index for the calculation of the cash settlement amount payable upon the exercise of our warrants (for our index warrants only)
Expiry date	The date on which our warrants expires

Valuation date(s)	Date(s) on which the average price or closing level (as the case may be) of the underlying asset is determined for the calculation of the cash settlement amount upon exercise of our warrants
Entitlement	Number of shares/units to which a specified number of warrants relate (for our warrants over stock and warrants relating to the units of a fund or trust only)
Number of warrant(s) per entitlement	Number of warrants to which one entitlement relates (for our stock warrants 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 our warrants (for our index warrants only)
Divisor	A predetermined amount which is used in the calculation of the cash settlement amount payable upon the exercise of a board lot of our warrants (for our index warrants only)
European style	Our warrants are European style warrants. This means that they will be automatically exercised on the expiry date
Dealing commencement date	The date on which our warrants commence trading on the Stock Exchange

CBBCs:

- 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 the spot price of the underlying share as reported by the relevant exchange is at any time at or below the predetermined call price 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 then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the closing price of the underlying share and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value 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 each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the lowest spot price to which the underlying share has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions) and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

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 same 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, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing 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 the spot price of the underlying share as reported by the relevant exchange is at any time at or above the predetermined call price 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 then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the closing price of the underlying share, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value 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 each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the highest spot price to which the underlying share has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions), and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

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, loss of a significant portion or the entirety 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 closing 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 any time at or below the predetermined call level 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 then, upon the expiry of a CBBC, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the difference between the closing level of the underlying index and the strike level, (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor, and less any exercise expenses.

  If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value 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 CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the difference between the lowest spot level of the underlying index as published by the index sponsor during the MCE valuation period (as defined in the relevant terms and conditions) and the strike level, (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

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 same 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, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing 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 any time at or above the predetermined call level 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 then, upon the expiry of a CBBC, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the difference between the strike level and the closing level of the underlying index, (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor, and less any exercise expenses.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value 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 each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the difference between the strike level and the highest spot level of the underlying index as published by the index sponsor during the MCE valuation period (as defined in the relevant terms and conditions), (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

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, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing 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 closing level of the index 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 the spot price of the underlying unit as reported by the relevant exchange is at any time at or below the predetermined call price 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 then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the closing price of the underlying unit and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value 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 each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the lowest spot price to which the underlying unit has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions) and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

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 same 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, loss of a significant portion or the entirety 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 the spot price of the underlying unit as reported by the relevant exchange is at any time at or above the predetermined call price 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 then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the closing price of the underlying unit, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value 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 each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the highest spot price to which the underlying unit has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions), and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

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, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing 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 closing 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)
Company	Name of the company which issues the underlying shares (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)
Divisor	A predetermined amount 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)
Expiry date	The date on which 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 commencement date	The date on which the observation period commence
Observation end date	The trading day immediately preceding the expiry date
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	The 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 our 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 websites) in the relevant 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")?

We are regulated by the Hong Kong Monetary Authority as a licensed bank. We are also regulated by the United Kingdom Financial Services Authority ("**FSA**").

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 28 March 2012.

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 SCB;
- our 2011 annual report which contains the financial statements of SCB and its subsidiaries ("**SCB Group**") for the year ended 31 December 2011;
- as they become available, the unaudited interim consolidated accounts of SCB Group;
- the letter from our auditors, KPMG Audit Plc, consenting to the reproduction of their reports in this base listing document;
- the instrument executed by us by way of deed poll on 25 June 2010 pertaining to the issue of our structured products (the "**Instrument**"); and
- this base listing document (and its addendum, if any) and the relevant supplemental listing document for a series of our 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 CCASS 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 the structured products and their exercise or settlement, please see the terms and conditions of the relevant series of the structured products.

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

There is no Hong Kong stamp duty on the 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 0.003 per cent. on the value of the transaction of the 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) or another nominee of Hong Kong Securities Clearing Company Limited.

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 the issuer's considered assessment of the risks of dealing in the structured products. Their inclusion in this base listing document does not mean these are the only significant or relevant risks of dealing in our structured products.

1 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.

2 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 closing 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 exercise/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 until expiry, the price or level of the underlying asset compared with the exercise/strike price/level or call 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.

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

As 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 in either 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 ask 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 ask 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 ask 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 ask 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 for whatever reason on the market on which they are listed or dealt in (including the Stock Exchange), trading in our structured products will also be suspended for a similar period. The value of our structured products will decrease over time as the length of the period remaining to expiration becomes shorter. You should note that in the case of a prolonged suspension period, the market price of our structured products will be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of our structured products. This may adversely affect your investment in our structured products.

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

4 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 alone, and not that of anyone 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.

5 Our structured products are not rated, you should not solely rely on our ratings when investing in our structured products

When evaluating our creditworthiness, you should not solely rely on our credit ratings because: (i) a credit rating is not a recommendation to buy, sell or hold our structured products; (ii) our credit ratings may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence; and (iii) a high credit rating is not necessarily indicative of low risk. Our credit ratings as set out in this base listing document are for reference only. Any downgrading of our credit ratings could result in a reduction in the value of our structured products. Rating agencies usually receive a fee from the entities that they rate.

6 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 our 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 our 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 of 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.

7 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 our or their own 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 value 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 the company underlying our structured products. Our own 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. However, we maintain regulatorily required information barriers between our different business areas as well as regulatorily required policies and procedures designed to minimise and manage such potential and actual conflicts of interest to comply with applicable laws and regulations, and to ensure our transactions and/or dealings in respect of our structured products will be transacted at arm's length.

8 We may early terminate our structured products due to illegality or impracticability

If we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, it has become or it will become illegal or impracticable: (i) for us to perform our obligations under any structured products in whole or in part; or (ii) for us or any of our affiliates to maintain our or their hedging arrangements with respect to the structured products, we may decide to terminate that series of structured products early. If this happens, we will, if and to the extent permitted by the applicable law or regulation, pay to each holder of those structured products a cash amount determined by us in good faith and in a commercially reasonable manner to be the fair market value of the structured products immediately prior to such termination (ignoring such illegality or impracticability) less our cost of unwinding any related hedging arrangement as determined by us in our sole and absolute discretion. Such amount could be substantially less than the amount you invested and can be as low as zero.

9 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.

10 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 underlying 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 underlying 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.

For our structured products relating to the units of an exchange traded fund ("**ETF**"), you should note that (i) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track; (ii) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and (iii) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the structured products will also be indirectly subject to these risks.

Additionally, where the underlying asset of structured products comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track ("**Synthetic ETF**"), you should note that (i) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on other counterparties of the Synthetic ETF. Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and (ii) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

You should note that the above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of our structured products linked to such ETF or Synthetic ETF.

11 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.

12 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 cash settlement amount may affect the cash settlement amount

There may be a time lag between the time or date when our structured products are automatically exercised; or (in the case of our CBBCs only) when a mandatory call event occurs and the time of determination of the cash 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 cash settlement amount may change significantly during any such period and may result in such cash settlement amount being zero.

13 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.

14 We may modify the terms and conditions of our structured products

We may, without your consent, modify the terms and conditions applicable to our structured products if such modification is: (i) not materially prejudicial to your interest; (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provision of the laws or regulations of Hong Kong.

15 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.

16 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.

17 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.

18 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.

19 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) or another nominee of Hong Kong Securities Clearing Company Limited, 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) or another nominee of Hong Kong Securities Clearing Company Limited. 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) or another nominee of Hong Kong Securities Clearing Company Limited 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.

20 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.

21 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 ("**SCPLC**").

22 US foreign accounts reporting

The issuer may be subject to U.S. withholding tax if it fails to enter into an agreement with the Internal Revenue Service ("**IRS**") to report certain information about the holders of the structured products or a holder of the structured products may become subject to U.S. withholding if it fails to provide requested information to the issuer.

The Hiring Incentives to Restore Employment Act, which was enacted in early 2010 and contains provisions from the former Foreign Account Tax Compliance Act of 2009 ("**FATCA**"), imposes a 30% withholding tax on certain payments to certain non-U.S. financial institutions (including entities such as the Issuer) who do not enter into and comply with an agreement with the IRS to provide certain information on the holders of its debt or equity (other than debt or equity interests that are regularly traded on an established securities market).

The relevant rules have not yet been fully developed and the future application of FATCA to the issuer and the holders of structured products is uncertain. It is our intention, subject to further clarification and analysis of the legal requirements associated with entering into relevant legal agreements with the US government, to be a participating Foreign Financial Institution (as defined in FATCA). As a result of such agreement, holders of structured products may be required to provide certain information or be subject to withholding on certain payments made to them. If a holder of structured products does not provide the necessary information and is subject to withholding, there will be no "gross up" (or any other additional amount) payable by way of compensation to the holder of structured products for the deducted amount.

FATCA is particularly complex and its application to the issuer is uncertain at this time. Each holder of structured products should consult its own tax advisor to obtain a more detailed explanation of FATCA and to learn how this legislation might affect each holder in its particular circumstance.

23 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

24 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.

25 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 a mandatory call event occurs during the observation period of our CBBCs – meaning that the price or level of the underlying asset is at any time at or below (for our Bull CBBCs) or at or above (for our Bear CBBCs) the predetermined call price or call level during the observation period. 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 value (if any) by us. Such residual value is determined by reference to the amount by which the minimum trade price or index level of the underlying asset during the MCE valuation period 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 during the MCE valuation period (for our Category R Bear CBBCs). This residual value may be as low as zero.

Where the mandatory call event occurs in a continuous trading session of the Stock Exchange, all trades in the CBBCs concluded via auto-matching or manually after the time the occurrence of a mandatory call event will be invalid and will be cancelled and will not be recognised by us or the Stock Exchange. Where the mandatory call event occurs during a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in such session will be invalid and will be cancelled and will not be recognised by us or the Stock Exchange. 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.

26 Mandatory call event is irrevocable except in limited circumstances

A mandatory call event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of the Hong Kong Exchanges and Clearing Limited (such as the setting up of wrong call price/call level and other parameters), and such event is reported by the Stock Exchange to us and we and the Stock Exchange mutually agree that such mandatory call event is to be revoked; or

(b) manifest errors caused by the relevant third party price source where applicable (such as any miscalculation of the index level by the relevant index sponsor), and such event is reported by us to the Stock Exchange and we and the Stock Exchange mutually agree that such mandatory call event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the trading day of the Stock Exchange immediately following the day on which the mandatory call event occurs, or such other time frame as prescribed by the Stock Exchange from time to time.

27 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 value (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 value (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 residual value (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.

28 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 or level 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).

Risks relating to the Group

Internal risks and risks relating to the Group and its business operations

29 Changes in the credit quality and the recoverability of loans and amounts due from counterparties may have a material adverse effect on the Group's financial condition, results of operations and prospects

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Adverse changes in the credit quality of the Group's borrowers and counterparties (both sovereign and non-sovereign), or adverse changes arising from a further deterioration in global economic conditions or asset values, or systemic failures in financial systems could reduce the recoverability and value of the Group's assets and require an increase in the Group's level of provisions for bad and doubtful debts or increase the levels of impairments or write-downs experienced by the Group. An adverse change in economic conditions could also adversely affect the Group's level of banking activity. Although the Group devotes considerable resources to managing the above risks, many of the factors affecting borrower and counterparty credit risks are beyond the control of the Group and the occurrence of any of the foregoing risks or a failure by the Group to manage these risks effectively could have a material adverse effect on the Group's financial condition, results of operations and prospects.

30 The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgments and estimates which may change over time

In order to establish the value of financial instruments which the Group, under International Financial Reporting Standards as adopted by the EU ("**IFRS**"), recognises at fair value, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instrument utilised by such valuation models may not be available, or may become unavailable, due to changes in market conditions, as has been the case at times since the commencement of the recent financial crisis. In such circumstances, the Group's internal valuation models require the Group to make assumptions, judgments and estimates in order to establish fair value. In common with other financial institutions, these internal valuation models are complex, and the assumptions, judgments and estimates the Group is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, asset price appreciation and depreciation, and relative levels of defaults and deficiencies. Such assumptions, judgments and estimates may need to be updated to reflect new information, changing trends and market conditions. The resulting change in the fair values of financial instruments could have a material adverse effect on the Group's financial condition, results of operations and prospects.

31 The Group's business could be affected if its capital is not managed effectively

Effective management of the Group's capital position is important to its ability to operate its business, to continue to grow organically and to pursue its strategy. Future changes that limit the Group's ability to manage its balance sheet and capital resources effectively or to access funding on commercially acceptable terms could have a material adverse effect on the Group's regulatory capital position, its financial condition, results of operations and prospects.

32 Lack of liquidity is a risk to the Group's business

Liquidity risk is the risk that the Group either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can access them only at excessive cost. This risk is inherent in banking operations and can be heightened by a number of factors, including an over-reliance on or inability to access a particular source of funding (including, for example, reliance on inter-bank funding), changes in credit ratings or market-wide phenomena such as financial market instability and natural disasters.

Although the Group's policy is to seek to manage its liquidity prudently in all geographic locations and for all currencies, as the Group operates in markets which have been and may be affected by illiquidity and extreme price volatility, either directly or indirectly, through exposures to securities, loans, derivatives and other commitments, any reoccurrence or prolonged continuation of such conditions could have an adverse effect on the Group's results of operations and, if severe, could have a material adverse effect on the Group's financial condition and prospects. In addition, any significant increase in the cost of acquiring deposits, inability to further grow deposits or significant outflow of deposits from the Group, particularly if it occurs over a short period of time, could have a material adverse impact on the Group's financial condition and liquidity position.

33 The Group is subject to the risk of increased capital and liquidity requirements to meet the minimum required by regulators

The Group's lead supervisor, the FSA, determines the minimum level of capital that the Group is required to hold by reference to its balance sheet, off-balance sheet, counterparty and risk exposures. Currently, the Group is capitalised above its stated target ratios of 7 to 9 per cent. and 12 to 14 per cent., respectively, for Tier 1 Capital and Total capital ratios on a Basel II basis. However, the FSA could (beyond the changes described below) apply increasingly stringent stress case scenarios in determining the required capital ratios for the Group and any of its UK regulated firms, increase the minimum regulatory requirements imposed on the Group or any of its UK regulated firms, introduce changes to the basis on which capital and RWA are computed, impose additional capital buffers, introduce further liquidity requirements, impose new regulatory requirements and/or change the manner in which it applies existing requirements to the Group or its UK regulated firms. In order to meet such additional regulatory requirements the Group may be required to raise further capital and liquidity or take other actions to achieve compliance.

The Group's ability to maintain its stated target regulatory capital ratios in the longer term could be affected by a number of factors, including its risk-weighted assets, post-tax profit and fair value adjustments. In addition to the fair value adjustments, the Group's Core Tier 1 Capital ratio will be directly impacted by any shortfall in post-tax profit (which could result, most notably, from greater than anticipated asset impairments and/or adverse volatility relating to the lending businesses). Furthermore, under Basel II, capital requirements are inherently more sensitive to market conditions than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen.

In July 2009, the Basel Committee agreed changes to Basel II to address deficiencies in respect of the treatment of securitisations and market risks. Banks using internal models to determine the capital requirements for their trading books are required to calculate a stressed value-at-risk based on historical data from a 12-month period of significant stress. Banks using internal specific risk models for the trading book must also calculate an incremental risk capital charge for credit sensitive positions which captures default and migration risk. Securitisation positions held in the trading book are subject to capital charges similar to securitisation positions held in the banking book and higher capital charges will apply to re-securitisation positions. These changes have been introduced from 31 December 2011 and are expected to increase significantly the capital requirements for trading book transactions and certain securitisations as well as potentially other transactions.

In December 2010, the Basel Committee finalised its proposals for new capital and liquidity requirements intended to reinforce existing capital requirements and to establish minimum liquidity standards ("**Basel III**"). These include new definitions of common equity and non-common equity Tier 1 Capital as well as new eligibility criteria for Tier 2 Capital requiring it to absorb losses. Innovative Tier 1 Capital and Tier 3 Capital will be abolished. A harmonised set of deductions is proposed with most deductions being made from common equity. A revised version of the Basel III capital rules was published in June 2011 and further changes or clarifications are possible.

Under Basel III the minimum Common Equity Tier 1 Capital ratio will increase from 2 per cent. to 4.5 per cent. of risk-weighted assets ("**RWA**"), with a further capital conservation buffer of 2.5 per cent. of RWA to be made up of common equity, increasing the new Common Equity Tier 1 Capital ratio to an effective 7 per cent of RWA. The minimum Total capital ratio (including the capital conservation buffer of 2.5 per cent.) will increase from 8 per cent. to 10.5 per cent. of RWA. In addition, banks will need to satisfy a leverage ratio calibrated at 3 per cent of Tier 1 Capital over total exposures during an initial testing phase. National regulators will be able to impose an additional counter-cyclical capital buffer of up to 2.5 per cent. Systemically important banks will be required to have loss absorbing capacity in excess of these standards. According to the approach finalised by the Basel Committee in November 2011, global systemically important banks will need to meet an additional common equity capital requirement ranging from 1 per cent. to 2.5 per cent. of RWA, depending on a bank's systemic importance. To provide a disincentive for banks facing the highest charge to increase materially their global systemic importance in the future, an additional 1 per cent. buffer would be applied in such circumstances.

The new requirements will be phased in from 1 January 2013, with final implementation of the Basel III package by 1 January 2019. Basel III will be implemented in the European Union through legislation replacing the EU Capital Requirements Directive (known as CRD IV). The European Commission's proposals for CRD IV were published in July 2011. It is possible that the FSA will impose more onerous requirements than those required by Basel III or CRD IV, or require compliance in advance of the timetable announced by the Basel Committee, which, in the case of the former, could have a material adverse effect on the Group.

On 12 September 2011 the UK Independent Commission on Banking (the "**ICB**") published its final report. The ICB proposes that UK banks that accept retail and small business deposits from customers in the EEA must establish a UK ring-fenced subsidiary to carry on that business. The ring-fenced subsidiary would be prohibited from engaging in certain activities (such as proprietary trading, underwriting and most derivatives trading), while other activities (including lending to large corporates) could be carried out either by the ring-fenced subsidiary or by other entities in the banking group. The ICB report states that the UK ring-fenced subsidiary should hold common equity beyond the Basel III minimum with the largest UK retail banks maintaining equity capital of at least 10 per cent. of RWA. Smaller UK retail banks will require a minimum common equity of between 7per cent. and 10 per cent. of RWA depending on their size.

In addition, the ICB recommends that global systemically important banks with a capital surcharge of 2.5 per cent. (see above), as well as the largest UK retail deposit takers, should have "primary loss absorbing capacity" of at least 17 per cent., with smaller global systemically important banks and UK deposit takers, required to have "primary loss absorbing capacity" of between 10.5 per cent. and 17 per cent. of RWA depending on their size. Primary loss absorbing capacity is proposed by the ICB as including Tier 1 and Tier 2 capital as well as "bail-in bonds" which are capable of being written off, or converted to common equity, in resolution. The ICB further proposes that the competent authority should have a "broad discretion" to increase the ratio of "primary loss absorbing capacity" by up to a further 3 per cent. (a "**resolution buffer**") having regard to a number of factors including the complexity of a bank's structure and activities, the availability and likely effectiveness of resolution tools, any evidence that the bank is benefiting from an implicit government guarantee and the bank's contribution to systemic risk. This discretion includes determining the form in which the resolution buffer is held, as well as the entities in the banking group to which the requirement applies. In addition, the ICB recommends that all UK-headquartered banks and UK ring-fenced banks should maintain a Tier 1 leverage ratio of 3 per cent. with large UK ring-fenced banks meeting a ratio of up to 4.06 per cent. depending on their size.

The UK Government welcomed the ICB report in its response published in December 2011 and announced its intention to introduce legislation to implement the changes which will come into force by 1 January 2019. It is possible that implementation of the ICB proposals will require the Group to raise further capital in the future.

Under Basel III banks will be required to meet two new liquidity standards: a liquidity coverage ratio ("**LCR**") and a net stable funding ratio ("**NSFR**"). The LCR will require banks to hold an amount of unencumbered, high quality liquid assets that can be used to offset the net cash outflows the bank would encounter under an acute short-term stress scenario. The NSFR will measure the amount of longer-term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on liquidity arising from off-balance sheet commitments and obligations, although the details of the NSFR are subject to further development and calibration. After an observation period beginning in 2011, the LCR will be introduced on 1 January 2015. The NSFR will move to a minimum standard by 1 January 2018.

The FSA has implemented its own new liquidity standards based on the following elements (i) principles of self-sufficiency and adequacy of liquidity resources, (ii) enhanced systems and control requirements, (iii) quantitative requirements, including Individual Liquidity Adequacy Standards, coupled with a narrow definition of liquid assets and (iv) frequent reporting. Amongst other changes, these standards will require banks, including SCB, to maintain a portfolio of eligible liquid assets higher than the liquid assets they currently hold.

CRD II imposed new requirements in respect of non-Core Tier 1 Capital from 31 December 2010. Capital instruments that do not satisfy the European requirements are grandfathered on a limited basis. The Basel Committee announced proposals on grandfathering under Basel III which are considerably more restrictive than those set out in CRD II (which would require amendment as part of Basel III implementation in the European Union). The Basel Committee stated that capital instruments that do not meet the criteria for inclusion in Common Equity Tier 1 Capital will be excluded from Common Equity from 1 January 2013. Capital instruments that no longer qualify as non-common equity Tier 1 Capital or Tier 2 Capital will be phased out over a 10-year period beginning on 1 January 2013. The level of recognition will be capped at 90 per cent. on 1 January 2013, and will decline by 10 percentage points each subsequent year, being fully phased out by 1 January 2022. Further, instruments with an incentive to redeem (e.g. with an interest step up) will be phased out at their effective maturity date. The Group may not be able contractually to redeem instruments that cease to be eligible under CRD II and/or Basel III, with the result that the Group may be forced to raise further capital as a result of such instruments not being eligible as regulatory capital in the future.

In January 2011 the Basel Committee announced that the terms and conditions of all non-common equity Tier 1 and Tier 2 instruments issued after 1 January 2013 must have a provision that requires such instruments, at the option of the relevant authority, either to be written off or converted into common equity upon the occurrence of a trigger event unless: (1) the governing jurisdiction of the bank has in place laws that require such Tier 1 and Tier 2 instruments to be written off upon such event, or otherwise require such instruments to fully absorb losses before tax payers are exposed to loss; (2) a peer group review confirms that the jurisdiction conforms with clause (1); and (3) it is disclosed by the relevant regulator and by the issuing bank, in future issuance documents, that such instruments are subject to loss. The trigger event is the earlier of: (a) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (b) a decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority. In July 2011 the Financial Stability Board released a consultation paper proposing a resolution framework for systemically important financial institutions including statutory bail-in powers as a bank resolution tool. It is therefore possible that legislation could be passed that would result in the Senior Notes and/or the Subordinated Notes absorbing losses in the course of a resolution of the relevant issuer. The application of such legislation may have an adverse effect on the position of holders of the Senior Notes and/or Subordinated Notes.

If the regulatory capital requirements, liquidity requirements or other requirements applied to the Group are increased in the future, any failure by the Group to satisfy such increased requirements could result in administrative actions or sanctions (including loss or suspension of a banking licence) or significant reputational harm, which in turn may have a material adverse effect on the Group's financial condition, results of operations and prospects.

"Tier 1 Capital", "Tier 2 Capital", "Tier 3 Capital", "Core Tier 1 Capital", "Innovative Tier 1 Capital" and "Lower Tier 2 Capital", depending on the context, have the meaning (i) given to such terms, in the General Prudential Sourcebook (as set out in the handbook of rules and guidance issued by the FSA under FSMA) or (ii) required under Basel III.

34 Failure to manage legal and regulatory risk properly can impact the Group adversely

The Group is subject to a wide variety of banking and financial services laws and regulations and is supervised by a large number of regulatory and enforcement authorities in each of the jurisdictions in which it operates. As a result, the Group is exposed to many forms of legal and regulatory risk, which may arise in a number of ways, primarily:

- losses may be caused by changes in applicable laws and regulations or in their application; the Group may not be able to predict the timing or form of any current or future regulatory or law enforcement initiatives which are becoming increasingly common for international banks and financial institutions;

- as a result of being subject to a variety of complex legal and regulatory regimes in many of the countries where it operates, in respect of which requirements, standards or sanctions may differ significantly from country to country;

- as a result of being subject to extensive laws and regulations which are designed to combat money laundering and terrorist financing, and to enforce compliance with sanctions against designated countries, entities and persons, including countries in which, and entities or persons with which, the Group may conduct and may have conducted business from time to time;

- risk from defective transactions or contracts, either where contractual obligations are not enforceable or do not allocate rights and obligations as intended, or where contractual obligations are enforceable against the Group in an unexpected or adverse way, or by defective security arrangements;

- the title to and ability to control the assets of the Group (including the intellectual property of the Group, such as its trade names) may not be adequately protected; and

- allegations being made against the Group claiming liability for damages to third parties including where legal proceedings are brought against it; regardless of whether such claims have merit, the outcome of legal proceedings is inherently uncertain and could result in financial loss.

Although the Group has processes and controls to manage legal and regulatory risks, failure to manage such risks properly may impact the Group adversely or result in administrative actions, penalties or other proceedings involving the Group which may have a material adverse effect on the Group's business, reputation, its financial condition, results of operations, prospects and ultimately on the value of the structured products issued under this base listing document. In addition, a failure to comply with applicable laws or regulations by the Group's employees, representatives, agents and third party service providers, either in or outside the course of their services, or suspected or perceived failures by them, may result in enquiries or investigations by regulatory and enforcement authorities, or in regulatory or enforcement action against the Group or such employees, representatives, agents and third party service providers in various jurisdictions. Such actions may adversely impact the reputation of the issuer or the Group, result in adverse media reports, lead to increased levels of scrutiny by relevant regulatory or supervisory bodies, additional costs, penalties, claims and expenses being incurred by the Group and, as a result, have a material adverse effect on the Group's ability to conduct business, its financial condition, results of operations and prospects.

35 Operational risks are inherent in the Group's business

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. Operational losses can result, for example, from fraud, errors by employees, failure to document transactions properly or to obtain proper authorisation, failure to comply with regulatory requirements and conduct of business rules (including those arising out of anti-money laundering and anti-terrorism legislation, as well as the provisions of applicable sanctions regimes), equipment failures, natural disasters or the failure of external systems. The Group seeks to ensure that operational risks are managed in a timely and effective manner, through a framework of policies, procedures and tools but this framework may prove ineffective in managing such risks. Any of these risks could have a material adverse effect on the Group's ability to conduct business, its financial condition, results of operations and prospects.

36 The business of the Group may be affected if it is unable to recruit, retain and develop appropriate senior management and skilled personnel

The Group's continued success depends in part on the continued service of key members of its management team and other skilled personnel. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of the Group's strategy. The successful implementation of the Group's growth strategy depends on the availability of skilled management at its head office and at each of its business units and international locations. Competition for skilled management and other employees is particularly evident in a number of the geographic areas in which the Group operates, particularly, in emerging markets. If the Group or one of its business units or other functions fails to staff their operations appropriately, or loses one or more of its key senior executives and fails to replace them in a satisfactory and timely manner, its business, financial condition and results of operations, including control of operational risks, may be adversely affected. Likewise, if the Group fails to attract and appropriately train, motivate and retain qualified professionals, its business, and in particular the ability to expand in certain areas, may be adversely affected, which could have a material adverse effect on the Group's financial condition, results of operations and prospects. The EU and the FSA have introduced requirements in respect of remuneration which could potentially affect the ability of the Group to recruit, retain and motivate appropriate senior management and skilled personnel. In particular, certain restrictions have applied from 1 January 2011 on the payment of bonuses and other non-contractual remuneration to senior management and anyone whose professional activities could have a material impact on a firm's risk profile. Similar restrictions do not apply in the Group's core markets across Asia, Africa, and the Middle East which creates an uneven playing field when competing for talent with other local and non-EU international banks. The European Commission's proposals for CRD IV would, if adopted, place limits on the combination of executive and non-executive directorships and require institutions to take into account diversity as one of the criteria for selection of members of their management body. The proposals also envision the European Banking Authority developing regulatory technical standards in respect of the time commitment required of members of the management body.

37 The Group is expanding its operations and this growth may represent a risk if not managed effectively

The Group is experiencing significant growth as it expands geographically and in the scope of products and services it offers, including through acquisitions. The Group's business strategy is based on organic growth but includes selective plans to continue to acquire assets or businesses that it believes are logical extensions of its existing businesses to increase cash flow and earnings. The Group continues to look at potential acquisitions in a number of markets. The Group may experience some, or all, of the difficulties described below in managing the integration of any subsequent acquisitions into its existing businesses. The failure effectively to manage its expansion, whether organic or inorganic, could have a material adverse effect on the Group's financial condition, results of operations and prospects.

The success of the Group's acquisitions will depend, in part, on the ability of its management to integrate the operations of newly acquired businesses with its existing operations and to integrate various departments, personnel, systems and procedures.

Consequently, the Group's ability to implement its business strategy may be constrained and the timing of such implementation may be impacted due to demands placed on existing resources by that process. There can be no assurance that:

- the Group will be successful in acquiring all the entities it seeks to acquire;
- the acquired entities will achieve the level of performance that the Group anticipates, or that the carrying value of goodwill on acquisition will be fully supported by the cash flows of the cash generating unit to which it has been allocated for the purposes of impairment testing (and, therefore, the value of the assets being carried may be written-down or impaired);
- the projected demand and prices of the Group's products and services will be realised;
- the acquired entities will not cause a disruption to the Group's ongoing businesses, distract management attention and other resources, or make it difficult to maintain the Group's standards, internal controls and procedures;
- the Group will not be required to incur debt or issue equity securities to pay for acquisitions, for which financing may not be available or may not be available on commercially attractive terms;
- the Group will realise any or all of the intended synergy or growth benefits expected at the time of acquisition;
- the Group's credit ratings will not be negatively affected by such acquired entities or the method of financing any acquisition or acquired business;
- the Group will be able to successfully integrate the services, products and personnel of an acquired entity into its operations, especially if the Group acquires large businesses; or
- the Group will not assume unforeseen liabilities and exposures as a result of such acquisitions.

The occurrence of any one or a combination of these events could have a material adverse effect on the Group's financial condition, results of operations and prospects.

38 The Group's business is subject to reputational risk

Reputational risk is the potential for damage to the Group's franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the Group or its actions. Reputational risk could arise rom the failure by the Group to effectively mitigate the risks in its businesses including one or more of country, credit, liquidity, market, regulatory, legal or operational risk. It may also arise from a failure to comply with environmental and social standards. Material damage to the Group's reputation with one or more of its key stakeholders could have a material impact on the future earning capacity of the Group through the loss of current and prospective customers or damage to key government or regulator relationships. A failure to manage reputational risk effectively could materially affect the Group's business, results of operations and prospects.

39 The Group is exposed to pension risk

Pension risk is the potential for loss due to having to meet or meeting an actuarially assessed shortfall in the Group's pension schemes. Pension risk exposure is focused upon the risk to the Group's financial position arising from the need to meet its pension scheme funding obligations. In the event of a shortfall the Group may be required or may choose to make additional payments to the Group's pension schemes which, depending on the amount, could have a material effect on the Group's business, results of operations and prospects.

40 The banking industry is a target for fraud and other criminal activity

The banking industry has long been a target for those seeking to defraud, disrupt legitimate economic activity or facilitate other illegal activities. The risk posed by such criminal activity is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology.

The Group seeks to be vigilant to the risks of internal and external crime in its management of people, processes, systems and in its dealings with customers and other stakeholders. The Group has a broad range of measures in place to monitor and mitigate these risks. However, such measures may not be effective and these risks could have a material adverse effect on the Group's ability to conduct business, its financial condition, results of operations and prospects.

External Risk Factors

41 Macroeconomic risks could result in a material adverse effect on the Group's financial condition, results of operations and prospects

The Group operates in over 70 countries and territories and is affected by the prevailing economic conditions in each market. Macroeconomic factors have an impact on personal expenditure and consumption, demand for business products and services, the debt service burden of consumers or businesses, and the general availability of liquidity and credit. All these factors may impact the Group's financial condition, results of operations and prospects.

One of the principal uncertainties is the extent to which the recent crisis in the euro zone, global economic slowdown and/or recession may impact the Group's primary markets in Asia, Africa and the Middle East, and the timing of that impact. The linkages between economic activities in different markets are complex and depend not only on direct drivers such as the balance of trade and investment between countries, but also on domestic monetary, fiscal and other policy responses to macroeconomic conditions.

Consequently, one uncertainty for the corporate sector in Wholesale Banking and the small and medium enterprises ("**SME**") segment in Consumer Banking will be the extent to which exports are impacted by a slowdown in other economies, particularly in the US and Europe. Similarly, there continues to be uncertainty about domestic demand in the Group's markets, which is a function of a number of factors including consumer and business confidence.

Another principal uncertainty for the Group relates to the management of inflationary pressures, to the extent to which they arise. These inflationary pressures may be exacerbated in some countries by the reduction or removal of fuel price subsidies and the impact of significant rises in the price of certain foodstuffs. An increase in inflation can have a number of adverse impacts on the Group's business, including, but not limited to, increasing its operating expenses. High inflation could also have an adverse effect on the credit quality of the Group's individual and corporate borrowers, as well as its counterparties, and could lead to an increase in delinquencies and defaults across a wide range of sectors. Although the Group seeks to manage this risk by setting concentration caps by industry sector and country in Wholesale Banking and by product and country in Consumer Banking, and regularly monitoring credit exposures and political and economic trends, high inflation could nevertheless impact profitability and otherwise have a material adverse effect on the Group's financial condition, results of operations and prospects.

Whilst the Group maintains significant geographic and business diversification which may minimise the impact of certain economic factors including a downturn, diversification of the Group may not be effective to safeguard the Group from the effect of macroeconomic factors which may impact the overall economy in a single country or region, or globally.

42 The Group operates primarily in Asia, Africa and the Middle East, and these operations expose it to risks arising from the political and economic environment of markets in these areas that could adversely affect its financial condition, results of operations and prospects

The Group faces significant economic and political risks, including economic volatility, recession, inflationary pressure, exchange rate fluctuation risk and interruption of business, as well as civil unrest, imposition of exchange controls, sanctions relating to specific countries, entities and individuals, expropriation, nationalisation, renegotiation or nullification of existing contracts and changes in law, tax policy and regulation. Furthermore, while many of the economies in which the Group operates have in recent years performed relatively well compared to many of the economies of Western Europe and North America, there can be no assurance that the relatively favourable economic environments of these markets will continue. The occurrence of any of these risks could result in a material adverse effect on the Group's financial condition, results of operations and prospects.

43 The Group operates in competitive markets, which may have a material adverse effect on its financial condition, results of operations and prospects

The Group is subject to significant competition from local banks and other international banks carrying on business in the markets in which it operates, including competitors that may have greater financial and other resources. In addition, the Group may experience increased competition from new entrants in the relevant product or geographic markets and existing competitors may combine to increase their existing market presence or market share. Furthermore, in certain of the Group's markets, it competes against financial institutions that are supported or controlled by governments or governmental bodies and which are required to satisfy certain lending thresholds and other identified targets. In such markets, in order to remain competitive, the Group may not realise the margins which it would otherwise have expected or desired. Regulations may also favour local banks by restricting the ability of international banks, such as the Group, operating in the relevant country to enter the market and/or expand their existing operations. Such restrictions could adversely affect the Group's ability to compete in these markets. In addition, certain competitors may have access to lower cost funding and be able to offer retail deposits on more favourable terms than the Group. Furthermore, the Group's competitors may be better able to attract and retain clients and talent, which may have a negative impact on the Group's competitive position and profitability in the relevant markets. Moreover, many of the international and local banks operating in the Group's markets compete for substantially the same customers as the Group and competition may increase in some or all of the Group's principal markets. The foregoing matters, individually or in combination, may therefore have a material adverse effect on the Group's financial condition, results of operations and prospects.

44 The Group operates in a highly regulated industry and changes to bank regulations and laws could have an adverse impact on its operations, financial condition or prospects

The Group's businesses are subject to a complex framework of financial services laws and regulations and associated legal and regulatory risks, including the effects of changes in laws, regulations, policies and voluntary codes of practice. During the recent market turmoil, there has been a substantially enhanced level of government and regulatory intervention and scrutiny, and there have been, and are expected to be, further changes to regulations applying to financial institutions. Additional changes to laws and regulations are under consideration in many jurisdictions. Although the Group works closely with its regulators and regularly monitors the situation, future changes in laws, regulations and fiscal or other policies can be difficult to predict and are beyond the control of the Group. Furthermore, laws and regulations may be adopted, enforced or interpreted in ways that could materially adversely affect the Group's business, financial condition, results of operations and prospects.

Governmental policies and regulatory changes that could adversely impact the Group's business include:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy, or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the Group operates, may change the structure of those markets and the products offered, or may increase the costs of doing business in those markets;
- changes to other regulatory requirements such as rules on consumer protection and prudential rules relating to capital adequacy and/or liquidity, charging special levies to fund governmental intervention in response to crises (which may not be tax deductible for the Group), separation of certain businesses from deposit-taking and the breaking up of financial institutions that are perceived to be too large for regulators to take the risk of their failure;
- changes in competition and pricing environments;
- further developments in relation to financial reporting including changes in accounting and auditing standards, corporate governance, conduct of business and employee compensation;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments, producing social instability or legal uncertainty which, in turn, may affect demand for the Group's products and services.

In response to the financial crisis and recent global economic conditions, there has already been a substantial increase in the regulation and supervision of the financial services industry in order to seek to prevent future crises and otherwise ensure the stability of institutions under their supervision, including the imposition of higher capital and liquidity requirements (including pursuant to Basel III), increased levies and taxes, requirements to centrally clear certain transactions, heightened disclosure standards, further development of corporate governance and employee compensation regimes and restrictions on certain types of transaction structures. (See paragraph headed "The Group is subject to the risk of increased capital and liquidity requirements to meet the minimum required by regulators" for more detail).

Such new requirements could to differing extents significantly impact on the profitability and results of operations of firms operating within the financial services industry, including entities within the Group, or could require those affected to alter their current strategies, prevent the continuation of current lines of operations, restrict the type or volume of transactions which may be entered into or set limits on, or require the modification of, rates or fees that may be charged. The Group may also face increased compliance costs and limitations on its ability to pursue its business activities.

Whilst there is growing international regulatory cooperation on supervision and regulation of international and EU banking groups, the Group is, and will continue to be, subject to the complexity of complying with existing and new regulatory requirements in each of the jurisdictions in which it operates. Where changes in regulation are made they may not be co-ordinated potentially resulting in the Group having to comply with varying and possibly conflicting requirements. The foregoing matters may adversely impact any number of areas of the Group's operations and activities which in turn may have a material adverse effect on its financial condition, results of operations and prospects.

45 The business and operations of the Group may be affected by the provisions of the Banking Act 2009 which gives the UK Treasury, the FSA and the Bank of England wide-ranging powers to make certain orders in respect of deposit-taking institutions. The UK Independent Commission on Banking (''ICB'') has additionally made proposals in respect of certain bank structures and primary loss absorbing capacity (including bail-in)

The Banking Act 2009 came into force on 21 February 2009 and applies to deposit-taking institutions that are incorporated in or formed under the law of any part of the UK (such as SCB). It provides the Treasury, the Bank of England and the FSA with powers to deal with banks which are failing or likely to fail to satisfy the threshold conditions within the meaning of section 41(1) and Schedule 6 of the FSMA (which is not currently the case in respect of SCB and which the Group does not consider to be likely) where it is not reasonably likely that action will be taken by or in respect of the bank to satisfy those threshold conditions. The Banking Act 2009 creates a special resolution regime which comprises three stabilisation options and two new insolvency procedures. The stabilisation options involve (i) the transfer of a bank or bank holding company (such as SCPLC) into temporary public ownership; (ii) the transfer of all or part of a bank to a private sector purchaser and (iii) the transfer of all or part of a bank to a bridge bank wholly owned by the Bank of England. The new insolvency procedures are (i) bank insolvency, designed to ensure that eligible depositors' accounts are transferred to another bank, or that eligible depositors are compensated under the Financial Services Compensation Scheme, followed by winding up the affairs of the bank so as to achieve the best result for the bank's creditors and (ii) a bank administration procedure designed to ensure that where the transfer of part of a bank to a private sector purchaser or bridge bank is effected in accordance with the special resolution regime, the non-sold or non-transferred bank continues to provide services and facilities to the business which has been transferred to enable the commercial purchaser or transferee to operate effectively. In February 2011, a special administration (bank insolvency) procedure and a special administration (bank administration) procedure was introduced by the Investment Bank Special Administration Regulations 2011 for UK deposit-taking institutions that have an "investment banking" business. The new procedures are based on the bank insolvency and bank administration procedures under the Banking Act 2009 but additionally take into account special administration objectives.

Whilst the Treasury, the Bank of England and the FSA must have regard to specified objectives when exercising the special resolution regime powers (the protection and enhancement of the stability of the UK financial system, protecting and enhancing public confidence in the stability of the UK banking system, protecting depositors, protecting public funds and avoiding interference with property rights in contravention of the European Convention on Human Rights), the effect of the Banking Act 2009 (if any) on the holders of structured products cannot be ascertained in advance. In addition, the final report of the ICB recommended that authorities should have a primary bail-in power allowing them to impose losses on bail-in bonds (unsecured debt with a term of at least 12 months at the time of issue) in resolution. The report also recommended that the resolution authorities should have a secondary bail-in power to impose losses on all other unsecured liabilities (including liabilities subject to a floating charge) in a resolution. The ICB has stated that these powers should be exercisable in respect of liabilities outstanding at the time that legislation introducing bail-in comes into effect. The potential impact of these powers, if enacted, on holders of structured products cannot be ascertained in advance.

46 Downgrades to the Group's credit ratings or outlook could impair the Group's access to funding and the Group's competitive position

The Group's ability to access the debt capital markets, and the cost of borrowing in these markets, is influenced by the Group's credit ratings. There can be no guarantee that the Group will not be subject to downgrades to its credit ratings, and factors leading to any such downgrade may not be within the control of the Group. A material downward change in the short-term or long-term credit ratings of the Group could impact the volume, price and source of its funding, and this could have a material adverse effect on the Group's profitability, its financial condition, results of operations and prospects.

47 Changes in interest rates, commodity prices, equity prices and other market risks could adversely affect the Group's financial condition, results of operations and prospects

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises principally from customer driven transactions.

The primary categories of market risk for the Group are:

- interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;
- currency exchange risk: arising from changes in exchange rates and implied volatilities on related options;
- commodity price risk: arising from changes in commodity prices and implied volatilities on commodity options, 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.

Failure to manage these risks effectively or the occurrence of unexpected events resulting in significant market dislocation could have a material adverse effect on the Group's financial condition, results of operations and prospects.

48 The Group is subject to the risk of exchange rate fluctuations arising from the geographical diversity of its businesses

As the Group's business is conducted in a number of jurisdictions and in a number of foreign currencies, including, but not limited to, Sterling, Korean won, Hong Kong dollar, Singapore dollar, Chinese yuan and Indian rupee, the Group's business is subject to the risk of exchange rate fluctuations. The results of operations of Group companies are reported in the local currencies in which they are domiciled, and these results are then translated into U.S. dollars at the applicable foreign currency exchange rates for inclusion in the Group's consolidated financial statements. The exchange rates between local currencies and the U.S. dollar have been and may continue to be volatile. The Group is therefore exposed to movements in exchange rates in relation to foreign currency receipts and payments, dividend and other income from foreign subsidiaries and branches, reported profits of foreign subsidiaries and branches and the net asset carrying value of foreign investments and risk-weighted assets attributable to foreign currency operations.

Whilst the Group monitors exchange rate movements, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group and the translation effect against the U.S. dollar of such fluctuations in the exchange rates of the currencies of those countries in which the Group operates, any of which may adversely affect its financial condition, results of operations and prospects.

49 Financial markets volatility globally and in the markets in which the Group operates could result in a material adverse effect on the Group's assets, financial condition, results of operations and prospects

Additional volatility, and further dislocation affecting certain financial markets and asset classes, are factors that may have a material adverse effect on the Group's assets, its financial condition, results of operations and prospects. These factors have had and may have a negative impact on the mark-to-market valuations of assets in the Group's available-for-sale and trading portfolios. In addition, any further deterioration in the performance of the assets underlying the Group's asset backed securities ("ABS") portfolio could lead to additional impairment. The ABS portfolio accounted for approximately 0.3 per cent. of Group assets as at 31 December 2011. Continued market volatility may also negatively impact certain customers exposed to derivative contracts. While the Group seeks to manage customer exposure and risk, the potential losses incurred by certain customers as a result of derivative contracts could lead to an increase in customer disputes and corporate defaults and result in further write-downs or impairments by the Group.

50 Systemic risk resulting from failures by banks, other financial institutions and corporates could adversely affect the Group

Within the financial services industry the default of any institution or corporate could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, other financial institutions and exchanges with whom the Group interacts on a daily basis, which could have an adverse effect on the Group's ability to raise new funding and have a material adverse effect on the Group's business, its financial condition, results of operations and prospects.

51 Country cross-border risk could have a material adverse effect on the Group's financial condition, results of operations and prospects

Country cross-border risk is the risk that the Group will be unable to obtain payment from its customers (sovereign and non-sovereign) 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.

These risks could have a material adverse effect on the Group's financial condition, results of operations and prospects.

52 The Group operates in some markets that have relatively less developed judicial and dispute resolution systems, which could have a material adverse effect on the Group's financial condition, results of operations and prospects

In the less developed markets in which the Group operates, judicial and dispute resolution systems may be less developed than in North America and Western Europe. In case of a breach of contract, there may be difficulties in making and enforcing claims against contractual counterparties.

On the other hand, if claims are made against the Group, there may be difficulties in defending such allegations. If the Group becomes party to legal proceedings in a market with an insufficiently developed judicial system, an adverse outcome to such proceedings could have a material adverse effect on the Group's financial condition, results of operations and prospects.

53 Hostilities, terrorist attacks or social unrest as well as natural calamities in the markets in which the Group operates could adversely affect the Group's business, results of operations and prospects

Some of the countries in which the Group operates have, from time to time, experienced and/or are currently experiencing social and civil unrest, hostilities both internally and with neighbouring countries and terrorist attacks. Some of those countries have also experienced natural calamities like earthquakes, floods and drought in recent years. These and similar hostilities, tensions and natural disasters could lead to political or economic instability in the markets in which the Group operates and have a material adverse effect on the Group's business, its financial condition, results of operations and prospects.

TAXATION

The information below is of a general nature and is only a summary of the law and practice currently applicable in Hong Kong and the United States. It is intended to give you an overview of what Hong Kong and United States 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.

UNITED STATES

FATCA Withholding

On 18 March 2010, the Hiring Incentives to Restore Employment Act was enacted, containing provisions from the former Foreign Account Tax Compliance Act of 2009 ("**FATCA**"). FATCA imposes a withholding tax of 30% on certain U.S. source payments and proceeds from the sale of certain assets that give rise to U.S. source payments, as well as a portion of certain payments by non-U.S. entities, to persons that fail to meet requirements under FATCA. This withholding tax may be imposed on (i) payments to the issuer if it does not enter into and comply with an agreement with the IRS (an "**IRS Agreement**") to obtain and report information about the holders of structured products, or (ii) a portion of payments to holders or beneficial owners of structured products, if the issuer does enter into an IRS Agreement and is unable to obtain the necessary information from those holders or beneficial owners. Withholding would be imposed from (x) 1 January 2014 in respect of certain U.S. source payments made on or after that date and (y) 1 January 2015 in respect of proceeds from the sale of certain assets that give rise to U.S. source payments. Withholding should not be required with respect to payments on the structured products before 1 January 2017.

The future application of FATCA to the issuer and the holders of structured products is uncertain, and it is not clear at this time what actions, if any, will be required to minimize any adverse impact of FATCA on the issuer and the holders of structured products. It is our intention, subject to further clarification and analysis of the legal requirements associated with entering into relevant legal agreements with the US government, to be a participating Foreign Financial Institution (as defined in FATCA) and conclude IRS Agreements for relevant entities in the Group. However, if the issuer does not enter into the IRS Agreement or fails to comply with the IRS Agreement, and is therefore subject to the 30% withholding tax, the issuer may have less cash to make payments on the structured products.

If the issuer does enter into the IRS Agreement, then to the extent payments are not otherwise excluded from the FATCA regime, an investor that is not a financial institution may be required to provide the information described below or be subject to U.S. withholding tax on a portion of interest and principal on the structured products and the proceeds from their sale.

Investors that (a) are financial institutions, or financial institutions that receive payments on behalf of another person and (b) have not entered an agreement with the IRS regarding compliance with (or otherwise established an exemption from) FATCA may also be subject to this U.S. withholding tax.

Each holder or beneficial owner of structured products may be required to provide satisfactory documentation (i) to establish that it is not a U.S. person, or (ii) if it is a U.S. person, that indicates its name, address and U.S. taxpayer identification number. Each holder or beneficial owner of structured products that is required to provide such information and fails to do so will generally be subject to a U.S. withholding tax on any payments made to that person. A holder or beneficial owner of structured products who fails to provide the necessary information due to a non-U.S. law prohibiting the provision of this information must execute a valid waiver of the relevant non-U.S. law or dispose of the structured products or its interest therein within a reasonable time.

Furthermore, it is uncertain at this time how the reporting mechanism will operate. In particular, certain changes will likely have to occur with the operation of Depository Trust Company, Euroclear, Clearstream, Luxembourg and other similar clearing systems. In particular, at this time it is not entirely clear whether the reporting obligations will apply to the issuer, the relevant clearing system or the financial institution with which the beneficial owner has an account.

FATCA is particularly complex and its application to the issuer is uncertain at this time. Each holder of structured products should consult its own tax advisor to obtain a more detailed explanation of FATCA and to learn how it might affect such holder in its particular circumstance.

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 (previously defined as "**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, and through Indian Depository Receipts on the Bombay Stock Exchange and National Stock Exchange of India. SCPLC operates under the Companies Act 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 2010.

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.

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 2011, the Group had a network over 1,700 branches, offices and outlets in 70 markets and over 86,000 employees worldwide.

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

Business Divisions

Consumer Banking

Consumer Banking helps meet the evolving financial needs of Private, Small and Medium Enterprise (SME), Priority and Personal banking customers across our franchise. Our customer focused and service approach enables our staff to offer solutions from an innovative range of products and services to build stronger relationships with our customers.

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

Hong Kong is the Group's largest market, for the year ended 31 December 2011, Hong Kong contributed US$3,049 million of operating income and US$1,551 million of profit before tax to the Group. For the year ended 31 December 2010, Hong Kong activities contributed US$2,500 million of operating income and US$1,103 million of profit before tax to the Group.

Singapore

Singapore, is the Group's second largest market by profit before tax and in 2011 became the third market to contribute over US$1 billion of profit before tax following Hong Kong and India. For the year ended 31 December 2011 Singapore contributed US$2,186 million of operating income and US$ 1,002 million of profit before tax to the Group.

Other Asia Pacific

For the year ended 31 December 2011, the Other Asia Pacific region contributed US$3,553 million of operating income and US$1,447 million of profit before tax to the Group. For the year ended 31 December 2010 the Other Asia Pacific region contributed US$3,165 million of operating income and US$1,083 million of profit before tax to the Group.

The Group continues to be well positioned in a range of fast-expanding markets in the Asia Pacific region. In China in 2011, the Group opened 19 branches and has a network of 81 outlets in 21 cities as at the 31 December 2011. SCB and Agricultural Bank of China signed a memorandum of understanding in 2010 establishing a strategic partnership to explore the joint development of business opportunities.

The acquisition of Hsinchu International Bank in 2006 (subsequently renamed Standard Chartered Bank (Taiwan) Limited) provides the Group with the largest international banking network in Taiwan. In Indonesia, SCB increased its stake in PT Bank Permata in 2006. Our stake in Permata is now 44.51%.

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. In January 2012 SC First Bank was rebranded Standard Chartered Bank (Korea) Limited.

For the year ended 31 December 2011, Korea contributed operating income of US$1,718 million and profit before tax of US$172 million to the Group. For the year ended 31 December 2010, Korea contributed operating income of US$1,698 million and profit before tax of US$388 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 2011, India contributed operating income of US$1,805 million and profit before tax of US$804 million to the Group and is the Group's third largest contributor of profits. For the year ended 31 December 2010, India contributed operating income of US$2,028 million and profit before tax of US$1,197 million to the Group.

Middle East and other South Asia

For the year ended 31 December 2011, Middle East and other South Asia contributed operating income of US$2,219 million and profit before tax of US$834 million to the Group. For the year ended 31 December 2010, Middle East and other South Asia contributed operating income of US$2,167 million and profit before tax of US$841 million to the Group. In the United Arab Emirates, which represents over 50 per cent of Middle East and South Asia income as at 31 December 2011, Standard Chartered has the largest network amongst international banks, with 12 branches and over 100 ATMs.

Africa

As at 31 December 2011, the Group has a presence in 16 countries in Africa, of which 7 markets delivered over US$100 million of income in 2011, up from 6 in 2010 and with Nigeria, our largest market in Africa, delivering over US$200 million. The Group's largest African markets are Botswana, Ghana, Kenya, Nigeria, Zambia, South Africa and Uganda. For the year ended 31 December 2011, Africa contributed operating income of US$1,340 million and profit before tax of US$596 million to the Group. For the year ended 31 December 2010, Africa contributed operating income of US$1,246 million and profit before tax of US$559 million to the Group.

Americas, United Kingdom and Europe

In the Americas, United Kingdom and Europe, the Group is focused on supporting our clients' cross border business within our footprint of Asia, Africa and the Middle East. For the year ended 31 December 2011 the region contributed operating income of US$1,767 million and operating profit before tax of US$369 million. For the year ended 31 December 2010, the Group's operations in the Americas, United Kingdom and Europe contributed operating income of US$1,520 million and profit before tax of US$233 million to the Group.

Subsidiaries

As at 31 December 2011, 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 (renamed Standard Chartered Bank Korea Limited on 11 January 2012), 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 Bank 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, Standard Chartered Bank (Pakistan) Limited, which is 98.99 per cent. owned by SCB and Standard Chartered Bank Kenya Limited, which is 73.9 per cent. owned by SCB. Standard Chartered Bank (Hong Kong) Limited is 49 per cent owned by Standard Chartered Holdings Limited, SCB's parent company.

Directors

As at 31 December 2011, the directors of SCB and their respective principal outside activities, where significant to SCB, are as follows:

P A Sands *Chairman of SCB, Group Chief Executive of SCPLC and Lead Non-Executive Director of the Board of the Department of Health*

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 Officer, Consumer Banking*

R H Meddings *Director, Group Finance Director of SCPLC and Non-executive Director of 3i Group plc*

T J Miller *Director Property, Research and Assurance and Non-Executive Director of Michael Page International plc and Chairman of Optitune PLC*

A M G Rees *Director, Group Executive Director of SCPLC and Chief Executive Officer, Wholesale Banking*

V Shankar *Director, Group Executive Director of SCPLC, CEO Middle East, Africa, Europe and Americas and Non-Executive Director of Majid Al Futtaim Holding LLC*

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 (including the paragraphs headed "Regulatory changes and compliance" in the section headed "Financial Information Relating to SCB" as set out in Annex 4 to this base listing document), we are not aware, to the best of our knowledge and belief, of any litigation or claims of material importance in the context of any issue of structured products pending or threatened against SCB Group.

FINANCIAL INFORMATION ABOUT THE ISSUER

SCB publishes its directors' report and the audited financial statements of SCB 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 29 February 2012 (which relates to our financial statements for the year ended 31 December 2011) in 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

PART A – TERMS AND CONDITIONS OF 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 dated 25 June 2010 (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 relevant Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)), 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(B).

3 Automatic Exercise

(A) Any Warrant in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

(B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) In these terms and conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong and "**Underlying Exchange Business Day**" means a day (excluding Saturdays) on which the Underlying Exchange is scheduled to open for dealings during its regular trading sessions.

4 Exercise of Warrants

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

(B) An irrevocable authorisation is deemed to be given to the Issuer to deduct 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 Expiry 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.

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

(D) Subject to the Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the third CCASS Settlement Day following the Expiry Date (the "**Settlement Date**") in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all Warrants 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.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" per Board Lot means an amount calculated by the Issuer in accordance with the following formula (and if appropriate, either (i) converted 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):

In the case of a series of Call Warrants:

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

In the case of a series of Put Warrants:

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

"**Average Price**" shall be the arithmetic mean of (i) where the Underlying Exchange is the Stock Exchange, the closing prices of one Share, as derived from the daily quotation sheet of the Stock Exchange; or (ii) where the Underlying Exchange is any other stock exchange, the official closing prices of one Share on the Underlying Exchange, subject to any adjustments (as determined by the Issuer in accordance with these terms and conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like in respect of each Valuation Date.

"**CCASS 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.

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

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Underlying Exchange or otherwise) on the Underlying Exchange in (i) the Shares or (ii) 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;

(2) (where the Underlying Exchange is the Stock Exchange) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Underlying Exchange due to any unforeseen circumstances.

"**Underlying Exchange**" means:

(i) when the Shares are quoted and traded on the Stock Exchange, the Stock Exchange; or

(ii) when the Shares are quoted and traded on an exchange outside Hong Kong, such other stock exchange specified as such in the relevant Supplemental Listing Document.

"**Valuation Date**" means:

(a) where the Underlying Exchange is the Stock Exchange, each of the five Business Days immediately preceding the Expiry Date; or

(b) where the Underlying Exchange is any other stock exchange, such date(s) as specified in the relevant Supplemental Listing Document.

If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be:

(x) where the Underlying Exchange is the Stock Exchange, 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 Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(i) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event; or

(y) where the Underlying Exchange is any other stock exchange, subject to postponement as specified in the relevant Supplemental Listing Document.

Any payment made pursuant to this Condition 4(D) 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) as is recorded on the register.

(E) 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 Warrantholder 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 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, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the Warrants.

(F) These terms and 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 Stock Exchange, the Issuer nor its agent (including the Transfer Agent) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Stock Exchange or the Issuer shall 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 or determination 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 Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Transfer Agent

(A) Unless another entity is specified as the transfer agent ("**Transfer Agent**") in the relevant 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 Warrantholders.

(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 Exercise 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 Exercise Price and the Entitlement shall be adjusted on the Underlying Exchange 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 Exercise Price will be adjusted to:

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

Where:

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

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Exercise Price immediately prior to the Rights Offer

S: Cum-Rights Share price, being:

(i) where the Underlying Exchange is the Stock Exchange, the closing price of an existing Share, as derived from the daily quotation sheet of the Stock Exchange; or

(ii) where the Underlying Exchange is any other stock exchange, the official closing price of an existing Share on the Underlying Exchange,

on the last Underlying Exchange 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 terms and 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 Exercise Price (which shall be rounded to the nearest 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 one per cent. or less 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 Exercise Price will be adjusted, subject to Condition 6(A)(iii), on the Underlying Exchange 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 Exercise Price will be adjusted to:

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

Where:

Adjustment Factor = 1 + M

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Exercise Price immediately prior to the Bonus Issue

M: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest 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 Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise 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 Exercise Price shall be rounded to the nearest 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 Warrants may in the sole and absolute discretion of the Issuer be amended no later than the Underlying Exchange Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its sole and 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 sole and 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 terms and 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.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Exercise Price and the Entitlement shall be adjusted to take effect on the Underlying Exchange 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:

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

The Exercise Price will be adjusted to:

$$\begin{array}{c}\text{Adjusted Exercise Price}\\ \text{(which shall be rounded}\\ \text{to the nearest 0.001)}\end{array} = \frac{1}{\text{Adjustment Factor}} \text{ x X}$$

Where:

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

E: Existing Entitlement immediately prior to the relevant Cash Distribution

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

S: (i) Where the Underlying Exchange is the Stock Exchange, the closing price of a Share, as derived from the daily quotation sheet of the Stock Exchange; or

(ii) where the Underlying Exchange is any other stock exchange, the official closing price of a Share on the Underlying Exchange,

on the Underlying Exchange 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) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders 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 sole and absolute 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) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholders; Modification

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

Every question submitted to a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholders 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 Warrantholders) 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 Warrantholders) being or representing Warrantholders whatever the number of Warrants so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

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

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

Where the Warrantholder 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 Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of Warrants in respect of which each such person is so authorised. Each person so authorized 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 Warrantholder.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders 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 Warrantholders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. 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 liquidator, 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.

12 Delisting of Company

(A) If at any time the Shares cease to be listed on the Underlying Exchange, the Issuer shall give effect to these terms and conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its sole and absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders 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 terms and conditions may, in the sole and 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 Underlying Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders 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 Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders 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 Warrantholders, 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 Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement 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 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

16 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.

17 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and 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

PART B – TERMS AND CONDITIONS OF CASH-SETTLED 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 dated 25 June 2010 (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 relevant Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)), 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(B).

3 Automatic Exercise

(A) Any Warrant in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

(B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) In these terms and conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to 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) An irrevocable authorisation is deemed to be given to the Issuer to deduct 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 Expiry 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.

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

(D) Subject to the Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the third CCASS Settlement Day following the Expiry Date (the "**Settlement Date**") in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all Warrants 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.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" per Board Lot means an amount calculated by the Issuer in accordance with the following formula (and if applicable, either (i) converted 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 Call Warrants:

$$\text{"}\textbf{Cash Settlement Amount}\text{" per Board Lot} = \frac{\text{(Closing Level – Strike Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

In respect of Index Put Warrants:

$$\text{"}\textbf{Cash Settlement Amount}\text{" per Board Lot} = \frac{\text{(Strike Level – Closing Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

"**CCASS 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.

"**Index Business Day**" means a day on which the Index Exchange is scheduled to open for trading for its regular trading sessions.

"**Market Disruption Event**" means:

(a) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

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

  (ii) the suspension of or material limitation on the trading of options or futures contracts relating to the Index on any exchange on which such contracts are traded; or

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

  For the purposes of this paragraph (a), (X) the limitation of 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 relevant exchange, and (Y) 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;

(b) (where the Index Exchange is the Stock Exchange) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(c) a limitation or closure of the Index Exchange due to any other unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these terms and conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document, provided that if the Issuer determines, in its sole and absolute discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Issuer will determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, if applicable, 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.

Any payment made pursuant to this Condition 4(D) 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) as is recorded on the register.

(E) 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 Warrantholder 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 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, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the Warrants.

(F) These terms and 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 Stock Exchange, the Issuer nor its agent (including the Transfer Agent) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Stock Exchange or the Issuer shall 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 or determination 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 Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Transfer Agent

(A) Unless another entity is specified as the transfer agent ("**Transfer Agent**") in the relevant 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 Warrantholders.

(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 to the Index

(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 (other than as a result of a Market Disruption Event), 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) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(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 sole and absolute 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) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholders; Modification

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

Every question submitted to a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholders 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 Warrantholders) 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 Warrantholders) being or representing Warrantholders whatever the number of Warrants so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

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

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

Where the Warrantholder 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 Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of Warrants in respect of which each such person is so authorised. Each person so authorized 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 Warrantholder.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders 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 Warrantholders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. 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 Warrantholders, 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 Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, in whole or in part as a result of:

   (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

   (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

   (each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement 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 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

14 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.

15 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and 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

PART C – TERMS AND CONDITIONS OF 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 dated 25 June 2010 (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 relevant Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)), 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(B).

3 Automatic Exercise

(A) Any Warrant in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

(B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) In these terms and conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong and "**Underlying Exchange Business Day**" means a day (excluding Saturdays) on which the Underlying Exchange is scheduled to open for dealings during its regular trading sessions.

4 Exercise of Warrants

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

(B) An irrevocable authorisation is deemed to be given to the Issuer to deduct 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 Expiry 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.

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

(D) Subject to the Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the third CCASS Settlement Day following the Expiry Date (the "**Settlement Date**") in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all Warrants 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.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" per Board Lot means an amount calculated by the Issuer in accordance with the following formula (and if appropriate, either (i) converted 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):

In the case of a series of Call Warrants:

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

In the case of a series of Put Warrants:

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

"**Average Price**" shall be the arithmetic mean of (i) where the Underlying Exchange is the Stock Exchange, the closing prices of one Unit, as derived from the daily quotation sheet of the Stock Exchange; or (ii) where the Underlying Exchange is any other stock exchange, the official closing prices of one Unit on the Underlying Exchange, subject to any adjustments (as determined by the Issuer in accordance with these terms and conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like in respect of each Valuation Date.

"**CCASS 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.

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

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Underlying Exchange or otherwise) on the Underlying Exchange in (i) the Units or (ii) 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;

(2) (where the Underlying Exchange is the Stock Exchange) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Underlying Exchange due to any unforeseen circumstances.

"**Underlying Exchange**" means:

(i) when the Units are quoted and traded on the Stock Exchange, the Stock Exchange; or

(ii) when the Units are quoted and traded on an exchange outside Hong Kong, such other stock exchange specified as such in the relevant Supplemental Listing Document.

"**Valuation Date**" means:

(a) where the Underlying Exchange is the Stock Exchange, each of the five Business Days immediately preceding the Expiry Date; or

(b) where the Underlying Exchange is any other stock exchange, such date(s) as specified in the relevant Supplemental Listing Document.

If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be:

(x) where the Underlying Exchange is the Stock Exchange, 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 Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(i) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event; or

(y) where the Underlying Exchange is any other stock exchange, subject to postponement as specified in the relevant Supplemental Listing Document.

Any payment made pursuant to this Condition 4(D) 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) as is recorded on the register.

(E) 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 Warrantholder 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 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, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the Warrants.

(F) These terms and 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 Stock Exchange, the Issuer nor its agent (including the Transfer Agent) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Stock Exchange or the Issuer shall 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 or determination 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 Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Transfer Agent

(A) Unless another entity is specified as the transfer agent ("**Transfer Agent**") in the relevant 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 Warrantholders.

(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 Exercise 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 Exercise Price and the Entitlement shall be adjusted on the Underlying Exchange 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 Exercise Price will be adjusted to:

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

Where:

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

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Exercise Price immediately prior to the Rights Offer

S: Cum-Rights Unit price, being:

(i) where the Underlying Exchange is the Stock Exchange, the closing price of an existing Unit, as derived from the daily quotation sheet of the Stock Exchange; or

(ii) where the Underlying Exchange is any other stock exchange, the official closing price of an existing Unit on the Underlying Exchange,

on the last Underlying Exchange 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 terms and 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 Exercise Price (which shall be rounded to the nearest 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 one per cent. or less 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 Exercise Price will be adjusted, subject to Condition 6(A)(iii), on the Underlying Exchange 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 Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \text{ x X}$$

Where:

Adjustment Factor = 1 + M

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Exercise Price immediately prior to the Bonus Issue

M: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest 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 Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise 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 Exercise Price shall be rounded to the nearest 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 consolidation) 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 sole and absolute discretion of the Issuer be amended no later than the Underlying Exchange Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its sole and 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 sole and 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 terms and 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.

If and whenever the Fund or Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Exercise Price and the Entitlement shall be adjusted to take effect on the Underlying Exchange 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 Exercise Price will be adjusted to:

$$\begin{array}{c}\text{Adjusted Exercise Price} \\ \text{(which shall be rounded} \\ \text{to the nearest 0.001)}\end{array} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

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

E: Existing Entitlement immediately prior to the relevant Cash Distribution

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

S: (i) Where the Underlying Exchange is the Stock Exchange, the closing price of an Unit, as derived from the daily quotation sheet of the Stock Exchange; or

(ii) where the Underlying Exchange is any other stock exchange, the official closing price of an Unit on the Underlying Exchange,

on the Underlying Exchange 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) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders 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 sole and absolute 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) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholders; Modification

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

Every question submitted to a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholders 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 Warrantholders) 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 Warrantholders) being or representing Warrantholders whatever the number of Warrants so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

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

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

Where the Warrantholder 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 Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of Warrants in respect of which each such person is so authorised. Each person so authorized 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 Warrantholder.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders 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 Warrantholders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Termination or Liquidation of 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 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.

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 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).

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 terms and conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its sole and absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the

Warrantholders 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 terms and conditions may, in the sole and 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 Warrantholders, make such adjustments to the entitlements of the Warrantholders 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 Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders 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 Warrantholders, 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 Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement 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 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

16 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.

17 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and 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

PART A – TERMS AND CONDITIONS OF CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS 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 dated 25 June 2010 (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 its successor) 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 Exercise Expenses

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

(B) The Holder will be required to pay the Exercise Expenses in respect of a Mandatory Call Termination or Automatic Exercise of the CBBCs. 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 3(D). Any Exercise Expenses which have not been determined by the Issuer after the end of the MCE Valuation Period or on 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 Exercise Expenses.

(C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise 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 day on which the Mandatory Call Event occurs ("**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. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

Whereas:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**CCASS 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;

"**Mandatory Call Event**" occurs when the Spot Price of the Shares at any time during a Trading Day in the Observation Period is (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;

"**Observation End Date**" means the Trading Day immediately preceding the Expiry Date;

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

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange 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 such continuous trading session in accordance with the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time ("**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; and

"**Trading Day**" means any day on which the Stock Exchange is scheduled to 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 to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

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

(D) Following a Mandatory Call Termination or the Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a day no later than the third CCASS Settlement Day following the end of the MCE Valuation Period or the Valuation Date, as the case may be (the "**Settlement Date**") in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses 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, an amount determined by the Issuer in accordance with the following formula:

(i) if no Mandatory Call Event has occurred:

(a) in the case of a series of Bull CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Closing Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(a) in the case of a series of Bear CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero.

Provided that if the relevant formula above produces an amount that is equal to or less than the determined Exercise 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;

"**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 terms and conditions) to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Entitlement**" means such number of Shares to which the CBBC relates, as specified in the relevant Supplemental Listing Document;

"**Exercise 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;

"**Market Disruption Event**" means:

(i) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) 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;

(ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(iii) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Shares during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(b) the afternoon session and the closing auction session (if applicable) of the same day, shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Shares during the MCE Valuation Period;

"**Residual Value**" per Board Lot means, subject to adjustment as provided in Condition 5:

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

$$\text{"}\textbf{Residual Value}\text{" per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

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

$$\text{"}\textbf{Residual Value}\text{" per Board Lot} = \frac{\text{Entitlement x (Strike Price – Maximum Trade Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

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

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date. If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case: (a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and (b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

(E) 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 liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(F) These terms and 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 Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Transfer Agent

(A) Unless another entity is specified as the transfer agent ("**Transfer Agent**") in the relevant 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 Holders.

(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 CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holders 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 (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 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:

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

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Strike Price immediately prior to the Rights Offer

Y: Existing Call Price immediately prior to the Rights Offer

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 Trading 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 terms and 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 one per cent. or less 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 additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

(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. 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 sole and 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 sole and 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 sole and 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 terms and 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.

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:

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

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:

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

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 Trading 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) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holders 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 Holders 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 sole and absolute 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 its successor) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holders; Modification

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

Every question submitted to a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by the Holders 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 Holders) 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 Holders) being or representing Holders whatever the number of CBBCs so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

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

Resolutions can be passed in writing without a meeting of the Holders 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 authorized 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.

(B) *Modification*. The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders 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 Holders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. 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 liquidator, 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 Company'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.

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 terms and conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its sole and 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 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 terms and conditions may, in the sole and 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 Holders, make such adjustments to the entitlements of the Holders 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 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 Holders, 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 Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement 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 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

15 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.

16 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and 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

PART B – TERMS AND CONDITIONS OF CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS 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 dated 25 June 2010 (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 its successor) 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 sponsor of the Index (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 Exercise Expenses

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

(B) The Holder will be required to pay the Exercise Expenses in respect of the Mandatory Call Termination or Automatic Exercise of the CBBCs. 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 3(D). Any Exercise Expenses which have not been determined by the Issuer after the end of the MCE Valuation Period or on 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 Exercise Expenses.

(C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise 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 day on which the Mandatory Call Event occurs ("**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. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

Whereas:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**CCASS 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;

"**Index Business Day**" means a day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Mandatory Call Event**" occurs when the Spot Level of the Index at any time during an Index Business Day in the Observation Period is (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;

"**Observation End Date**" means the Trading Day immediately preceding the Expiry Date;

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

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Spot Level**" means, unless otherwise specified in the relevant Supplemental Listing Document, the spot level of the Index as compiled and published by the Index Sponsor; and

"**Trading Day**" means any day on which the Stock Exchange is scheduled to 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 to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

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

(D) Following a Mandatory Call Termination or the Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a day no later than the third CCASS Settlement Day following the end of the MCE Valuation Period or the Valuation Date, as the case may be (the "**Settlement Date**") in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses 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, an amount calculated by the Issuer in accordance with the following formula (and if applicable, either (i) converted 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):

(i) if no Mandatory Call Event has occurred:

(a) in the case of a series of Bull CBBCs:

$$\text{"\textbf{Cash Settlement Amount}" per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(b) in the case of a series of Bear CBBCs:

$$\text{"\textbf{Cash Settlement Amount}" per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(ii) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero.

Provided that if the relevant formula above produces an amount that is equal to or less than the determined Exercise 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;

"**Closing Level**" has the meaning given to it in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Exercise 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;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Trading Day or Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

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

  (ii) the suspension of or material limitation on the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

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

  For the purposes of this paragraph (a), (X) a limitation of 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 relevant exchange, and (Y) a limitation on trading imposed by reason of movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event;

(b) (where the Index Exchange is the Stock Exchange) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(c) a limitation or closure of the Index Exchange due to any other unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these terms and conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Maximum Index Level**" means the highest Spot Level of the Index during the MCE Valuation Period;

"**MCE Valuation Period**" means:

(a) in respect of an Index Exchange located in Hong Kong, the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Index Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spots Levels are available. In that case:

   (i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the day on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

   (ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level and such other factors as the Issuer may determine to be relevant in its good faith.

   For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

   For the purposes of this definition,

   (a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

   (b) the afternoon session and the closing auction session (if applicable) of the same day,

   shall each be considered as one trading session only; or

(b) in respect of an Index Exchange located outside Hong Kong, the period specified in the relevant Supplemental Listing Document;

"**Minimum Index Level**" means the lowest Spot Level of the Index during the MCE Valuation Period;

"**Residual Value**" per Board Lot means, subject to adjustment as provided in Condition 5, an amount calculated by the Issuer in accordance with the following formula (and if applicable, either (i) converted 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):

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

$$\text{“\textbf{Residual Value}” per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

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

$$\text{“\textbf{Residual Value}” per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

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

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document. If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on the Valuation Date, 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 that day but for the occurrence of the Market Disruption Event, provided that the Issuer, if applicable, 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.

(E) 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 liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(F) These terms and 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 Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Transfer Agent

(A) Unless another entity is specified as the transfer agent ("**Transfer Agent**") in the relevant 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 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 CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holders in accordance with Condition 9.

5 Adjustments to the Index

(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 (other than as a result of a Market Disruption Event), 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 relevant 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) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(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 sole and absolute 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 its successor) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holders; Modification

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

Every question submitted to a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by the Holders 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 Holders) 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 Holders) being or representing Holders whatever the number of CBBCs so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

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

Resolutions can be passed in writing without a meeting of the Holders 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 authorized 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.

(b) *Modification*. The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders 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 Holders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. 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 Holders, 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 Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement 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 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

13 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.

14 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and 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

PART C – TERMS AND CONDITIONS OF CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS 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 dated 25 June 2010 (the "**Instrument**") 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 its successor) 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 Exercise Expenses

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

(B) The Holder will be required to pay the Exercise Expenses in respect of a Mandatory Call Termination or Automatic Exercise of the CBBCs. 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 3(D). Any Exercise Expenses which have not been determined by the Issuer after the end of the MCE Valuation Period or on 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 Exercise Expenses.

(C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise 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 day on which the Mandatory Call Event occurs ("**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. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

Whereas:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**CCASS 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;

"**Mandatory Call Event**" occurs when the Spot Price of the Units at any time during a Trading Day in the Observation Period is (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;

"**Observation End Date**" means the Trading Day immediately preceding the Expiry Date;

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

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange 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 such continuous trading session in accordance with the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time ("**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 on which the Stock Exchange is scheduled to 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 to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

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

(D) Following a Mandatory Call Termination or the Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a day no later than the third CCASS Settlement Day following the end of the MCE Valuation Period or the Valuation Date, as the case may be (the "**Settlement Date**") in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses 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, an amount determined by the Issuer in accordance with the following formula:

(i) if no Mandatory Call Event has occurred:

(a) in the case of a series of Bull CBBCs:

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

(b) in the case of a series of Bear CBBCs:

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

(ii) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero;

Provided that if the relevant formula above produces an amount that is equal to or less than the determined Exercise 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;

"**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 terms and conditions) to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Entitlement**" means such number of Units to which the CBBC relates, as specified in the relevant Supplemental Listing Document;

"**Exercise 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;

"**Market Disruption Event**" means:

(i) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any such case, that suspension or limitation is, in the determination of the Issuer, material;

(ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for dealings for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(iii) a limitation or closure of the Stock Exchange due to any other unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Units during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the day on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(b) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Units during the MCE Valuation Period;

"**Residual Value**" per Board Lot means, subject to adjustment as provided in Condition 5:

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

$$\text{"}\textbf{Residual Value}\text{" per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

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

$$\text{"}\textbf{Residual Value}\text{" per Board Lot} = \frac{\text{Entitlement x (Strike Price – Maximum Trade Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

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

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date. If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case: (a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and (b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Unit on the Stock Exchange and such other factors as the Issuer determines to be relevant.

(E) 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 liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(F) These terms and 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 Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Transfer Agent

(A) Unless another entity is specified as the transfer agent ("**Transfer Agent**") in the relevant 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 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 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 (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, 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:

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

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Strike Price immediately prior to the Rights Offer

Y: Existing Call Price immediately prior to the Rights Offer

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 Trading 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 terms and 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 one per cent. or less 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 additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

(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 the Units or any class of its outstanding Units 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 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 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 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 sole and 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 sole and 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 sole and 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 terms and 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.

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:

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

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 Trading Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Unit (applicable only if the day 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) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holders 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 Holders 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 sole and absolute 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 its successor) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holders; Modification

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

Every question submitted to a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by the Holders 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 Holders) 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 Holders) being or representing Holders whatever the number of CBBCs so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

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

Resolutions can be passed in writing without a meeting of the Holders 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 authorized 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.

(B) *Modification*. The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders 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 Holders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

10 Termination or Liquidation of 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.

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 terms and conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its sole and 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 terms and conditions may, in the sole and 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 Holders, 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 Holders, 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 Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement 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 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

15 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.

16 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and 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.

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.

United States of America

The structured products have not been, and will not be, registered under the Securities Act. Structured products, or interests therein, may not at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of structured products, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. The structured products will not be offered, sold or delivered within the United States or to U.S. persons. As used herein, "United States" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and "U.S. person" means any national or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other U.S. person as such term is defined in Regulation S under the Securities Act.

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**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") no offer of structured products which are the subject of the offering contemplated by this base listing document as completed by the relevant supplemental listing document in relation thereto to the public in that Relevant Member State has been, or will be, made except with effect from and including the Relevant Implementation Date, an offer of structured products to the public in that Relevant Member State may be made:

(a) if the relevant supplemental listing document in relation to the structured products specifies that an offer of those structured products may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such structured products which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the relevant supplemental listing documents contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or supplemental listing document, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150 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 referred to in (b) to (d) above shall require the Issuer or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 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 amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

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 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.

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 2011. The page numbers of such document appear on the bottom of the pages in this Annex. Page references within the Standard Chartered Bank Directors' Report and Financial Statements 31 December 2011 are to the page numbers within such document.

Standard Chartered Bank

Reference Number ZC18

Directors' Report and Financial Statements

31 December 2011

Incorporated in England with limited liability by Royal Charter 1853
Principal Office: 1 Aldermanbury Square, London, EC2V 7SB, England

Standard Chartered Bank
Contents

Group summary

The Group remained disciplined in the execution of its strategy and delivered another record performance, the ninth year in succession. Operating income increased by $1,526 million, or 9 per cent, to $17,681 million. Operating profit rose 9 per cent to $6,769 million. Sources of income growth remain well diversified, both by product and geography.

Whilst the Group continued to manage expenses tightly, costs in 2011 included a charge in respect of an Early Retirement Programme (ERP) in Korea of $206 million as well as the full year charge of $165 million for the UK bank levy. Despite the impact of these items, cost growth was in line with income growth.

The asset book remains high quality, with a short tenor profile in Wholesale Banking and a continuing bias to secured lending in Consumer Banking with a slight mix change towards selective unsecured growth during the year. Loan impairment is slightly up on 2010 but remains low, reflecting our diversified portfolio, the economic performance of the markets we serve and our continued disciplined approach to risk management.

The Group's balance sheet is well diversified and conservative, with limited exposure to problem asset classes. We have no direct sovereign exposure to Greece, Ireland, Italy, Portugal or Spain and our direct sovereign exposure to the rest of the eurozone is immaterial. Further detail on these exposures is set out on page 141.

We continue to focus on the basics of banking, on maintaining a very strong balance sheet, and we remain vigilant on capital and liquidity ratios. We are highly liquid, with good levels of deposit growth in both businesses, especially in Term Deposits (TD) in Consumer Banking (CB) and Current Accounts and Saving Accounts (CASA) generated through Transaction Banking in Wholesale Banking (WB). Our advances to deposits ratio was low at 76.4 per cent, compared to 77.9 per cent in the previous year reflecting our philosophy of "funding before lending". The funding structure of the Group remains conservative, with very limited levels of refinancing required over the next few years, and we continue to be a net lender into the interbank market.

The Group is strongly capitalised, and generated good levels of organic equity during the year.

Our consistent performance and balance sheet resilience have been recognised by both the market and by the three major rating agencies, all of which have revised upwards the credit rating of the Group since the beginning of the financial crisis. We have continued to invest in both businesses and 2012 has started well. We are well positioned to take advantage of the growth opportunities provided by our markets, which remain intact despite the increasing uncertainty in the West.

Operating income and profit

	2011 $million	2010 $million	%
Net interest income	10,166	8,547	19
Fees and commissions income, net	4,043	4,238	(5)
Net trading income	2,679	2,595	3
Other operating income	793	775	2
	7,515	7,608	(1)
Operating income	17,681	16,155	9
Operating expenses	(9,967)	(9,008)	11
Operating profit before impairment losses and taxation	7,714	7,147	8
Impairment losses on loans and advances and other credit risk provisions	(908)	(883)	3
Other impairment	(111)	(76)	46
Profit from associates	74	42	76
Profit before taxation	6,769	6,230	9

Group performance

Operating income grew by $1,526 million, or 9 per cent, to $17,681 million. The strategic repositioning of the CB business has continued to gain traction during 2011 and income was 11 per cent higher at $6,802 million. This was driven by selective growth in credit cards and personal loans, higher liability margins, particularly across CASA and increased Wealth Management income, although growth in Wealth Management moderated in the second half of the year as investor sentiment was impacted by events in the West in general and the eurozone in particular. WB continued to strengthen relationships with existing clients and income was 8 per cent higher, at $10,879 million. Client income has grown 10 per cent, with a strong performance from Transaction Banking, Corporate Finance and Financial Markets. While own account income was above 2010 levels, the Principal Finance business was impacted by the macroeconomic environment and consequently realisations were materially below levels seen in 2010.

The Group's income streams continue to be well diversified and, with the exception of India, all geographic segments delivered positive income growth and our major markets in Hong Kong and Singapore grew 21 per cent and 25 per cent respectively.

Net interest income increased by $1,619 million, or 19 per cent. Whilst asset margins have continued to see some pressure, both businesses benefitted from strong balance sheet momentum and wider liability margins. CB net interest income grew $503 million, or 12 per cent, as higher loan and deposit volumes and improved liability margins more than compensated for the fall in asset margins. Deposit margins improved, especially on CASA, as interest rate increases in several of our markets took effect. We are, however, seeing increasing competition for time deposits in a number of geographies. WB net interest income increased $1,116 million, or 25 per cent, as higher volumes in Transaction Banking, together with improved Cash Management margins, more than offset margin compression in Trade and Lending. Asset and Liability Management ('ALM') was up year-on-year; the build-up of lower-yielding higher quality assets to support more stringent regulatory requirements was more than offset by growth in money market income on the back of improved spreads and a broadening of the depositor base driven by an enhanced product offering.

The Group net interest margin at 2.3 per cent was slightly up from 2.2 per cent in 2010, reflecting the strong liquidity surplus of the Group, higher liability margins and the increased, but cautious, focus in selective markets on higher margin unsecured lending within CB.

Non-interest income fell marginally by $93 million to $7,515 million. Net fees and commissions income fell by $195 million, or 5 per cent, to $4,043 million, as higher fee income in CB, on the back of increased sales of Wealth Management products, was offset by a drop in Wholesale Banking fees, reflecting lower corporate advisory, trade and capital market fees. The drop in fee income was partly compensated by higher trading income.

Net trading income increased $84 million, or 3 per cent, to $2,679 million, with a strong performance from Financial Markets, particularly in Foreign Exchange, on the back of client flows from Transaction Banking, Commodities and Rates.

Other operating income primarily comprises gains arising on sale from the available-for-sale (AFS) portfolio, aircraft and shipping lease income and dividend income. Other operating income was up $18 million, or 2 per cent, to $793 million, as higher income from leasing was largely offset by slightly reduced AFS income, with lower realisations from Principal Finance offsetting the benefit of higher realisations from ALM.

Operating expenses increased $959 million, or 11 per cent, to $9,967 million. The increase includes some $206 million in staff expenses relating to a voluntary ERP in Korea and $165 million reflecting the full year charge for the UK bank levy. The cost of the UK bank levy has been reported within the 'Americas, UK & Europe' region and has not been allocated to the businesses. These costs were partly offset by $96 million of recoveries on structured note payouts made previously, which is booked within the 'Other Asia Pacific' region. General administrative expenses in 2010 included a $95 million provision for settlements in respect of certain other structured notes. Excluding these four items, expenses increased by 9 per cent as we continued to invest in both businesses to underpin income momentum. The increase was primarily in staff expenses, which grew 11 per cent reflecting the impact of prior and current year investment in client and customer facing staff together with inflationary pressures across our footprint. Other expenses included infrastructure spend in new branches (including renovations and relocations), distribution channels such as ATMs and technology systems, and marketing.

Operating profit before impairment losses and taxation (also referred to as "Working Profit") was higher by $567 million, or 8 per cent, at $7,714 million.

The charge for loan impairment rose by $25 million, or 3 per cent, to $908 million, but remains low as the credit environment was relatively benign across our footprint. Impairment in Consumer Banking, which has a largely secured loan book, fell by $54 million, having benefitted from an impairment reversal of $84 million following the sale of a number of loan portfolios. Excluding this, impairment increased modestly reflecting the selective growth of unsecured lending in a number of markets. The Wholesale Banking impairment charge increased by $79 million, and continues to be driven by incremental provisions on already impaired assets.

Other impairment charges were higher at $111 million, up from $76 million in 2010, with the increase predominantly due to a charge against an Indian bond exposure.

Operating profit was up $539 million, or 9 per cent, to $6,769 million, with Hong Kong contributing over $1.5 billion, up 39 per cent from 2010 and Singapore exceeding $1 billion for the first time. Consumer Banking profit was up 21 per cent whilst Wholesale Banking increased 8 per cent against 2010.

The Group's effective tax rate (ETR) was 27.3 per cent, down from 27.7 per cent in 2010. This reflects changing profit mix and reducing statutory rates across our footprint. Further, net utilisation of foreign tax credits relating to branch profits has increased, partly offset by the write down of deferred tax assets on election into the Branch Profit Exemption Regime in the UK referred to in note 12 on page 53.

Acquisitions

On 8 April 2011, the Group acquired a 100 per cent interest in GE Money Pte Limited, a leading specialist in auto and unsecured personal loans in Singapore.

On 2 September 2011, the Group acquired a 100 per cent interest in Gryphon Partners Advisory Pty Ltd and Gryphon Partners Canada Inc, a corporate advisory business specialising in the mining and metals sectors.

The effects of the above acquisitions were not material to the Group's 2011 performance.

Consumer Banking

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

2011	Asia Pacific Hong Kong $million	Asia Pacific Singapore $million	Asia Pacific Korea $million	Asia Pacific Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Consumer Banking Total $million
Operating income	1,328	926	1,156	1,617	484	721	422	148	6,802
Operating expenses	(703)	(504)	(1,036)	(1,110)	(353)	(486)	(269)	(166)	(4,627)
Loan impairment	(71)	(29)	(166)	(117)	(32)	(89)	(17)	(3)	(524)
Other impairment	-	-	(5)	-	-	(1)	(6)	-	(12)
Operating profit/(loss)	554	393	(51)	390	99	145	130	(21)	1,639

2010	Asia Pacific Hong Kong $million	Asia Pacific Singapore $million	Asia Pacific Korea $million	Asia Pacific Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Consumer Banking Total $million
Operating income	1,122	732	1,063	1,485	496	693	382	135	6,108
Operating expenses	(722)	(385)	(790)	(1,084)	(337)	(457)	(253)	(140)	(4,168)
Loan impairment	(45)	(33)	(139)	(122)	(56)	(159)	(19)	(5)	(578)
Other impairment	(1)	-	(4)	(1)	-	-	(5)	(2)	(13)
Operating profit/(loss)	354	314	130	278	103	77	105	(12)	1,349

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

Operating income by product	2011 $million	2010 $million	2011 vs 2010 Better/(worse) %
Cards, Personal Loans and Unsecured Lending	2,426	2,055	18
Wealth Management	1,274	1,140	12
Deposits	1,412	1,204	17
Mortgages and Auto Finance	1,480	1,526	(3)
Other	210	183	15
Total operating income	6,802	6,108	11

Consumer Banking continued to execute a strategic repositioning of its business during 2011. Operating income increased $694 million, or 11 per cent, to $6,802 million. Operating profit grew $290 million, or 21 per cent, to $1,639 million. Whilst CB has recorded four consecutive halves of income growth, the second half operating profit was affected by softening Wealth Management revenues across most geographies as investor sentiment was impacted by weaker markets. Expenses also increased in the second half of the year over the first half reflecting the non-recurrence of the recovery on structured notes booked in the first half; continuing investment; and a charge of $189 million in relation to the Korea ERP.

Income in Consumer Banking is diverse, well spread and has good momentum, with all geographic segments, except India, growing income. In particular, those countries in which we invested in 2010 have performed strongly in 2011, namely Hong Kong, Singapore, China, Malaysia and Indonesia.

Net interest income increased by $503 million, or 12 per cent, to $4,586 million, largely driven by increased volumes. Asset margins remained under pressure, particularly in the mortgage book and Term Deposit margins also continued to be under pressure as competition intensified in a number of our markets. However, increasing interest rates enabled higher CASA margins which helped offset the impact of broader margin compression. The business continued to focus on liquidity and managing its deposits mix. CASA balances remain robust, and constitute 56 per cent of Consumer Banking deposits compared to 59 per cent at the end of 2010.

Non-interest income at $2,216 million was $191 million, or 9 per cent, higher compared to 2010. This was largely driven by Wealth Management and SME.

Expenses were up $459 million, or 11 per cent, to $4,627 million. The growth in expenses included provisions of $189 million relating to the ERP in Korea, which was partly offset by $96 million of recoveries on certain structured note payouts made in prior periods. 2010 also included a $95 million provision for settlements in respect of certain other structured notes. Excluding these items, the growth in expenses reflected investments in Relationship Managers (RMs) and front office staff, increased marketing spend and enhancements to branches and systems architecture.

Loan impairment fell by $54 million, or 9 per cent, to $524 million, and the macroeconomic environment across our footprint remained good. The impairment charge also benefitted by $84 million from the sale of a number of loan portfolios during the year. Excluding this impact, impairment increased modestly reflecting the selective and cautious growth in unsecured lending in certain markets.

Product performance

Income from Cards, Personal Loans and Unsecured Lending grew $371 million, or 18 per cent, to $2,426 million, with increased volumes more than offsetting margin compression. We selectively increased unsecured lending, particularly in Hong Kong, Singapore and Korea. This was supported by increased marketing in these countries and the introduction of innovative product features, such as the 360° Reward Programme.

Wealth Management income grew by $134 million, or 12 per cent, to $1,274 million, primarily due to the sale of foreign exchange products and insurance, reflecting investor appetite on the back of relatively better economic indicators and equity market performance. In the second half of the year, however, weaker investor sentiment caused by events in the West impacted the sale of structured products and unit trusts and moderated growth for the full year.

Interest rate increases in a number of markets led to improved deposit margins, particularly in CASA which increased by 20 bps. This, together with increased volumes across both CASA and TD products, more than offset a decline in TD margins as competition increased, and contributed to growth of 17 per cent in Deposits income.

Mortgages and Auto Finance income fell by $46 million, or 3 per cent, to $1,480 million, reflecting continuing pressure on mortgage margins, as competition, regulation and interest rates increased in most of our markets, impacting Korea in particular. This was partially offset by volume growth due to the acquisition of the GE Money Auto Finance business in Singapore, which contributed $59 million.

The 'Other' classification primarily includes SME related trade and transactional income and has grown 15 per cent, driven by Foreign Exchange and Cash Management, with Korea, Hong Kong, Singapore and China performing particularly well.

Geographic performance

Hong Kong

Income was up $206 million, or 18 per cent, to $1,328 million, with good volume growth across asset and liability products in addition to slightly improved liability margins, although asset margins remained under pressure. Income from Credit Cards and Personal Loans grew strongly, up 22 per cent as we increased market share in Credit Cards supported by a successful marketing campaign. Income from SME also increased as we continued to drive growth in the trade book. Liability growth continued, with higher deposit volumes, and increased CASA margins offsetting lower Time Deposits margins as competition intensified. During the year we also launched a number of innovative products, such as the Dual Currency ATM Card, in addition to expanding our range of RMB services. Wealth Management income was up 26 per cent, with growth seen over a broad range of products and services.

Operating expenses were down $19 million, or 3 per cent. 2010 included $95 million of provisions in respect of regulatory settlements related to structured notes which was not repeated in 2011. Excluding this, expenses increased by 12 per cent due to investments in front office staff, branch investments and increased marketing spend.

Working profit was up $225 million, or 56 per cent, to $625 million. Loan impairment was higher at $71 million, reflecting higher volumes and growth in unsecured lending. Operating profit rose $200 million, or 56 per cent, to $554 million.

Singapore

Income was up $194 million, or 27 per cent, to $926 million. On a constant currency basis, income grew 20 per cent, especially in Cards, where we increased market share as we focused on selectively growing unsecured lending, and also reflecting the acquisition of GE Money. Mortgage margins remain compressed although this was more than offset by increased volumes resulting in strong income growth. Wealth Management improved considerably during the year registering significant growth as we focused on expanding Wealth Management products and services. Deposit income benefitted from improved CASA margins and volume growth following successful marketing campaigns.

Operating expenses increased $119 million, or 31 per cent, to $504 million with investments in frontline staff, marketing and infrastructure to underpin future income momentum, together with flow through costs from prior years' investments and the acquisition of GE Money. On a constant currency basis, operating expenses were 21 per cent higher.

Working profit was up $75 million, or 22 per cent, at $422 million. Despite the 14 per cent growth in customer advances, loan impairment was marginally down by $4 million, or 12 per cent, to $29 million, as we continued to manage risk tightly in an improved credit environment. Operating profit was higher by $79 million, or 25 per cent, at $393 million. On a constant currency basis, operating profit was higher by 22 per cent.

Korea

Income was up $93 million, or 9 per cent, to $1,156 million. On a constant currency basis income was up 4 per cent despite the labour strike in the second half of 2011. Credit Cards and Personal Loans showed good growth, up 24 per cent as we strategically focused on unsecured lending, coupled with higher margins on Personal Loans. SME income grew on the back of trade and deposit income driven by increased cross-sell opportunities. Wealth Management increased 3 per cent, although growth moderated in the second half of the year reflecting the impact of softening investor sentiment. Liability income grew strongly as CASA margins improved following interest rate rises during the year. Mortgage income was down 18 per cent, as price-led competition intensified, driving margins down 32 bps compared to 2010. Mortgage volumes were also lower as we strategically reduced mortgage acquisitions in part due to regulatory constraints.

Operating expenses grew $246 million, or 31 per cent, to $1,036 million. On a constant currency basis, expenses were 23 per cent higher, largely due to a $189 million charge for the ERP. Excluding this, expenses were 7 per cent higher, as a result of the flow through from investments in reshaping our distribution network and rebranding.

Working profit was 56 per cent lower at $120 million. On a constant currency basis, this was 52 per cent lower. Loan impairment was up $27 million, or 19 per cent, to $166 million on the back of growth in unsecured lending, partially offset by recoveries on loan sales. Operating profit was down $181 million to a loss of $51 million. Excluding the impact of the ERP costs, operating profit was up 6 per cent.

Other Asia Pacific (Other APR)

Income was up $132 million, or 9 per cent, to $1,617 million. On a constant currency basis, income grew 4 per cent. All major markets except Taiwan saw positive income momentum. Income in China was up 12 per cent to $228 million, with strong growth in SME volumes, on the back of expansion in growth cities; improved deposit margins; and higher Wealth Management income, particularly in unit trust and index-linked structured deposits. Taiwan, however, saw income fall by 6 per cent to $421 million as Wealth Management income was impacted by uncertain global investment markets and asset margin compression. This was partially offset by volume led income growth in Personal Loans. Mortgage volumes were impacted in the second half of the year by tightening regulation. Income in Malaysia was up 21 per cent to $358 million, benefitting from growth in Personal Loans and increased SME volumes reflecting improved market penetration. Indonesia also showed strong income growth of 22 per cent.

Operating expenses in Other APR were up $26 million, or 2 per cent, to $1,110 million. On a constant currency basis, expenses fell 4 per cent. Excluding the benefit of recoveries on payouts made in respect of structured notes in prior years, current year expenses were up $122 million, or 11 per cent. Expenses across the region were driven by focused investment as we grew frontline staff and enhanced infrastructure. China expenses were up 17 per cent at $321 million, as we continued to expand our distribution network, opening 19 new branches and increasing frontline staff.

Other APR working profit was up $106 million, or 26 per cent, to $507 million. On a constant currency basis, working profit increased 24 per cent. Loan impairment was down by $5 million, or 4 per cent, to $117 million, reflecting tight underwriting standards and recoveries on the sale of largely unsecured loan portfolios in Malaysia, Taiwan and Thailand, which offset market specific events in the region. Other APR delivered an operating profit of $390 million, up 40 per cent from 2010 (39 per cent on a constant currency basis), with Taiwan and Malaysia being the most significant contributors. The operating loss in China was $108 million, up from $78 million in 2010, as we continued to invest in the franchise.

India

Income was down $12 million, or 2 per cent, to $484 million. On a constant currency basis, income was flat. Income has been impacted by rising interest rates and increased levels of competition compressing lending margins. This has particularly impacted Mortgage income, although this was partially mitigated by repricing initiatives. Deposit income was up 31 per cent, driven by improved liability margins and increased time deposit volumes as we enhanced our internet and mobile banking capabilities. Wealth Management income was lower, impacted by weaker markets during the year.

Operating expenses were $16 million, or 5 per cent, higher at $353 million. On a constant currency basis, expenses were higher by 7 per cent, reflecting inflationary pressures and sustained investment in the franchise to support future growth, offset by benefits from premises rationalisation.

Working profit was down $28 million, or 18 per cent, to $131 million. Loan impairment was however significantly lower by $24 million, or 43 per cent, at $32 million as a result of the focus on secured lending and improved portfolio quality. Operating profit was lower by $4 million, or 4 per cent, at $99 million. On a constant currency basis, operating profit was 1 per cent lower.

Middle East and Other South Asia (MESA)

Income was up $28 million, or 4 per cent, to $721 million, with the growth primarily within UAE and Pakistan. UAE income grew 7 per cent due to good sales across Personal Loan and Mortgage products and higher Wealth Management fees, although SME margins were lower, in part due to the run-off of certain higher yielding portfolios. Income in Pakistan was up 11 per cent due to strong deposit growth. UAE income growth was partly offset by lower income in Qatar, as regulatory restrictions impacted asset volumes and asset and liability margins.

Operating expenses in MESA were higher by $29 million, or 6 per cent, at $486 million. UAE expenses were up 6 per cent as we invested to develop the franchise and increasing frontline staff. Pakistan expenses were higher by 9 per cent on the back of increased staff costs.

Working profit for MESA was down $1 million, to $235 million. Loan impairment continued to fall and was considerably lower at $89 million, down 44 per cent compared to 2010, primarily in UAE, reflecting tighter underwriting criteria, an improved economic environment and a bias to secured lending. Consequently, MESA almost doubled operating profit compared to 2010, up $68 million to $145 million.

Africa

Income was up $40 million, or 10 per cent, at $422 million. On a constant currency basis, income was up 18 per cent, with strong momentum in Personal Loans, Wealth Management and SME volumes although asset and liability margins continued to be under pressure. CASA footings grew strongly, up 17 per cent. Nigeria, Kenya and Botswana drove income growth, with income in Nigeria up 20 per cent, benefitting from increasing liability margins. Kenya remains our largest revenue generator in the region.

Operating expenses were $16 million, or 6 per cent, higher at $269 million. On a constant currency basis, expenses were 12 per cent higher, reflecting higher staff costs and investments to strengthen the distribution network in Nigeria.

Working profit in Africa was higher by $24 million or 19 per cent, at $153 million. Loan impairment was down 11 per cent to $17 million. Operating profit was up $25 million, or 24 per cent, to $130 million. On a constant currency basis, operating profit increased 37 per cent.

Americas, UK & Europe

Income rose $13 million, or 10 per cent, to $148 million as we continued to focus on offering our product suite to international citizens from Asia, Africa and the Middle East. The business in this region is primarily Private Banking in nature. Whilst low interest rates continue to impact margins, these partly recovered during the year driving growth in secured lending and Mortgage income together with increased volumes. Wealth Management revenues grew, although demand for structured investment products was impacted by market uncertainty in the region.

Operating expenses increased $26 million, or 19 per cent, to $166 million as staff costs increased on the back of our continued investment in Relationship Managers across the region together with costs incurred in exiting certain Private Banking operations. Impairment was lower by $2 million, or 40 per cent. The operating loss increased from $12 million to $21 million.

Wholesale Banking

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

	2011								
	Asia Pacific								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Wholesale Banking Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Operating income	1,723	1,267	569	1,947	1,326	1,497	921	1,629	10,879
Operating expenses	(694)	(603)	(316)	(978)	(479)	(600)	(439)	(1,066)	(5,175)
Loan impairment	(32)	(19)	(32)	(17)	(80)	(197)	(8)	1	(384)
Other impairment	-	(31)	(8)	31	(60)	(13)	(10)	(8)	(99)
Operating profit	997	614	213	983	707	687	464	556	5,221

	2010								
	Asia Pacific								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Wholesale Banking Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Operating income	1,391	1,016	645	1,697	1,539	1,484	870	1,401	10,043
Operating expenses	(636)	(603)	(280)	(884)	(412)	(539)	(399)	(1,080)	(4,833)
Loan impairment	2	-	(87)	(30)	(23)	(143)	(5)	(19)	(305)
Other impairment	1	(1)	(1)	(1)	(3)	(29)	(5)	(24)	(63)
Operating profit	758	412	277	782	1,101	773	461	278	4,842

Income by product is set out below:

Operating Income by product	2011 $million	2010 $million	2011 vs 2010 Better/(worse) %
Lending and Portfolio Management	844	874	(3)
Transaction Banking			
Trade	1,600	1,476	8
Cash management and custody	1,657	1,311	26
	3,257	2,787	17
Global Markets[1]			
Financial Markets	3,699	3,324	11
Asset and Liability Management ('ALM')	924	918	1
Corporate Finance	1,879	1,721	9
Principal Finance	276	419	(34)
	6,778	6,382	6
Total operating income	10,879	10,043	8

[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).

Wholesale banking continued

Financial Markets operating income by desk	2011 $million	2010 $million	%
Foreign Exchange	1,438	1,208	19
Rates	896	842	6
Commodities and Equities	605	414	46
Capital Markets	550	544	1
Credit and Other	210	316	(34)
Total Financial Markets operating income	3,699	3,324	11

In a challenging economic and competitive environment, Wholesale Banking has performed well, strengthening and deepening relationships with existing clients and sustaining growth in client income, which was up 10 per cent, with broad-based growth across product lines. Client income continues to constitute over 80 per cent of total Wholesale Banking income. Operating income grew $836 million, or 8 per cent, to $10,879 million. Net interest income was up $1,116 million, or 25 per cent, to $5,580 million while non-interest income fell by $280 million, or 5 per cent, to $5,299 million.

Commercial banking, which includes cash, trade, lending and flow foreign exchange business, contributed over half of all client income and remains the foundation of the WB business and at the heart of our clients' daily banking requirements. Transaction Banking delivered a strong performance, with income up 17 per cent compared to 2010, driven by strong growth in Cash Management and Custody, which benefitted from an increase in average balances and improved margins. Trade volumes were also up very strongly year-on-year, but this growth was impacted by lower margins. Flow Foreign Exchange (FX) income rose 10 per cent, leveraging increased on- and off-shore RMB flows. This helped offset tighter margins in Lending.

Income from Financial Markets rose by 11 per cent, with strong growth in Commodities and FX. The macroeconomic environment impacted Principal Finance, which saw a significantly lower level of mark-to-market gains and realisations compared to 2010, driving income down by $143 million. Corporate Finance income increased by 9 per cent, with good growth in structured finance and the structured trade finance business. ALM income was marginally higher by 1 per cent.

Operating expenses grew $342 million, or 7 per cent, to $5,175 million, reflecting disciplined expense management and generating positive jaws for the year. The increase in expenses was primarily due to focused investments in systems architecture and the flow through in staff costs arising from prior year initiatives on resourcing in specialist areas such as sales, equities trading and financial institutions teams, offset by operating efficiencies.

Loan impairment increased by $79 million to $384 million, and mainly arises from incremental provisions on existing problem accounts and higher level of portfolio impairment provisions in India. The portfolio remains well diversified, short tenor and is increasingly well collateralised.

Other impairment was higher by $36 million, or 57 per cent, at $99 million, driven by a charge against an Indian bond exposure and incremental Private Equity charges, offset by recoveries on disposal of previously impaired investments.

Operating profit increased $379 million, or 8 per cent, to $5,221 million. On a constant currency basis, operating profit was up 10 per cent.

Product performance

Lending and Portfolio Management income fell by $30 million, or 3 per cent, to $844 million as an increase in lending balances was offset by margin compression as liquidity costs increased across most markets.

Transaction Banking income was up $470 million, or 17 per cent, at $3,257 million and was a key driver of the growth in client income. Income from Trade grew by 8 per cent with a 25 per cent growth in assets and contingents more than offsetting a 14 bps drop in margins, although margins started to stabilise in the second half of the year as we repriced across a number of geographies. Cash Management and Custody income grew strongly, increasing $346 million, or 26 per cent, to $1,657 million on the back of a 25 per cent growth in average balances and improved cash margins, which were up 11 bps as rates began to rise across our markets, particularly during the first half of the year.

Global Markets income increased by $396 million, or 6 per cent, to $6,778 million. Within Global Markets, the Financial Markets (FM) business continued to be the largest contributor. FM primarily comprises sales and trading of foreign exchange and interest rate products and has, over the past couple of years, seen diversification of income streams, with higher contributions from commodities and capital markets.

FM income increased by $375 million, or 11 per cent, to $3,699 million and client income has remained strong, increasing by 5 per cent compared to 2010. Own account income rose 39 per cent as we successfully leveraged client flows. Income growth was driven by Foreign Exchange and also Commodities and Equities, which was up $191 million as we continued to expand this business, increasing product capability and providing structured solutions to clients in response to volatility seen across the sector, particularly during the first half of the year.

Foreign Exchange and Rates remains the core contributor of FM income, up 14 per cent on 2010 on the back of higher volumes, benefitting from increased flows from the Transaction Banking business and also reflecting market volatility caused by a number of macroeconomic and market specific events during the year. Demand for RMB products continued to grow, reflecting increased internationalisation and has resulted in greater demand for CNY hedging.

Credit and other income dropped by $106 million, or 34 per cent, as volumes decreased on the back of reduced portfolio turnover by clients.

ALM income was $6 million, or 1 per cent, higher at $924 million as higher-yielding assets ran off. These were replaced by lower yielding higher credit quality assets used primarily to support regulatory requirements.

Corporate Finance income rose $158 million, or 9 per cent, to $1,879 million. Deals closed increased by 15 per cent compared to 2010, with a greater volume of small to mid-size transactions across multiple geographies driving an increasingly diversified income stream. In addition, a larger proportion of income was sourced from stable annuity flows.

Principal Finance income was down $143 million, or 34 per cent, at $276 million as the market was not conducive for realisations from the portfolio and also impacted mark to market at the balance sheet date.

Geographic performance

Hong Kong

Income was up $332 million, or 24 per cent, to $1,723 million. Growth was broad based and seen across FM sales, and Lending and Trade as we continued to leverage the increasing internationalisation of RMB. Client income grew strongly, up 36 per cent as volumes from Lending and Trade increased, driven by growth in cross-border trades with China, which offset a fall in own account income. FX income increased reflecting increasing market demand for hedging and investment RMB products, whilst Rates income fell on the back of flattening rate curves. Lending and Trade saw significant asset and volume growth that helped offset margin compression. Cash Management income grew strongly as liability margins improved and volumes increased significantly following successful deposit drives. Corporate Finance income grew strongly, fuelled by a number of cross-border deals and expansion into transport leasing in the second half of the year. Hong Kong continued to leverage the Group's network, with inbound revenues up 59 per cent compared to 2010 as Hong Kong further enhances its position as both a hub into and out of China.

Operating expenses grew $58 million, or 9 per cent, to $694 million due to further investments into our structuring and research capabilities and depreciation from transport leasing assets.

Working profit was up $274 million, or 36 per cent, to $1,029 million. Loan impairment was higher by $34 million reflecting lower levels of recoveries in the current year. Operating profit was up $239 million, or 32 per cent, at $997 million.

Singapore

Income grew $251 million, or 25 per cent, to $1,267 million. On a constant currency basis, income was up 22 per cent, with client income growing 32 per cent, reflecting double-digit growth across all segments. Transaction Banking income grew strongly, up 34 per cent, on the back of higher Trade finance volumes as we leveraged increased trade flows across the region and strong Cash Management growth as volumes increased and margins improved. As with Hong Kong, Singapore is also a highly integrated business outside of its domestic economy. This enabled growth, especially in Corporate Finance, which grew strongly, driven by a higher number of deals and increased cross-border business. Income from Commodities increased following a number of energy related deals and Rates also saw good growth on the back of increased deal volumes. ALM income fell, however, as lower interest rates impacted reinvestment yields.

Operating expenses were well managed and were flat at $603 million. On a constant currency basis, expenses decreased by 7 per cent, with higher staff costs due to wage inflation and flow through of prior year investments offset by operating efficiencies through disciplined cost management.

Working profit rose $251 million or 61 per cent, to $664 million. Loan impairment increased reflecting a small number of corporate exposures. Other impairment of $31 million represents provisions made against certain private equity investments. Operating profit increased by $202 million, or 49 per cent, to $614 million. On a constant currency basis, operating profit was up 59 per cent.

Korea

Income fell $76 million, or 12 per cent, to $569 million. On a constant currency basis, income was 15 per cent lower. This was primarily due to client income, which was down 7 per cent, as Lending and Trade margins were compressed, competition intensified and regulatory changes impacted FM sales activity. Corporate Finance income fell due to a lower number of large deals compared to 2010. Own account income fell 28 per cent, reflecting reduced volatility, narrowing spreads and increased regulatory pressures. Income originated by subsidiaries of Korean corporates booked across our network increased by 11 per cent against 2010 as they continued to expand across our network.

Operating expenses were higher by $36 million, or 13 per cent, at $316 million. On a constant currency basis, expenses rose 6 per cent, largely due to flow through costs from previous year investments in infrastructure expansion and ERP related costs.

Working profit was lower by $112 million, or 31 per cent, at $253 million. On a constant currency basis, working profit fell 32 per cent. Loan impairment was significantly lower at $32 million, down $55 million from 2010, as the prior period charge was driven by a small number of ship building exposures. Operating profit was lower by $64 million, or 23 per cent, at $213 million. On a constant currency basis, operating profit fell 24 per cent.

Other APR

Income was up $250 million, or 15 per cent, at $1,947 million. On a constant currency basis, income grew 10 per cent. Income grew in most of the major markets in this region, on the back of a strong FM flow business. Income in the Philippines fell as 2010 benefitted from a large ticket deal. China delivered income growth of 19 per cent to $597 million, as volumes and margins increased, particularly in Cash Management where income grew 76 per cent as we focused on building core banking relationships. FM income in China grew on the back of strong commodity flows, with market volatility driving demand. This was offset by lower Rates income, as the business was impacted by regulatory controls and significant fluctuations in onshore yield curves following volatile market conditions. There continued to be strong growth in income originated by China clients and booked across our network, with Hong Kong as the main cross-border partner. Income in Taiwan was up 22 per cent, driven by increased Capital Markets and FX income. Income in Malaysia was flat, whilst income in Thailand increased 17 per cent, largely due to growth in Rates. Indonesia also delivered healthy growth, up 26 per cent on the back of improved margins on the fixed income business and increased Corporate Finance revenues.

Operating expenses in Other APR were up $94 million, or 11 per cent, to $978 million. On a constant currency basis, expenses increased 5 per cent. The increase in expenses reflects higher staff and premises costs and flow through from prior year investments. China operating expenses were up 3 per cent to $346 million.

Working profit in Other APR was higher by 19 per cent at $969 million. Loan impairment was significantly lower by $13 million, to $17 million in 2011, as the prior year included charges relating to disputes on certain foreign exchange transactions. Other impairment had recoveries amounting to $31 million relating to sales of private equity securities impaired in prior years. Operating profit was $201 million, or 26 per cent, higher at $983 million. On a constant currency basis, operating profit grew 23 per cent. China contributed $278 million of operating profit, with Indonesia and Malaysia as the other key profit contributors in this region.

India

Income fell $213 million, or 14 per cent, to $1,326 million. On a constant currency basis, income fell 12 per cent. Income has been impacted by softening business sentiment, reflecting wider governance issues in the broader economy. This was compounded by global headwinds and increasing competition, in addition to a series of interest rate rises as the Government sought to address inflationary concerns. This has particularly affected the Capital Markets business with some flow through impact on FM sales. Corporate Finance also fell significantly due to a lower number of big ticket transactions. Partially offsetting this was an increase in income from the Cash and Custody business, as volumes increased and margins improved. Trade revenues improved in the second half of the year as demand increased and margins rose as we actively repriced. Income originated by Indian clients but booked across our network more than doubled compared to 2010 as we continue to leverage on the Group's network capabilities.

Operating expenses were up $67 million, or 16 per cent, at $479 million. On a constant currency basis, expenses were higher by 18 per cent largely driven by premises related costs, inflationary pressures and flow through of investments related to the set up of the equities business in 2010.

Working profit was down $280 million, or 25 per cent, at $847 million. Loan impairment increased by $57 million to $80 million as we have taken a higher portfolio provision given market uncertainty. Other impairment primarily relates to a bond exposure where we have concerns over the issuer. Operating profit was down $394 million, or 36 per cent, to $707 million. On a constant currency basis, operating profit fell 34 per cent.

MESA

Income was up marginally by $13 million to $1,497 million with increases in own account income compensating for a fall in client income. Client income was impacted by lower margins despite volume growth in Lending and Trade. Growth in own account income was fuelled by the commodities business, as volatility in the early part of the year provided structuring opportunities. Islamic banking continued to be a key focus, with revenues in UAE up 65 per cent compared to 2010. UAE income grew 3 per cent, with growth in the Commodities and Rates businesses. This offset a fall in UAE client income, which was impacted by Lending margin compression and reducing loan balances following certain big ticket repayments. Bangladesh grew income by 25 per cent, partly due to growth in FX as we continue to deepen client relationships. These increases were offset by a drop in income in Bahrain as credit appetite in the region reduced due to the political climate. Pakistan registered 17 per cent growth, primarily due to higher Trade volumes.

MESA operating expenses were up $61 million, or 11 per cent, to $600 million, reflecting staff and investment expenditure.

MESA working profit was down $48 million, or 5 per cent, to $897 million. Loan impairment ended at $197 million, and continues to reflect a small number of specific provisions on historically troubled assets. Operating profit fell 11 per cent to $687 million.

Africa

Income was up $51 million, or 6 per cent, to $921 million. On a constant currency basis, income was up 11 per cent, driven by a strong Transaction Banking, FX flow business and Lending performance which helped offset a fall in Corporate Finance income as 2010 benefitted from a number of landmark deals which did not repeat in 2011. The Transaction Banking performance also reflects the successful integration of the Barclays' custody business. Income from Nigeria, the largest WB market in the region, was down 1 per cent as higher Transaction Banking revenues were offset by lower Corporate Finance revenues, which moderated in the second half of the year. Botswana, Tanzania and Uganda delivered good income growth, with strong increase in commodity linked transactions and Trade finance. Income in Kenya was up 2 per cent, with higher Trade volumes and improved Cash Management margins more than offsetting lower ALM income. The region continued to see increasing levels of income being booked across our network originated out of Africa.

Operating expenses were up $40 million, or 10 per cent, to $439 million. On a constant currency basis, expenses were 13 per cent higher, reflecting investments in people and infrastructure and integration costs associated with our acquisition of Barclays' custody business at the end of 2010.

Working profit was up $11 million, or 2 per cent, to $482 million. Loan impairment remained low at $8 million. Operating profit was $3 million higher at $464 million, up 1 per cent. On a constant currency basis, operating profit was up 8 per cent.

Americas, UK & Europe

This region continues to originate and support our clients' cross border business within our footprint countries. Income was up 16 per cent to $1,629 million, with a 15 per cent growth in client income, primarily across Cash and Corporate Finance. Commodities saw good growth, benefitting from the volatility in prices in the first half of the year. ALM income grew 24 per cent, primarily due to the build-up of investment portfolio to deploy surplus liquidity.

Operating expenses were lower by $14 million, or 1 per cent, as increased staff costs were offset by tight cost management. Working profit increased $242 million, or 75 per cent to $563 million. Impairment was lower by $20 million, or 105 per cent. Other impairment was lower by $16 million, or 67 per cent, at $8 million. Operating profit was significantly higher, increasing 100 per cent to $556 million.

Balance Sheet

	2011 $million	2010 $million	Increase/ (decrease) $million	Increase/ (decrease) %
Assets				
Advances and investments				
Cash and balances at central banks	47,364	32,724	14,640	45
Loans and advances to banks	65,980	52,057	13,923	27
Loans and advances to customers	263,765	240,358	23,407	10
Investment securities held at amortised cost	5,493	4,829	664	14
	382,602	329,968	52,634	16
Assets held at fair value				
Investment securities held available-for-sale	79,790	70,967	8,823	12
Financial assets held at fair value through profit or loss	24,828	27,021	(2,193)	(8)
Derivative financial instruments	67,976	47,949	20,027	42
	172,594	145,937	26,657	18
Other assets	43,439	40,376	3,063	8
Total assets	598,635	516,281	82,354	16
Liabilities				
Deposits and debt securities in issue				
Deposits by banks	35,296	28,551	6,745	24
Customer accounts	342,701	306,992	35,709	12
Debt securities in issue	35,766	23,038	12,728	55
	413,763	358,581	55,182	15
Liabilities held at fair value				
Financial liabilities held at fair value through profit or loss	19,599	20,288	(689)	(3)
Derivative financial instruments	66,527	47,574	18,953	40
	86,126	67,862	18,264	27
Subordinated liabilities and other borrowed funds	19,462	17,418	2,044	12
Other liabilities	43,834	39,060	4,774	12
Total liabilities	563,185	482,921	80,264	17
Equity	35,450	33,360	2,090	6
Total liabilities and shareholders' funds	598,635	516,281	82,354	16

Balance sheet

The Group demonstrated discipline and focus in sustaining a strong balance sheet, which continues to be highly liquid, diversified and conservative with limited exposure to problem asset classes. Growth across both businesses has been robust, with a good increase in both advances and deposits. We remain a strong net lender into the interbank market, particularly in Hong Kong, Singapore, Other Asia Pacific and Americas, UK & Europe. Our advances to deposits ratio continues to be low at 76.4 per cent, down from 77.9 per cent in the previous year-end. This is reflective of our capability to grow deposits whilst optimising the use of surplus liquidity in markets such as Singapore and Hong Kong. The profile of our balance sheet remains stable as 70 per cent of our financial assets are held on amortised cost basis, which reduces the risk of short term distress shocks.

Balance sheet footings grew by $82 billion, or 16 per cent during the year. On a constant currency basis, growth was marginally higher at 17 per cent as most of the Asian currencies depreciated against the US dollar in the latter half of 2011, particularly the Indian rupee, closing at 19 per cent lower than 2010. Balance sheet growth was largely driven by an increase in customer lending on the back of significant growth in customer deposits, with surplus liquidity being held with central banks. Derivative mark to market increased as volumes grew significantly. The Group has low exposure to problem asset classes, no direct sovereign exposure to Greece, Ireland, Italy, Portugal and Spain and immaterial direct exposure to the remainder of the eurozone.

Cash and balances at central banks
In addition to higher surplus liquidity, balances at central banks have grown due to higher clearing balances and increased requirement to meet regulatory liquidity ratios in several markets, due to the effect of a higher deposit liability base.

Loans and advances
Loans and advances to banks and customers, including those held at fair value, grew by $36 billion, or 12 per cent to $335 billion.

Consumer Banking portfolios grew by $5 billion to $122 billion, which represented 45 per cent of the Group's customer advances at 31 December 2011. Growth was driven by higher unsecured lending (CCPL) in selective markets, up $3.0 billion, and loans to SME, up $1.7 billion. Growth in unsecured lending was also boosted by the strategic acquisition of GE Money Singapore. Wealth Management loan products also grew during the year, up 16 per cent, or $1.5 billion. Mortgages however fell $1.1 billion, or 2 per cent, due to a combination of regulatory restrictions in the face of growing macro-economic uncertainty, periodic rate hikes and intensified competition. 83 per cent of the Consumer Banking portfolio remains in secured and partially secured products.

Wholesale Banking portfolio increased significantly by 13 per cent or $17 billion to $147 billion, driven by the increase in Trade Loans of $12.5 billion or 38 per cent. The increase was buoyed by the improved level of trade, evidenced by higher loans to the Manufacturing; Commerce; and Mining and Quarrying sectors, which grew by $4.6 billion, $1.7 billion and $3.2 billion respectively. This is reflective of WB's strategic focus on trade corridors, where our footprint is in the heart of global GDP growth. Corporate Term Loans grew by $6 billion or 12 per cent on the back of WB's depth of client relationships. Growth in Hong Kong in particular was driven by the increasing demand across Mainland China for trade and structured finance solutions post the internationalisation of RMB. Given our highly liquid balance sheet in Hong Kong, we were well positioned to leverage on this opportunity and move to higher yielding assets. Growth in Singapore and Americas, UK & Europe was driven by the continued ability of these geographies to support cross border business originating across the network.

Investment securities
Investment securities, including those held at fair value, grew by $9 billion, largely due to more stringent liquidity requirements which have necessitated higher holdings. The maturity profile of our investment book is largely consistent with around 50 per cent of the book having a residual maturity of less than twelve months

Derivatives
Customer appetite for derivative transactions has continued to be strong resulting in a significant increase in notional values, which are up 15 per cent as a result of higher volumes and larger deal size. As volatility increased in the second half of the year, reflected by higher commodities value at risk, unrealised positive mark to market positions at the balance sheet date of $68 billion increased 42 per cent from 31 December 2010. Of the $68 billion mark to market positions, $41 billion is available for offset due to master netting agreements.

Deposits
The Group has continued to see good deposit growth in both businesses. Deposits by banks and customers, including those held at fair value, increased by $42 billion, of which the increase in customer accounts was $35 billion. Customer deposit growth was seen across all markets, with growth in term deposits contributing $26 billion of the increase following a renewed focus as rates moved up in our core markets. CASA grew by $9 billion, but growth was moderated in the second half as customers shifted towards higher yielding structured and time deposits, to end at $169 billion.

Debt securities in issue, subordinated liabilities and other borrowed funds
Debt securities in issue grew by $13 billion or 55 per cent, largely driven by the issue of non negotiable certificate of deposits to non bank customers. Subordinated debt growth was at 12 per cent or $2 billion, with redemptions and exchange translation of $0.7 billion offset by new issuance of $2.2 billion and fair value gains of $0.5 billion.

Equity
Total shareholders' equity increased by $2 billion to $35 billion due to profit accretion of $4.9 billion, partly offset by dividends paid to shareholders of $1.2 billion and translation loss of $1 billion due to the depreciation of most Asian currencies.

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 policies. We also regularly conduct stress tests to ensure that we are operating within our approved risk appetite.

Through our proactive approach to risk management we constantly seek to reshape our portfolios and adjust underwriting standards according to the anticipated conditions in our markets. In 2011, we maintained our cautious stance overall but continued to selectively increase our exposures in certain markets. Our balance sheet and liquidity have remained strong and we are well positioned for 2012.

Our lending portfolio is diversified across a wide range of products, industries and customer segments, which serves to mitigate risk. We operate in 71 markets and there is no single market that 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. Approximately 48 per cent of our loans and advances to customers are of short maturity, and within Wholesale Banking more than 64 per cent of loans and advances have a tenor of one year or less. More than 74 per cent of Consumer Banking assets are secured.

We have low exposure to countries impacted by the upheaval in the Middle East and North Africa. Exposures in Bahrain, Syria, Egypt, Libya and Tunisia represent less than 0.5 per cent of our total assets.

We also have low exposure to asset classes and segments outside of our core markets and target customer base. We have no direct sovereign exposure to Greece, Ireland, Italy, Portugal or Spain. Our total gross exposure to all counterparties in these countries, more than half of which relates to currency and interest rate derivatives, is 0.5 per cent of total assets. Our direct sovereign exposure (as defined by the European Banking Authority (EBA)) to the remainder of the eurozone is immaterial. Please refer to pages 140 to 141 for details.

Our commercial real estate exposure accounts for less than two per cent of our total assets. Our exposure to leveraged loans and to asset backed securities (ABS) each account for less than 1 per cent and less than 0.4 per cent of our total assets, respectively.

Market risk is tightly monitored using Value at Risk (VaR) methodologies complemented by sensitivity measures, gross nominal limits and loss triggers at a detailed portfolio level. This is supplemented with extensive stress testing which takes account of more extreme price movements.

Our liquidity in 2011 benefited from continued good inflows of customer deposits, which helped us to maintain a strong advances-to-deposits ratio. Liquidity will continue to be deployed to support growth opportunities in our chosen markets. We manage liquidity in each of our geographical locations, ensuring that we can meet all short-term funding requirements and that our balance sheet remains structurally sound. Our customer deposit base is diversified by type and maturity and we are a net provider of liquidity to the interbank money markets. We have a substantial portfolio of marketable securities which can be realised in the event of liquidity stress.

We have a well-established risk governance structure and an experienced senior team. Members of our Group Management Committee sit on our principal 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.

Risk performance review

Following the significant improvement seen in 2010, credit conditions in 2011 have remained broadly stable despite an uncertain external environment. Impairment charges remained stable in Wholesale Banking and Consumer Banking impairment reached a low in the first half of 2011, with a slight increase in the second half of the year.

In Consumer Banking the total loan impairment charge for 2011 remains low as a percentage of loans and advances, and benefited from increased recoveries during the year from a number of loan sales. Excluding the impact of this, individual impairment charges still improved overall, largely due to lower provisions in MESA and India in particular as credit conditions remained benign. Most other regions saw modest increases in line with portfolio growth and mix. We continue to be disciplined in our approach to risk management and proactive in our collection efforts to minimise account delinquencies.

Following the significant reductions in the level of impairment in Wholesale Banking seen in 2010 compared to 2008-2009, the low level of provisioning has continued into 2011. Portfolio indicators have remained broadly stable throughout the period reflecting the improved credit environment in our footprint. The largest provisions taken in the period have been against already impaired accounts in the Middle East region. Portfolio impairment provisions have been reduced in most markets except India, where uncertainties in specific sectors of the economy have led to an increase in portfolio provision in the period.

Total average VaR and trading book average VaR in 2011 has been at similar levels to 2010. Commodities average VaR in 2011 is 16 per cent higher than in 2010. This reflects increased volatility in the commodities markets in 2011.

Principal uncertainties

Risk	Description	Mitigants
Deteriorating macroeconomic conditions in footprint countries	• Deteriorating 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.
Changes in regulations and laws	• 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 we respond 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 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.
Risk of fraud	• The risk of fraud and other criminal activities is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology in society.	• We have a broad range of measures in place to monitor and mitigate this risk. • Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment, physical and information security.
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. • Sharp currency movements can also impact trade flows and the wealth of clients, 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.

Principal uncertainties continued

We are in the business of taking selected risks to generate shareholder value, and we seek to contain and mitigate these 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.

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.

Deteriorating 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 is facing continuing uncertainty. The sovereign crisis in the eurozone area is evolving rapidly and is still far from being resolved. The continuing political stalemate in the US also limits the potential strength of a US recovery.

Our exposure to leveraged loans and eurozone sovereign debt is very low. However, we remain alert to the risk of secondary impacts from events in the West on financial institutions, other counterparties and global economic growth.

These uncertainties have increased the likelihood of economic slowdown in our footprint countries. Larger economies such as India and China are likely to be less affected in the event of a euro-led global slowdown than more open economies such as Singapore, Hong Kong and South Korea.

Inflation appears to have peaked in most of the countries in which we operate and in some cases has started to trend down. This and other factors equip the authorities in our significant footprint countries with the policy flexibility to support growth.

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.

Regulatory changes and compliance

Our 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 relates to the way in which governments and regulators adjust laws, regulations and economic policies in response to macroeconomic and other systemic conditions. The financial crisis of 2008-09 has spurred unprecedented levels of proposals to change the regulations governing financial institutions and further changes to regulations remain under consideration in many jurisdictions which are expected to have a significant impact such as changes to capital and liquidity regimes, changes to the calculation of risk weighted assets, derivative reform and the US Foreign Account Tax Compliance Act.

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 respond to consultation papers and discussions initiated by regulators, governments and other policymakers. We also keep a close watch on key regulatory developments in order to anticipate changes and their potential impact. A number of changes have been proposed under Basel III but significant uncertainty remains around the specific application and the combined impact of these proposals, in particular their effect at the Group level via the implementation of changes to European Union legislation (the package of reforms commonly referred to as the Capital Requirements Directive IV (CRD IV)). Similarly, the Bank awaits regulatory confirmation of detailed rules underpinning OTC Derivative reforms across our markets. In particular, the extraterritorial applicability of aspects of the Dodd-Frank legislation and other reforms in the United States are likely to influence regulation in other markets and we will analyse these developments to ensure our affected businesses remain both competitive and compliant.

On 19 December 2011, the UK Government published its initial response to the Report of the Independent Commission on Banking, chaired by Sir John Vickers. We do not believe that the proposals to ring-fence operations as currently set out will affect the Group, since they apply primarily to UK retail activities. The proposals for additional levels of primary loss absorbing capacity are still subject to consultation and the impact cannot yet be fully assessed. A number of the other details of the regime will not become clear until HM Treasury develops the detailed policy throughout 2012.

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. These discussions may lead to financial penalties or other enforcement actions which are not usually material to the Group.

As reported previously, the Group is conducting a review of its historical US sanctions compliance and is discussing that review with US enforcement agencies and regulators. The Group cannot predict when this review and these discussions will be completed or what the outcome will be.

Financial markets dislocation

There is a risk that a sudden financial market dislocation, perhaps as a result of further deterioration of the sovereign debt crisis in the eurozone, could significantly increase general financial market volatility which could affect our performance or the availability of capital or liquidity. 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 clients holding derivative contracts during periods of financial market volatility could also lead to an increase in 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. There is no certainty that Government action to reduce the systemic risk will be successful and it may have unintended consequences.

We closely monitor the performance of our financial institution counterparties and adjust our exposure to these counterparties as necessary. We maintain robust appropriateness and suitable processes to mitigate the risk of client disputes.

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 our principal markets, such as the recent upheaval in the Middle East and North Africa. We 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.

Risk of fraud

The banking industry has long been a target for third parties seeking to defraud, to disrupt legitimate economic activity, or to facilitate other illegal activities. The risk posed by such criminal activity is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology.

We seek to be vigilant to the risk of internal and external crime in our management of people, processes, systems and in our dealings with customers and other stakeholders. We have a broad range of measures in place to monitor and mitigate this risk. Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment, physical and information security.

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. Sharp currency movements can also impact trade flows and the wealth of clients 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 to the extent there are proportionate movements in risk weighted assets.

The table below sets out the period end and average currency exchange rates per US dollar for India, Korea and Singapore for the periods ending 31 December 2011 and 31 December 2010.

	Year ended 31.12.11	Year ended 31.12.10
Indian rupee		
Average	46.63	45.72
Period end	53.03	44.68
Korean won		
Average	1,107.84	1,156.34
Period end	1,151.56	1,134.61
Singapore dollar		
Average	1.26	1.36
Period end	1.30	1.28

As a result of our normal business operations, Standard Chartered is exposed to a broader range of risks than those principal uncertainties mentioned above and our approach to managing risk is detailed on the following pages.

Reputational risk

Reputational risk is the potential for damage to the Group's franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the Group or its actions.

Reputational risk could arise from the failure by the Group to effectively mitigate the risks in its businesses including one or more of country, credit, liquidity, market, regulatory, legal or other operational risk. It may also arise from a failure to comply with environmental and social standards. Damage to the Group's reputation could cause existing clients to reduce or cease to do business with the Group and prospective clients to be reluctant to do business with the Group. A failure to manage reputational risk effectively could materially affect the Group's business, results of operations and prospects. All employees are responsible for day to day identification and management of reputational risk.

The GRC provides Group-wide oversight on reputational risk, sets policy and monitors material risks. The Group Head of Corporate Affairs is the overall risk control owner for reputational risk. The BRC and BVC provide additional oversight of reputational risk on behalf of the Board.

At the business level, the Wholesale Banking Responsibility and Reputational Risk Committee and the Consumer Banking Reputational Risk Committee have responsibility for managing reputational risk in their respective businesses.

At country level, the Country Head of Corporate Affairs is the risk control owner of reputational risk. It is their responsibility to protect our reputation in that market with the support of the country management team. The Head of Corporate Affairs and Country Chief Executive Officer must actively:

- Promote awareness and application of our policies 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 in tandem with respective business committees
- Promote effective, proactive stakeholder management through ongoing engagement.

Pension risk

Pension risk is the potential for loss due to having to meet an actuarially assessed shortfall in the Group's pension schemes. Pension risk exposure is not concerned with the financial performance of our pension schemes but is focused upon the risk to our financial position arising 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 our financial capacity. 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 Group Pension Risk Committee is the body responsible for governance of pension risk and it receives its authority from GRC.

Asset backed securities

Total exposures to asset backed securities

The Group had the following exposures to asset backed securities

	31 December 2011				31 December 2010			
	Percentage of notional value of portfolio	Notional $million	Carrying value $million	Fair value[1] $million	Percentage of notional value of portfolio	Notional $million	Carrying value $million	Fair value[1] $million
Residential Mortgage Backed Securities (RMBS)	32%	769	688	667	31%	844	772	740
Collateralised Debt Obligations (CDOs)	13%	308	241	244	14%	375	278	271
Commercial Mortgage Backed Securities (CMBS)	26%	633	488	465	27%	717	569	524
Other asset backed securities (Other ABS)	29%	712	679	694	28%	737	690	697
	100%	2,422	2,096	2,070	100%	2,673	2,309	2,232
Of which included within:								
Financial assets held at fair value through profit or loss	6%	132	130	130	3%	86	85	85
Investment securities – available-for-sale	22%	538	379	379	27%	724	499	499
Investment securities – loans and receivables	72%	1,752	1,587	1,561	70%	1,863	1,725	1,648
	100%	2,422	2,096	2,070	100%	2,673	2,309	2,232

[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 (ABS) represents 0.3 per cent (2010: 0.5 per cent) of our total assets.

The notional value of the ABS portfolio fell by approximately $251 million during 2011 due to natural redemptions in the portfolio and some asset sales. The difference between carrying value and fair value of the remaining portfolio is $26 million at 31 December 2011 (2010: $77 million), 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 15 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 A+.

The Group reclassified some ABS 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 15 to the financial statements provides details of the remaining balance of those assets reclassified in 2008. No assets have been reclassified since 2008.

Financial statement impact of asset backed securities

	Available-for-sale $million	Loans and receivables $million	Total $million
31 December 2011			
Credit to available-for-sale reserves	16	-	16
Charge to the profit and loss account	(9)	(7)	(16)
31 December 2010			
Credit to available-for-sale reserves	68	-	68
Charge to the profit and loss account	(22)	(4)	(26)

Directors' Report

The directors present their report and the audited financial statements of Standard Chartered Bank Group and its subsidiaries (the 'Group') and Standard Chartered Bank (the 'Company') for the year ended 31 December 2011.

Activities

The activities of the Group are banking and providing other financial services. The Financial Review on pages 3 to 13 contains a review of the business during 2011.

Post balance sheet events

There are no post balance sheet events, other than disclosed in note 56 to the accounts.

Financial instruments

Details of financial instruments are given in note 15 to the accounts.

Results and dividends

The results for the year are given in the income statement on page 26.

An interim dividend of $1,111 million was paid to ordinary shareholders during the year (2010: $693 million). The directors do not recommend the payment of a final dividend (2010: $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 28 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 R H Meddings
Dr T J Miller
Mr A M G Rees
Mr V Shankar

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 14 to the accounts.

All of the directors as at 31 December 2011, except for Dr T Miller and Mr V Shankar 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 V Shankar was appointed as a director of Standard Chartered PLC with effect from 1 January 2012.

Directors' Interests in Standard Chartered PLC Ordinary Shares

Directors	At 1 January 2011 Total interests	At 31 December 2011 Total interests
T J Miller	187,557	193,010
V Shankar	21,513	81,766

Directors and their interests continued

Long term incentives – Share Options and Awards of Shares

Directors	Scheme	At 1 January 2011	Granted	Exercised	Lapsed	At 31 December 2011
T J Miller	2000 ESOS	-	-	-	-	-
	Sharesave	1,040	-	-	-	1,040
	2001 PSP	318,115	-	63,486	24.190	230,439
	2006 RSS	74,487	29,792	30,736	-	73,543
	2011 SCSP	-	95,033	-	-	95,030
V Shankar	2000 ESOS	-	-	-	-	-
	Sharesave	-	-	-	-	-
	2001 PSP	123,190	-	13,224	5,040	104,926
	2006 RSS	416,258	88,274	189,765	-	314,767
	2011 SCSP	-	76,640	-	-	76,640

Definitions:

2000 Executive Share Option Scheme (2000 ESOS)

The Group previously operated the 2000 ESOS for executive directors and selected senior managers. Executive share options to purchase ordinary shares in Standard Chartered PLC were exercisable after the third, but before the tenth, anniversary of the date of grant subject to an EPS performance criteria being satisfied. The exercise price per share is the share price at the date of grant. Although there are unexercised awards outstanding under the 2000 ESOS, the scheme is now closed to new grants.

2001 Performance Share Plan (PSP)

The Group's previous plan for delivering performance shares was the PSP. Although the PSP was replaced in 2011, there are still outstanding vested and unvested awards under the plan.

Under the PSP half the award is dependent upon TSR performance and the balance is subject to a target of defined EPS growth. Both measures use the same three-year period and are assessed independently. No PSP awards were granted in 2011 and no further awards can be granted under the plan.

1997/2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS)

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There are still unvested and vested awards outstanding under these plans which were previously used to deliver the deferred portion of annual performance awards and as an incentive to motivate and retain high performing employees. Awards will generally be in the form of nil cost options and do not have any performance conditions. Generally deferred restricted share awards vest equally over three years and for non-deferred awards half vests two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

2004 Deferred Bonus Plan (DBP)

Under the DBP, shares are conditionally awarded as part of certain executive directors' annual performance award. Awards under the DBP are made in very limited circumstances to a small number of employees. The remaining life of the plan is three years.

All Employee Sharesave Schemes (Sharesave)

Under the Sharesave schemes, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company. The price at which they may purchase shares is at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the Sharesave schemes.

In some countries in which the Group operates, it is not possible to operate Sharesave schemes, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based scheme to its employees. The remaining life of the Sharesave schemes four years.

2011 Standard Chartered Share Plan (the 2011 Plan)

The 2011 Standard Chartered Share Plan replaced all the Standard Chartered PLC Group's existing discretionary share plan arrangements following approval by shareholders at the Group's Annual General Meeting on 5 May 2011. It is the Group's main share plan, applicable to all employees with the flexibility to provide a variety of award types including performance shares, deferred awards (shares or cash) and restricted shares. Performance and restricted share awards will generally be in the form of nil price options to acquire shares in Standard Chartered PLC. The remaining life of the plan is ten years.

Performance shares

Performance share awards vest after a three year period and are subject to Total Shareholder Return (TSR), Earnings per share (EPS) and Return on Risk Weighted Assets (RoRWA) performance measures. As set out in the Directors' Remuneration Report, the weighting between the three elements is split equally (one third of the award depending each on the achievement of TSR, EPS and RoRWA, assessed independently of one another).

Deferred share awards / Restricted shares

Deferred share awards will be granted as restricted shares and are subject to a three-year deferral period, vesting equally one-third on each of the first, second and third anniversaries. On vesting the awards will be adjusted for dividend equivalent payments.

Awards which are made outside of the annual performance process, as additional incentive or retention mechanisms, are provided as restricted shares under the 2011 Plan. These awards vest in equal instalments on the second and the third anniversaries of the award date.

Deferred and restricted share awards do not have any performance conditions, although the Group's claw-back policy will apply to deferred awards.

Community Investment

The Group recognises its responsibility to invest in the communities where it operates and to act as a good corporate citizen. In 2011, the Group made a total investment of $54.4 million (2010: $47.4 million) in the communities in which it operates. This included direct financial support of $17.8 million (2010: $19.4 million), and indirect contributions, which comprise employee time; the donation of non-monetary goods and funds raised by our employees of $37.8 million (2010: $23.4 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 17. 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 2011 there were 34 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 its 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 2011 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

T. Skippen
Secretary
29 February 2012

Statement of Directors' Responsibilities in respect of the Financial Statements

The directors are responsible for preparing the Report of the directors and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group and Company 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 Company 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 Company 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 Company 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
29 February 2012

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 2011 set out on pages 26 to 169. 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 Chapter 3 of Part 16 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 auditor's 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 auditor
As explained more fully in the Statement of directors' responsibilities set out on page 24, 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, and express an opinion on, 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 website www.frc.org.uk/apb/scope/private.cfm.

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 2011 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's 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 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.

John E. Hughes (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
29 February 2012

Standard Chartered Bank

Consolidated income statement

For the year ended 31 December 2011

	Notes	2011 $million	2010 $million
Interest income	3	16,584	13,500
Interest expense	4	(6,418)	(4,953)
Net interest income		10,166	8,547
Fees and commission income	5	4,469	4,556
Fees and commission expense	5	(426)	(318)
Net trading income	6	2,679	2,595
Other operating income	7	793	775
Non-interest income		7,515	7,608
Operating income		17,681	16,155
Staff costs	8	(6,662)	(5,732)
Premises costs	8	(862)	(800)
General administrative expenses	8	(1,804)	(1,899)
Depreciation and amortisation	9	(639)	(577)
Operating expenses		(9,967)	(9,008)
Operating profit before impairment losses and taxation		7,714	7,147
Impairment losses on loans and advances and other credit risk provisions	10	(908)	(883)
Other impairment	11	(111)	(76)
Profit from associates		74	42
Profit before taxation		6,769	6,230
Taxation	12	(1,848)	(1,724)
Profit for the year		4,921	4,506
Profit attributable to:			
Non-controlling interests	39	650	390
Parent company shareholders		4,271	4,116
Profit for the year		4,921	4,506

The notes on pages 33 to 169 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Notes	2011 $million	2010 $million
Profit for the year		4,921	4,506
Other comprehensive income:			
Exchange differences on translation of foreign operations:			
Net (losses)/gains taken to equity		(1,012)	840
Net gains/(losses) on net investment hedges		5	(77)
Reclassified to income statement on change of control		-	4
Reclassified to equity on part disposal of subsidiary		-	16
Actuarial (losses)/gains on retirement benefit obligations	36	(189)	83
Share of comprehensive income/(loss) from associates		1	(5)
Available-for-sale investments:			
Net valuation (losses)/gains taken to equity		(212)	786
Reclassified to income statement		(267)	(284)
Cash flow hedges:			
Net gains taken to equity		4	42
Reclassified to income statement		(94)	17
Taxation relating to components of other comprehensive income	12	98	(101)
Other comprehensive income for the year, net of taxation		(1,666)	1,321
Total comprehensive income for the year		3,255	5,827
Attributable to:			
Non-controlling interests	39	508	399
Parent company shareholders		2,747	5,428
		3,255	5,827

The notes on pages 33 to 169 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated balance sheet

As at 31 December 2011

	Notes	2011 $million	2010 [1] $million
Assets			
Cash and balances at central banks	15, 42	47,364	32,724
Financial assets held at fair value through profit or loss	15, 16	24,828	27,021
Derivative financial instruments	15, 17	67,976	47,949
Loans and advances to banks	15, 18, 22	65,980	52,057
Loans and advances to customers	15, 19, 22	263,765	240,358
Investment securities	15, 24	85,283	75,796
Other assets	15, 30	27,149	25,309
Current tax assets		232	179
Prepayments and accrued income		2,521	2,127
Interests in associates	25	903	631
Goodwill and intangible assets	27	6,721	6,677
Property, plant and equipment	28	5,078	4,507
Deferred tax assets	29	835	946
Total assets		598,635	516,281
Liabilities			
Deposits by banks	15, 31	35,296	28,551
Customer accounts	15, 32	342,701	306,992
Financial liabilities held at fair value through profit or loss	15, 16	19,599	20,288
Derivative financial instruments	15, 17	66,527	47,574
Debt securities in issue	15, 33	35,766	23,038
Other liabilities	15, 34	23,769	21,058
Due to parent companies		13,627	11,757
Current tax liabilities		1,088	1,058
Accruals and deferred income		4,332	4,380
Subordinated liabilities and other borrowed funds	15, 37	19,462	17,418
Deferred tax liabilities	29	130	182
Provisions for liabilities and charges	35	369	315
Retirement benefit obligations	36	519	310
Total liabilities		563,185	482,921
Equity			
Share capital	38	12,054	11,687
Reserves		20,251	18,619
Total parent company shareholders' equity		32,305	30,306
Non-controlling interests	39	3,145	3,054
Total equity		35,450	33,360
Total equity and liabilities		598,635	516,281

[1] Amounts have been restated as explained in note 53

The notes on pages 33 to 169 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 29 February 2012 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 2011

	Share capital	Share premium account	Capital and Capital redemption reserve[1]	Available-for-sale reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Parent company shareholders equity	Non-controlling interests	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million
At 1 January 2010	11,246	1,796	40	(88)	19	(1,204)	13,096	24,905	2,283	27,188
Profit for the year	-	-	-	-	-	-	4,116	4,116	390	4,506
Other comprehensive income	-	-	-	414	45	776	77 [2]	1,312	9	1,321
Distributions	-	-	-	-	-	-	-	-	(494)	(494)
Shares issued, net of expenses	441	-	-	-	-	-	-	441	-	441
Deemed capital contribution[4]	-	-	-	-	-	-	745	745	-	745
Taxation on share option expense	-	-	-	-	-	-	(20)	(20)	-	(20)
Dividends	-	-	-	-	-	-	(794)	(794)	-	(794)
Deemed distribution to parent	-	-	-	-	-	-	(390)	(390)	-	(390)
Other increases	-	-	-	-	-	-	(9)	(9)	866 [5]	857
At 31 December 2010	11,687	1,796	40	326	64	(428)	16,821	30,306	3,054	33,360
Profit for the year	-	-	-	-	-	-	4,271	4,271	650	4,921
Other comprehensive income	-	-	-	(365)	(77)	(1,001)	(81)[3]	(1,524)	(142)	(1,666)
Distributions	-	-	-	-	-	-	-	-	(437)	(437)
Shares issued, net of expenses	367	-	-	-	-	-	-	367	-	367
Deemed capital contribution[4]	-	-	-	-	-	-	430	430	-	430
Taxation on share option expense	-	-	-	-	-	-	59	59	-	59
Dividends	-	-	-	-	-	-	(1,212)	(1,212)	-	(1,212)
Deemed distribution to parent	-	-	-	-	-	-	(392)	(392)	-	(392)
Other increases	-	-	-	-	-	-	-	-	20	20
At 31 December 2011	12,054	1,796	40	(39)	(13)	(1,429)	19,896	32,305	3,145	35,450

1 Includes capital reserve of $5 million, capital redemption reserve of $35 million at 1 January 2010, 31 December 2010 and 2011.

2 Comprises actuarial gains, net of taxation and non-controlling interest share, of $82 million and share of comprehensive income from associates of $(5) million.

3 Comprises actuarial losses, net of taxation and non-controlling interest share, of $(82) million and share of comprehensive income from associates of $1 million.

4 Comprises deemed capital contribution from parent arising from share based payment of $430 million (2010: $360 million) and debt waiver of $nil (2010: $385 million).

5 Part disposal of Group interest in its subsidiary as explained in note 55.

Note 38 includes a description of each reserve.

The notes on pages 33 to 169 form an integral part of these financial statements.

Standard Chartered Bank

Cash flow statement

For the year ended 31 December 2011

		Group		Company	
		2011	2010 [1]	2011	2010 [1]
	Notes	$million	$million	$million	$million
Cash flows from operating activities					
Profit before taxation		6,769	6,230	4,014	3,440
Adjustments for:					
Non-cash items included within income statement	41	2,667	2,113	446	906
Change in operating assets	41	(79,912)	(61,050)	(53,449)	(47,270)
Change in operating liabilities	41	93,734	47,216	68,197	42,186
Contributions to defined benefit schemes		(77)	(150)	(36)	(90)
UK and overseas taxes paid, net of refund		(1,618)	(1,421)	(1,029)	(825)
Net cash from/(used in) operating activities		21,563	(7,062)	18,143	(1,653)
Net cash flows from investing activities					
Purchase of property, plant and equipment		(286)	(370)	(143)	(189)
Disposal of property, plant and equipment		139	183	54	44
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired		(906)	(545)	(1,642)	(801)
Disposal and redemption of investment in subsidiaries			-	3,911	1,695
Purchase of investment securities		(131,260)	(114,076)	(45,121)	(39,855)
Disposal and maturity of investment securities		119,831	116,658	35,143	43,310
Dividends received from investment in subsidiaries and associates		10	22	940	603
Net cash (used in)/from investing activities		(12,472)	1,872	(6,858)	4,807
Net cash flows from financing activities					
Issue of ordinary and preference share capital, net of expenses		367	441	367	441
Interest paid on subordinated liabilities		(738)	(678)	(651)	(642)
Gross proceeds from issue of subordinated liabilities		2,229	770	1,300	-
Repayment of subordinated liabilities		(540)	(2,573)	(500)	(2,245)
Interest paid on senior debts		(539)	(641)	371	-
Gross proceeds from issue of senior debts		11,741	10,113	5,046	226
Repayment of senior debts		(9,155)	(10,601)	(5,254)	-
Dividends paid to non-controlling interests and preference shareholders		(538)	(595)	(101)	(101)
Dividends paid to ordinary shareholders		(1,111)	(693)	(1,111)	(693)
Net cash from/(used in) financing activities		1,716	(4,457)	(533)	(3,014)
Net increase/(decrease) in cash and cash equivalents		10,807	(9,647)	10,752	140
Cash and cash equivalents at beginning of year		59,734	68,071	36,272	35,415
Effect of exchange rate movements on cash and cash equivalents		(91)	1,310	(158)	717
Cash and cash equivalents at end of year	42	70,450	59,734	46,866	36,272

[1] Amounts have been restated as explained in note 53

The notes on pages 33 to 169 form an integral part of these financial statements.

Standard Chartered Bank

Company balance sheet

As at 31 December 2011

	Notes	2011 $million	2010 $million
Assets			
Cash and balances at central banks	15, 42	36,268	22,782
Financial assets held at fair value through profit or loss	15, 16	13,586	16,001
Derivative financial instruments	15, 17	66,338	45,537
Loans and advances to banks	15, 18, 22	36,972	27,158
Loans and advances to customers	15, 19, 22	121,713	108,123
Investment securities	15, 24	38,416	29,122
Other assets	15, 30	16,058	14,592
Due from subsidiary undertakings and other related parties		16,490	15,189
Current tax assets		47	93
Prepayments and accrued income		1,203	948
Investment in subsidiary undertakings	25	14,270	16,539
Investment in joint ventures	25	396	396
Investment in associates	25	53	53
Goodwill and intangible assets	27	933	688
Property, plant and equipment	28	685	729
Deferred tax assets	29	519	596
Total assets		363,947	298,546
Liabilities			
Deposits by banks	15, 31	27,933	20,220
Customer accounts	15, 32	149,212	132,488
Financial liabilities held at fair value through profit or loss	15, 16	6,855	7,401
Derivative financial instruments	15, 17	65,112	45,378
Debt securities in issue	15, 33	24,923	12,736
Other liabilities	15, 34	11,019	8,213
Due to subsidiary undertakings and other related parties		36,014	31,588
Current tax liabilities		697	801
Accruals and deferred income		2,339	2,411
Subordinated liabilities and other borrowed funds	15, 37	16,288	15,169
Deferred tax liabilities	29	52	28
Provisions for liabilities and charges	35	125	121
Retirement benefit obligations	36	324	193
Total liabilities		340,893	276,747
Equity			
Share capital	38	12,054	11,687
Reserves		11,000	10,112
Total parent company shareholders' equity		23,054	21,799
Total equity and liabilities		363,947	298,546

The notes on pages 33 to 169 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 29 February 2012 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 2011

	Share capital	Share premium account	Capital and Capital redemption reserve[1]	Available-for-sale reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Total
	$million	$million	$million	$million	$million	$million	$million	$million
At 1 January 2010	11,246	1,796	40	(303)	14	170	5,857	18,820
Profit for the year	-	-	-	-	-	-	2,344	2,344
Other comprehensive income	-	-	-	253	56	246	77	632
Shares issued, net of expenses	441	-	-	-	-	-	-	441
Taxation on share option expense	-	-	-	-	-	-	(20)	(20)
Deemed capital contribution[2]	-	-	-	-	-	-	639	639
Deemed distribution to parent	-	-	-	-	-	-	(263)	(263)
Dividends	-	-	-	-	-	-	(794)	(794)
At 31 December 2010	11,687	1,796	40	(50)	70	416	7,840	21,799
Profit for the year	-	-	-	-	-	-	2,849	2,849
Other comprehensive income	-	-	-	(18)	(87)	(623)	(90)	(818)
Shares issued, net of expenses	367	-	-	-	-	-	-	367
Taxation on share option expense	-	-	-	-	-	-	59	59
Deemed capital contribution[2]	-	-	-	-	-	-	317	317
Deemed distribution to parent	-	-	-	-	-	-	(307)	(307)
Dividends	-	-	-	-	-	-	(1,212)	(1,212)
At 31 December 2011	12,054	1,796	40	(68)	(17)	(207)	9,456	23,054

[1] Includes capital reserve of $5 million, capital redemption reserve of $35 million at 1 January 2010, 31 December 2010 and 2011.

[2] Comprises deemed capital distribution from parent arising from share based payments of $317 million (2010: $254 million) and debt waiver of $nil million (2010: $385 million).

Note 38 includes a description of each reserve.

The notes on pages 33 to 169 form an integral part of these financial statements.

1. Accounting policies

(a) 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 IFRS Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU). EU endorsed IFRS may differ from IFRS published by the International Accounting Standards Board (IASB) if a standard has not been endorsed by the EU.

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.

The disclosures required by IFRS 7 *Financial Instruments: Disclosures (IFRS 7)* and the capital disclosures within IAS 1 *Presentation of Financial Statements (IAS 1)* are presented within the Risk review on pages 14 to 18, Capital on pages 167 to 169, and in the notes to the financial statements.

(b) 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 a 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.

(c) Significant accounting estimates and judgments
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. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the relevant disclosure notes for the following areas:

- Loan loss provisioning (refer to note 23)
- Taxation (refer to note 12)
- Fair value of financial instruments (refer to note 15)
- Goodwill impairment (refer to note 27)
- Provisions for liabilities and charges (refer to note 35)
- Pensions (refer to note 36)
- Share based payments (refer to note 40)

(d) 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 and income of the Group.

(e) New accounting standards adopted by the Group
On 1 January 2011, the Group adopted retrospectively IAS 24 *Related Party Disclosures* (revised); IAS 24 (revised) widens the scope of the definition of related parties to include an investor, its subsidiaries and associates as related parties to each other. These amendments have not had a material impact on the Group's financial statements.

On 1 January 2011, the Group adopted improvements to IFRS (2010), a collection of amendments to a number of IFRS. Of these, the amendments to IFRS 7, IAS 1, IAS 34 *Interim Financial Reporting* and IFRIC 13 *Customer Loyalty Programmes* have been applied on a retrospective basis and the amendments to IFRS 3 *Business Combinations* have been applied on a prospective basis. The amendments to IFRS 7 include a requirement to disclose the financial effect of collateral held against assets on the Group's balance sheet, and this disclosure is set out on pages 147 of the Credit risk review. None of the other amendments have had a material impact on the Group's financial statements.

(f) Forthcoming accounting standards and interpretations – issued but not effective
At 31 December 2011, a number of accounting standards and interpretations, and amendments thereto, had been issued by the International Accounting Standards Board, which are not effective for the Group or Company financial statements as at 31 December 2011. Those which are expected to have a significant effect on the Group and Company financial statements in future years are discussed below. The full impact of these IFRS including that resulting from IFRS 9 *Financial Instruments* is currently being assessed by the Group.

The use of IFRS and certain IFRIC Interpretations that have yet to be endorsed by the EU is not permitted.

Accounting standards mandatorily effective 1 January 2012
Amendment to IAS 12 *Income Taxes*: This amendment provides a practical approach for measuring deferred tax liabilities and deferred tax assets when it would be difficult and subjective to determine the expected manner of recovery. This amendment had not been endorsed by the EU at 31 December 2011.

Amendment to IFRS 7: This amendment introduces additional disclosures when an asset is transferred but is not derecognised. It also requires disclosures of assets that are derecognised but where the entity continues to have a continuing exposure to the asset after the sale.

Accounting standards mandatorily effective 1 January 2013
IFRS 10 *Consolidated Financial Statements* replaces the current guidance on consolidation in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Special Purpose Entities*. It introduces a single model of assessing control whereby an investor controls an investee when it has the power, exposure to variable returns and the ability to use its power to influence the returns of the investee. IFRS 10 also includes specific guidance on de-facto control, protective rights and the determination of whether a decision maker is acting as principal or agent, all of which influence the assessment of control.

IFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures*. It requires all joint ventures to be equity accounted thereby removing the option in IAS 31 for proportionate consolidation. It also removes the IAS 31 concept of jointly controlled assets.

1. Accounting policies continued

Accounting standards mandatorily effective 1 January 2013 continued

IFRS 12 *Disclosure of Interests in Other Entities* prescribes disclosure requirements around significant judgements and assumptions made in determining whether an entity controls another entity and has joint control or significant influence over another entity. The standard also requires disclosures on the nature and risks associated with interests in unconsolidated structured entities.

IFRS 13 *Fair Value Measurement* consolidates the guidance on how to measure fair value into one comprehensive standard. It introduces the use of an exit price, as well as extensive disclosure requirements, particularly the inclusion of non-financial instruments into the fair value hierarchy.

Amendment to IAS 1 requires items within other comprehensive income to be separated based on whether or not items can be reclassified to profit and loss.

IAS 19 *Employee Benefits (revised)* makes significant changes to the recognition and measurement of defined benefit expenses in particular on the return on plan assets. It also makes changes to termination benefits as well as enhancing disclosure requirements.

Amendments to IFRS 7: This requires disclosure of the effect or potential effect of netting arrangements. This includes financial instruments transacted under enforceable master netting arrangements or other similar agreements.

IFRS 10, 11, 12, 13 and amendments to IAS 1, IAS 19 and IFRS 7 had not been endorsed by the EU at 31 December 2011.

Accounting standards mandatorily effective 1 January 2014

Amendment to IAS 32 *Financial Instruments: Presentation*. This provides application guidance in respect of the existing IAS 32 offset criteria. This amendment had not been endorsed by the EU at 31 December 2011.

Accounting standards mandatorily effective 1 January 2015

IFRS 9 *Financial instruments*

IFRS 9 replaces certain elements of IAS 39 *Financial Instruments: Recognition and Measurement* in respect of classification and measurement of financial assets and financial liabilities. The standard requires all financial assets to be classified at 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 a non-trading equity investment and the Group has elected to present such gains or losses in other comprehensive income.

Financial liabilities are required to be measured at fair value or amortised cost similar to IAS 39 *Financial instruments: Recognition and measurement* requirements except that the change in fair value relating to own credit is reported within other comprehensive income and not the income statement.

The impairment and hedging components of IFRS 9 continue to be deliberated by the IASB and are expected to be finalised during 2012. In addition, the IASB is expected to make targeted amendments to IFRS 9 during 2012.

In December 2011, the IASB issued an amendment to IFRS 9, deferring the effective date from 1 January 2013 to 1 January 2015. In addition, whilst the proposals would be applied retrospectively, the amendment clarified that prior periods would not require restatement. The EU has indicated that it would not endorse IFRS 9 for use until all components have been completed.

(g) IFRS and Hong Kong accounting requirements

As required by the Hong Kong Listing Rules, an explanation of the differences in accounting practices between EU endorsed IFRS and Hong Kong Financial Reporting Standards is required to be disclosed. There would be no significant differences had these accounts been prepared in accordance with Hong Kong Financial Reporting Standards.

(h) Prior period restatements

Details of prior period restatements are set out in note 53.

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

(i) 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, and where any interest in the subsidiary remains, this is remeasured to its fair value and the change in carrying amount is recognised in the income statement. Details of the Group's principal subsidiaries are given in note 25.

SPEs are consolidated when the substance of the relationship between the Group and the SPE indicates control by the Group. Potential indicators of control include an assessment of risks and benefits in respect of the SPE's activities. This assessment includes consideration of the following conditions:

- where the SPE's activities are conducted on behalf of the Group according to specific business needs, such that the Group obtains benefits from the SPE's operations;
- where the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers;
- where the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- where the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Details on the Group's use of SPEs are set out in note 54.

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).

1. Accounting policies continued

Associates continued

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.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group accounts.

Business combinations

The acquisition 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 the fair value of any contingent consideration payable. 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 (see note 27 for details on goodwill recognised by the Group). 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, adjustments arising from their subsequent finalisation are not reflected in the income statement if (i) they arise within 12 months of the acquisition date and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period adjustments). Such adjustments are applied as at the date of acquisition and if applicable, prior period amounts are restated. All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not remeasured.

Changes in ownership interest in a subsidiary which do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Where a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the income statement.

(j) Foreign currencies

Items included in the Group financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency of that entity). Both the Company and Group financial statements are presented in US dollars, which is the functional and presentation currency of the Company and the presentation currency of the Group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. 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.

Foreign currency translation

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.

(k) Income recognition

Income from financial instruments

Gains and losses arising from changes in the fair value of financial instruments held 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.

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

1. Accounting policies continued

Income recognition continued

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.

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 instrument's 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.

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.

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 apportionment basis.

(l) 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.

(m) Financial assets and liabilities classification (excluding derivatives)

The Group classifies its financial assets into the following measurement categories: a) financial assets held at fair value through profit or loss; b) loans and receivables; c) held-to-maturity; and d) available-for-sale. 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 applicable, at the time of reclassification.

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
- 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.

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. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these loans and advances and debt securities have been designated at fair value through profit or loss. Details of financial assets designated at fair value are disclosed in notes 15 and 16.

The Group has also designated 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.

Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost expense recognition. Details of financial liabilities designated at fair value are disclosed in note 15.

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 it is expected that substationally all of the initial investment will be recovered, other than because of credit deterioration.

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 intention and ability to hold to maturity.

1. Accounting policies continued

Financial assets and liabilities classification (excluding derivatives continued

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.

Further details on the application of these policies is set out in note 15.

Financial liabilities held at amortised cost

Financial liabilities, which include borrowings, not classified held at fair value through profit or loss are classified as amortised cost instruments.

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.

Fair value of financial assets and liabilities

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.

The fair values of quoted financial assets and liabilities 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 date.

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.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and financial assets classified as held-to-maturity and available-for-sale are initially recognised on the 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.

All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs.

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. 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 net trading income line in 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 the available-for-sale reserve within 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.

Financial liabilities 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.

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.

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 occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group considers the following factors in assessing objective evidence of impairment:

- whether the counterparty is in default of principal or interest payments
- when a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation
- where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation
- where 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
- where the Group sells a credit obligation at a material credit-related economic loss; or
- where 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.

1. Accounting policies continued

Assets carried at amortised cost continued

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. Further details on collateral held by the Group is discussed in the note 50. 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 based on the probability of default inherent within the portfolio of impaired loans or receivables and 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, it is decided that there is no realistic probability of recovery 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.

Further details on the application of these policies is set out in the notes 23 and 50.

Available-for-sale assets

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. 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.

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.

Renegotiated loans

Loans whose original terms have been modified including those subject to forbearance strategies 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.

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.

Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following 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: 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 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.

1. Accounting policies continued

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.

Details of the Group's repo transactions are provided in note 46.

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. A financial liability is extinguished when the obligation is discharged, cancelled or expires.

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'.

(n) Derivative financial instruments and hedge accounting
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. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially 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 other comprehensive income).

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 and Company 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.

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.

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 recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

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

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.

Further details on the application of these policies are set out in note 17.

Derivatives that do not qualify for hedge accounting
Changes in the fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in the income statement.

1. Accounting policies continued

(o) 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.

(p) Intangible and tangible fixed 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 and joint ventures 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. 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. 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 27 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 (4 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 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
Aircraft and Ships	up to 25 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.

(q) Taxation

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.

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.

1. Accounting policies continued

Taxation continued

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

(r) 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. Where a liability arises based on participation in a market at a specified date (such as the UK bank levy), the obligation is recognised in the financial statements on that date and is not accrued over the period.

(s) 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 ultimate parent company of the Group and Company, Standard Chartered PLC, operates share based compensation schemes for employees of the Group and Company. All share options granted by the parent are accounted for on an equity settled basis regardless of how the parent ultimately settles with the employees of the Group and Company. The Group and Company receive the fair value of the employee services in exchange for grant of options by the parent. The services received from the employees are recognised as expenses with a corresponding credit to equity, which represents a deemed contribution from Standard Chartered PLC.

The amount to be expensed over the vesting period is determined by reference to the fair value of the options received by the employees, which excludes the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments received is based on market prices of the parent's shares, 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 parent 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.

Details of the Group's share based compensation scheme are set out in note 40.

(t) 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.

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, except for Financial Market products which are classified by the location of the dealer.

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

	2011					2010				
	Consumer Banking	Wholesale Banking	Total reportable segments	Corporate items not allocated[2]	Total	Consumer Banking	Wholesale Banking	Total reportable segments	Corporate items not allocated[3]	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million
Internal income	(44)	44	-	-	-	(28)	28	-	-	-
Net interest income	4,630	5,536	10,166	-	10,166	4,111	4,436	8,547	-	8,547
Other income	2,216	5,299	7,515	-	7,515	2,025	5,579	7,604	4	7,608
Operating income	6,802	10,879	17,681	-	17,681	6,108	10,043	16,151	4	16,155
Operating expenses	(4,627)	(5,175)	(9,802)	(165)	(9,967)	(4,168)	(4,833)	(9,001)	(7)	(9,008)
Operating profit before impairment losses and taxation	2,175	5,704	7,879	(165)	7,714	1,940	5,210	7,150	(3)	7,147
Impairment losses on loans and advances and other credit risk provisions	(524)	(384)	(908)	-	(908)	(578)	(305)	(883)	-	(883)
Other impairment	(12)	(99)	(111)	-	(111)	(13)	(63)	(76)	-	(76)
Profit from associates	-	-	-	74	74	-	-	-	42	42
Profit before taxation	1,639	5,221	6,860	(91)	6,769	1,349	4,842	6,191	39	6,230
Total assets employed	132,033	464,632	596,665	1,970	598,635	125,521	389,004	514,525	1,756	516,281
Total liabilities employed	171,334	390,633	561,967	1,218	563,185	162,731	318,950	481,681	1,240	482,921
Other segment items:										
Capital expenditure[1]	178	1,397	1,575	-	1,575	249	816	1,065	-	1,065
Depreciation	169	199	368	-	368	163	166	329	-	329
Investment in associates	-	-	-	903	903	-	-	-	631	631
Amortisation of intangible assets	89	182	271	-	271	89	159	248	-	248

1 Includes capital expenditure in Wholesale Banking of $1,049 million in respect of operating lease assets (2010: $498 million)

2 Relates to UK bank levy, and the Group's share of profit from associates

3 Relates to UK payroll tax, gains on change in control, and the Group's share of profit from associates

2. Segmental Information continued

The following table details entity-wide operating income by product:

	2011 $million	2010 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	2,426	2,055
Wealth Management	1,274	1,140
Deposits	1,412	1,204
Mortgage and Auto Finance	1,480	1,526
Other	210	183
	6,802	6,108
Wholesale Banking		
Lending and Portfolio Management	844	874
Transaction Banking		
Trade	1,600	1,476
Cash management and custody	1,657	1,311
	3,257	2,787
Global Markets		
Financial Markets	3,699	3,324
Asset and Liability Management (ALM)	924	918
Corporate Finance	1,879	1,721
Principal Finance	276	419
	6,778	6,382
	10,879	10,043

Entity-wide information

By geographic area

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.

	2011								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[1] $million	Total $million
Internal income	70	(98)	(66)	17	96	51	87	(157)	-
Net interest income	1,532	1,077	1,433	2,336	892	1,142	599	1,155	10,166
Fees and commissions income, net	752	509	197	763	423	443	340	616	4,043
Net trading income	561	576	81	298	277	491	289	106	2,679
Other operating income	136	129	80	150	122	91	28	57	793
Operating income	3,051	2,193	1,725	3,564	1,810	2,218	1,343	1,777	17,681
Operating expenses	(1,397)	(1,107)	(1,352)	(2,088)	(832)	(1,086)	(708)	(1,397)	(9,967)
Operating profit before impairment losses and taxation	1,654	1,086	373	1,476	978	1,132	635	380	7,714
Impairment losses on loans and advances and other credit risk provisions	(103)	(48)	(198)	(134)	(112)	(286)	(25)	(2)	(908)
Other impairment	-	(31)	(13)	31	(60)	(14)	(16)	(8)	(111)
Profit from associates	-	-	-	73	-	-	-	1	74
Profit before taxation	1,551	1,007	162	1,446	806	832	594	371	6,769
Capital expenditure[2]	781	221	25	74	60	20	25	369	1,575

[1] Americas UK & Europe includes operating income of $860 million in respect of the UK, the Company's country of domicile

[2] Includes capital expenditure in Hong Kong of $724 million and in the UK $325 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment (note 28) and software related intangibles (note 27) including any post-acquisition additions made by the acquired entities

2. Segmental Information continued

	2010								
	Asia Pacific								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe[1]	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Internal income	5	(47)	(49)	64	349	2	82	(406)	-
Net interest income	1,239	915	1,167	1,847	773	1,155	521	930	8,547
Fees and commissions income, net	701	401	233	737	464	587	359	756	4,238
Net trading income	523	369	295	343	268	345	265	187	2,595
Other operating income	45	110	62	191	185	88	25	69	775
Operating income	2,513	1,748	1,708	3,182	2,039	2,177	1,252	1,536	16,155
Operating expenses	(1,358)	(988)	(1,070)	(1,968)	(749)	(996)	(652)	(1,227)	(9,008)
Operating profit before impairment losses and taxation	1,155	760	638	1,214	1,290	1,181	600	309	7,147
Impairment losses on loans and advances and other credit risk provisions	(43)	(33)	(226)	(152)	(79)	(302)	(24)	(24)	(883)
Other impairment	-	(1)	(5)	(2)	(3)	(29)	(10)	(26)	(76)
Profit from associates	-	-	-	42	-	-	-	-	42
Profit before taxation	1,112	726	407	1,102	1,208	850	566	259	6,230
Capital expenditure [2]	23	286	60	74	38	18	57	509	1,065

[1] Americas UK & Europe includes operating income of $739 million in respect of the UK, the Company's country of domicile

[2] Includes capital expenditure in Americas, UK and Europe of $498 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment (note 28) and software related intangibles (note 27) including any post-acquisition additions made by the acquired entities

Net interest margin and yield

	2011	2010
	$million	$million
Net interest margin (%)	2.3	2.2
Net interest yield (%)	2.2	2.1
Average interest earning assets	441,892	383,359
Average interest bearing liabilities	409,136	347,023

Net interest margin by geography

	2011									
	Asia Pacific									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe[1]	Intra-group/ tax assets	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million
Total assets employed	118,390	102,701	63,089	115,513	42,270	56,186	17,264	158,985	(75,763)	598,635
Of which : Loans to customers	50,541	42,574	38,072	54,196	23,379	23,299	10,004	26,688	-	268,753
Average interest-earning assets	91,923	67,952	57,031	95,513	31,299	33,851	12,389	96,396	(44,462)	441,892
Net interest income	1,631	1,011	1,348	2,346	985	1,202	675	968	-	10,166
Net interest margin (%)	1.8	1.5	2.4	2.5	3.1	3.6	5.4	1.0	-	2.3

[1] Americas UK & Europe includes total assets employed of $104,859 million in respect of the UK, the Company's country of domicile

2. Segmental Information continued

	2010									
	Asia Pacific									
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe[1]	Intra-group/ tax assets	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million
Total assets employed	102,960	82,235	64,114	102,199	39,741	48,162	15,988	118,263	(57,381)	516,281
Of which : Loans to customers	43,632	36,106	40,083	48,225	24,384	23,571	8,138	22,265	-	246,404
Average interest-earning assets	81,975	55,530	55,504	79,634	28,798	31,318	12,543	76,775	(38,718)	383,359
Net interest income	1,272	821	1,099	1,885	965	1,172	598	735	-	8,547
Net interest margin (%)	1.6	1.5	2.0	2.4	3.4	3.7	4.8	1.0	-	2.2

[1] Americas UK & Europe includes total assets employed of $77,761 million in respect of the UK, the Company's country of domicile

Structure of deposits

The following tables set out the structure of the Group and Company's deposits by principal geographic areas:

Group

	2011								
	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
Non-interest bearing current and demand accounts	6,956	9,013	66	4,289	2,557	8,813	3,778	3,038	38,510
Interest bearing current accounts and savings deposits	48,088	23,314	19,381	28,232	1,978	3,874	2,915	22,378	150,160
Time deposits	33,951	32,730	19,337	42,336	6,706	10,964	2,564	44,447	193,035
Other deposits	283	295	748	1,681	1,691	352	110	1,342	6,502
Total	89,278	65,352	39,532	76,538	12,932	24,003	9,367	71,205	388,207
Deposits by banks	2,025	2,299	1,603	5,881	175	2,059	532	21,814	36,388
Customer accounts	87,253	63,053	37,929	70,657	12,757	21,944	8,835	49,391	351,819
	89,278	65,352	39,532	76,538	12,932	24,003	9,367	71,205	388,207
Debt securities in issue	1,820	770	7,998	5,501	363	56	228	23,463	40,199
Total	91,098	66,122	47,530	82,039	13,295	24,059	9,595	94,668	428,406

The table above includes financial instruments held at fair value (see note 15)

	2010								
	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
Non-interest bearing current and demand accounts	7,045	5,927	74	5,167	3,175	7,907	3,917	7,608	40,820
Interest bearing current accounts and savings deposits	43,302	22,843	18,981	27,061	2,324	3,834	2,212	16,699	137,256
Time deposits	26,339	23,792	18,017	35,660	6,469	10,341	2,430	39,608	162,656
Other deposits	130	112	731	842	2,058	332	122	917	5,244
Total	76,816	52,674	37,803	68,730	14,026	22,414	8,681	64,832	345,976
Deposits by banks	2,540	1,130	2,484	4,006	512	1,555	470	16,777	29,474
Customer accounts	74,276	51,544	35,319	64,724	13,514	20,859	8,211	48,055	316,502
	76,816	52,674	37,803	68,730	14,026	22,414	8,681	64,832	345,976
Debt securities in issue	22	535	9,860	1,812	241	51	413	13,414	26,348
Total	76,838	53,209	47,663	70,542	14,267	22,465	9,094	78,246	372,324

The table above includes financial instruments held at fair value (see note 15)

2. Segmental Information continued

Structure of deposits continued

Company

	2011						
	Asia Pacific						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Non-interest bearing current and demand accounts	9,013	1,115	2,412	7,685	117	3,036	23,378
Interest bearing current accounts and savings deposits	23,314	2,628	1,743	2,715	649	20,542	51,591
Time deposits	32,730	9,269	6,632	10,267	912	41,546	101,356
Other deposits	295	40	1,684	320	-	1,340	3,679
Total	65,352	13,052	12,471	20,987	1,678	66,464	180,004
Deposits by banks	2,299	2,760	173	1,832	250	21,632	28,946
Customer accounts	63,053	10,292	12,298	19,155	1,428	44,832	151,058
	65,352	13,052	12,471	20,987	1,678	66,464	180,004
Debt securities in issue	770	2,713	356	-	196	23,254	27,289
Total	66,122	15,765	12,827	20,987	1,874	89,718	207,293

The table above includes financial instruments held at fair value (note 15)

	2010						
	Asia Pacific						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Non-interest bearing current and demand accounts	5,927	939	3,053	6,853	69	7,226	24,067
Interest bearing current accounts and savings deposits	22,843	3,350	2,086	2,765	784	14,993	46,821
Time deposits	23,792	4,411	6,338	9,555	691	37,117	81,904
Other deposits	113	135	2,055	315	-	801	3,419
Total	52,675	8,835	13,532	19,488	1,544	60,137	156,211
Deposits by banks	1,130	1,585	510	1,381	101	16,436	21,143
Customer accounts	51,545	7,250	13,022	18,107	1,443	43,701	135,068
	52,675	8,835	13,532	19,488	1,544	60,137	156,211
Debt securities in issue	535	505	222	13	358	13,123	14,756
Total	53,210	9,340	13,754	19,501	1,902	73,260	170,967

The table above includes financial instruments held at fair value (note 15)

3. Interest income

	2011	2010
	$million	$million
Balances at central banks	159	17
Treasury bills	790	674
Loans and advances to banks	1,251	764
Loans and advances to customers	12,296	9,964
Listed debt securities	749	882
Unlisted debt securities	1,269	1,137
Accrued on impaired assets (discount unwind)	70	62
	16,584	13,500
Of which from financial instruments held at :		
Amortised cost	13,419	10,442
Available-for-sale	2,259	1,914
Held at fair value through profit or loss	906	1,144

4. Interest expense

	2011 $million	2010 $million
Deposits by banks	429	486
Customer accounts:		
Interest bearing current accounts and savings deposits	1,450	1,021
Time deposits	3,130	2,342
Debt securities in issue	720	568
Subordinated liabilities and other borrowed funds:		
Wholly repayable within five years	13	24
Other	676	512
	6,418	4,953
Of which interest expense on financial instruments held at:		
Amortised cost	5,940	4,458
Held at fair value through profit or loss	478	495

5. Fees and commissions

	2011 $million	2010 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	389	392
Wealth Management and Deposits	1,106	1,021
Mortgages and Auto Finance	92	86
Others	44	62
	1,631	1,561
Wholesale Banking		
Lending and Portfolio Management	72	89
Transaction Banking	1,409	1,338
Financial Markets	142	392
Corporate Finance	766	852
Others	23	6
	2,412	2,677
Net fee and commission income	4,043	4,238

Total fee income arising from financial instruments that are not fair valued through profit or loss $1,380 million (2010: $1,468 million) and arising from trust and other fiduciary activities $155 million (2010: $198 million)

Total fee expense arising from financial instruments that are not fair valued through profit or loss $74 million (2010: $183 million) and arising from trust and other fiduciary activities $22 million (2010: $16 million)

6. Net trading income

	2011 $million	2010 $million
Gains less losses on instruments held for trading:		
Foreign currency [1]	1,785	1,678
Trading securities	23	350
Interest rate derivatives	333	339
Credit and other derivatives	632	38
	2,773	2,405
Gains less losses from fair value hedging:		
Gains less losses from fair value hedged items	(435)	(101)
Gains less losses from fair value hedged instruments	460	133
	25	32
Gains less losses on instruments designated at fair value:		
Financial assets designated at fair value through profit or loss	52	201
Financial liabilities designated at fair value through profit or loss	(438)	(14)
Derivatives managed with financial instruments designated at fair value through profit or loss	267	(29)
	(119)	158
	2,679	2,595

[1] Includes foreign currency gains and losses arising on the translation of foreign currency monetary assets and liabilities

7. Other operating income

	2011 $million	2010 $million
Other operating income includes:		
Gains less losses on disposal of financial assets:		
Available-for-sale	267	283
Loans and receivables	27	17
Dividend income	73	53
Gains arising on assets fair valued at acquisition	12	29
Rental income from operating lease assets	268	213
Gain on sale of property, plant and equipment	52	65
Gain arising on change of control	-	4

Gains arising on assets fair valued at acquisition relates to acquisitions completed prior to 1 January 2010, and primarily consists of recoveries of fair value adjustments on loans and advances.

8. Operating expenses

	2011 $million	2010 $million
Staff costs:		
Wages and salaries	4,970	4,462
Social security costs	155	124
Other pension costs (note 36)	282	182
Share based payment (note 40)	430	360
Other staff costs	825	604
	6,662	5,732

The following tables summarise the number of employees as at 31 December 2011 and 31 December 2010 respectively.

Group

2011	Consumer Banking	Wholesale Banking	Support Services	Total
Period end	52,957	19,517	12,740	85,214
Average for the period	51,711	19,236	12,754	83,701

2010	Consumer Banking	Wholesale Banking	Support Services	Total
Period end	51,934	18,869	12,975	83,778
Average for the period	49,883	18,022	13,266	81,171

Company

2011	Consumer Banking	Wholesale Banking	Support Services	Total
Period end	14,678	8,568	3,878	27,124
Average for the period	14,317	8,553	3,857	26,727

2010	Consumer Banking	Wholesale Banking	Support Services	Total
Period end	14,587	8,514	3,950	27,051
Average for the period	14,369	8,219	3,767	26,355

	2011 $million	2010 $million
Premises and equipment expenses:		
Rental of premises	420	387
Other premises and equipment costs	410	386
Rental of computers and equipment	32	27
	862	800
General administrative expenses:		
UK Bank Levy	165	-
Other general administrative expenses	1,639	1,899
	1,804	1,899

The UK Finance (No.3) Act 2011 (the 2011 Act) that was enacted on 19 July 2011 introduced a levy on certain qualifying liabilities of the Group with effect from January 2011, based on the balance sheet at the end of the financial year. The levy, which is not deductible for corporation tax, but is charged on total liabilities excluding Tier 1 capital, insured or guaranteed retail deposits and repos secured on certain sovereign debt. There is also a deduction from chargeable liabilities for an amount equal to certain high quality liquid assets and an allowance of GBP 20 billion before the levy is due. The rate of the levy for 2011 was set at 0.078 per cent of qualifying liabilities, with a lower rate of 0.039 per cent applied to liabilities with a maturity greater than one year and any deposits not otherwise excluded from the scope of levy (except for those from financial institutions and financial traders). The rate for 2012 has been set as 0.088 per cent of qualifying liabilities, with a lower rate of 0.044 per cent applicable as per above.

8. Operating expenses continued

Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in note 14.

Transactions with directors, officers and other related parties are disclosed in note 55.

Auditor's remuneration

Auditor's remuneration in relation to the Group statutory audit amounts to $3.6 million (2010: $3.7 million) and is included within other general administration expenses. The following fees were payable by the Group to their principal auditor, KPMG Audit Plc and its associates (together 'KPMG'):

	2011 $million	2010 $million
Audit fees for the Group statutory audit:		
Fees relating to the current year	3.6	3.7
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	10.5	10.1
Total audit and audit related fees	14.1	13.8
Other services pursuant to legislation	2.5	2.4
Tax services	0.6	1.0
Services relating to corporate finance transactions	0.1	0.1
All other services	1.7	1.9
Total fees payable	19.0	19.2

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 related to corporate finance transactions include fees payable to KPMG for transaction related work irrespective of whether the Group is vendor or purchaser, such as acquisition due diligence and long-form reports
- All other services include other assurance and advisory services such as translation services, ad-hoc accounting advice, 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 $0.1 million (2010: $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

	2011 $million	2010 $million
Premises	123	118
Equipment:		
Operating lease assets	100	71
Other equipment	145	140
Intangibles:		
Software	184	168
Acquired on business combinations	87	80
	639	577

10. Impairment losses on loans and advances and other credit risk provisions

The following table reconciles the charge for impairment provisions on loans and advances to the total impairment charge and other credit commitments:

	2011 $million	2010 $million
Net charge/(release) against profit on loans and advances:		
Individual impairment	867	1,002
Portfolio impairment charge/(release)	14	(130)
	881	872
Provisions related to credit commitments	2	9
Impairment charges relating to debt securities classified as loans and receivables	25	2
Total impairment losses and other credit risk provisions	908	883

The tables below sets out the net impairment charge by geography for Consumer Banking:

	2011								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	92	51	178	304	58	166	27	8	884
Recoveries/provisions no longer required	(28)	(23)	(26)	(179)	(23)	(52)	(14)	(5)	(350)
Net individual impairment charge	64	28	152	125	35	114	13	3	534
Portfolio impairment provision release									(10)
Net impairment charge									524

	2010								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	76	57	171	299	119	237	31	11	1,001
Recoveries/provisions no longer required	(29)	(19)	(29)	(166)	(33)	(45)	(12)	(5)	(338)
Net individual impairment charge	47	38	142	133	86	192	19	6	663
Portfolio impairment provision release									(85)
Net impairment charge									578

10. Impairment losses on loans and advances and other credit risk provisions continued

The tables below sets out the net impairment charge by geography for Wholesale Banking:

	2011								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	19	21	36	29	40	229	8	-	382
Recoveries/provisions no longer required	(10)	-	(4)	(8)	(6)	(9)	(7)	(5)	(49)
Net individual impairment charge/(credit)	9	21	32	21	34	220	1	(5)	333
Portfolio impairment provision charge									24
Net impairment charge									357
Other credit risk provisions									27
Total impairment									384

	2010								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	12	-	88	51	28	199	13	26	417
Recoveries/provisions no longer required	(14)	-	(7)	(23)	(8)	(7)	(4)	(15)	(78)
Net individual impairment (credit)/charge	(2)	-	81	28	20	192	9	11	339
Portfolio impairment provision release									(45)
Net impairment charge									294
Other credit risk provisions charge									11
Total impairment									305

11. Other impairment

	2011 $million	2010 $million
Impairment losses on available-for-sale financial assets:		
- Asset backed securities	7	22
- Other debt securities	52	-
- Equity shares	42	10
	101	32
Other	40	45
	141	77
Recovery of impairment on disposal of equity instruments	(30)	(1)
	111	76

Recoveries of impairments of $30 million (2010: $1 million) are in respect of private and strategic equity investments sold during the period which had impairment provisions raised against them in previous periods.

12. Taxation

Analysis of taxation charge in the year:

	2011 $million	2010 $million
The charge for taxation based upon the profits for the year comprises:		
Current tax:		
United Kingdom corporation tax at 26.5 per cent (2010: 28 per cent):		
Current tax on income for the year	1,044	881
Adjustments in respect of prior periods (including double taxation relief)	(102)	6
Double taxation relief	(912)	(697)
Foreign tax:		
Current tax on income for the year	1,645	1,310
Adjustments in respect of prior periods	8	36
	1,683	1,536
Deferred tax:		
Origination/reversal of temporary differences	207	303
Adjustments in respect of prior periods	(42)	(115)
	165	188
Tax on profits on ordinary activities	1,848	1,724
Effective tax rate	27.3%	27.7%

The taxation charge for the year is higher than the standard rate of corporation tax in the United Kingdom, 26.5 per cent. The differences are explained below:

	2011 $million	2010 $million
Profit on ordinary activities before taxation	6,769	6,230
Tax at 26.5 per cent (2010: 28 per cent)	1,794	1,744
Effects of:		
Tax free income	(117)	(164)
Lower tax rates on overseas earnings	(200)	(196)
Higher tax rates on overseas earnings	322	321
Adjustments to tax charge in respect of previous periods	(136)	(73)
Branch profits exemption[1]	138	-
Other items	47	92
Tax on profits on ordinary activities	1,848	1,724

[1] The Group elected into the Branch Profits Exemption Regime which takes effect for the accounting period commencing 1 January 2012. The current period impact is to reduce the UK deferred tax asset by $138 million

The UK Corporation tax rate has been changed from 28 per cent to 26 per cent with an effective date of 1 April 2011, giving a blended rate of 26.5 per cent for the period.

A further reduction in the UK Corporation tax rate to 25 per cent with an effective date of 1 April 2012 has been enacted at the balance sheet date. The rate reduction to 25 per cent has reduced the UK deferred tax asset by $28 million.

	2011			2010		
Tax recognised in other comprehensive income	Current Tax $million	Deferred Tax $million	Total $million	Current Tax $million	Deferred Tax $million	Total $million
Available-for-sale assets	(33)	74	41	(76)	9	(67)
Cash flow hedges	-	20	20	-	(17)	(17)
Retirement benefit obligations	-	37	37	-	(17)	(17)
	(33)	131	98	(76)	(25)	(101)
Other tax recognised in equity						
Share based payments	80	(21)	59	15	(33)	(18)
	80	(21)	59	15	(33)	(18)
Total tax (charge)/credit recognised in equity	47	110	157	(61)	(58)	(119)

13. Dividends

Ordinary equity shares	2011	2010
Interim dividend per ordinary share (cents)	9.36	5.93
Interim dividends declared and paid during the period ($million)	1,111	693

Preference shares	2011 $million	2010 $million
Non-cumulative redeemable preference shares:		
- 8.125 per cent preference shares of $5 each[1]	75	75
- 7.014 per cent preference shares of $5 each	53	53
- 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

14. Directors

Remuneration of Directors

Remuneration of directors is shown below:

	2011				2010			
	Salary $000	Annual performance award (a) $000	Benefits (b) $000	Total $000	Salary $000	Annual performance award (a) $000	Benefits (b) $000	Total $000
P A Sands	1,693	3,500	132	5,325	1,544	3,500	115	5,159
S P Bertamini (d)	1,316	1,900	1,389	4,605	1,113	1,700	712	3,525
J S Bindra(e)	831	1,800	747	3,378	772	1,700	799	3,271
R H Meddings	1,262	2,400	79	3,741	1,158	2,400	78	3,636
T J Miller	831	1,350	49	2,230	772	1,350	43	2,165
A M G Rees	1,124	10,000	67	11,191	926	11,000	78	12,004
V Shankar	817	3,200	524	4,541	713	4,000	342	5,055
	7,874	24,150	2,987	35,011	6,998	25,650	2,167	34,815

(a) The annual performance award shown here for 2011 is inclusive of any upfront cash bonus, upfront shares, deferred shares and any deferred cash element, if appropriate

(b) The benefits column includes amounts relating to car allowances and medical and life assurance benefits. Steve Bertamini and Jaspal Bindra carry out their executive duties in a host country location and are eligible for allowances that cover the cost of accommodation and education of dependent children. In addition, their contracts of employment provide for adjustments for cost of living and tax neutralisation such that their net pay is the same as if they were to remain in their respective home countries

(c) Amounts shown in the benefits column will vary year on year where tax neutralisation is adopted – dependent upon the timing of the taxation payments actual amounts paid each year can vary even though there is no change in the underlying level of remuneration. One consequence of this fact is that the benefits figure for Steve Bertamini increased by $378,603 for 2011

(d) Steve Bertamini received cash allowances of $341,246 (2010: $315,000) in lieu of his participation in any pension plan and this is reflected in the table above, as part of salary

(e) Jaspal Bindra received a total 2011 discretionary annual performance award of $1,800,000 of which he has chosen to waive $249,231 (2010: $nil) into his pension arrangement. In addition, Jaspal has also waived $711,912 (2010: $589,236). This is an amendment as the amount was incorrectly stated as $602,121 in the 2010 Standard Chartered PLC Annual Report into his pension arrangement, details of which are included in the directors' retirement benefits table

Any base salary/fee or benefit item in the table above has been converted using the average foreign exchange rates throughout the relevant financial year. The rates are $1: GBP0.6239 (2011) and $1:GBP0.6477 (2010). V Shankar's base salary has been converted using $1: AED3.7630.

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 initially allocated into an interest bearing account with the option for all or part of the value to be invested in alternative assets at his discretion. The original allocation (together with the accrued interest and investment returns) vests 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. The table below shows the value of the residual assets held in the arrangement.

	Grant date	Allocation	Value as at 31 December 2011
S P Bertamini	19 May 2008	$3,500,000	$4,520,652

14. Directors continued

Retirement benefits

In 2011, the Committee undertook a comprehensive review of the pension arrangements for executive directors.

No changes have been made to the terms and conditions applying to the defined benefit promises and executive directors retain any existing opportunity to waive a proportion of the cash element of any potential annual performance award or their annual base salary to enhance their unapproved retirement benefits. Any amounts waived in respect of this year are shown in the directors' retirement benefits table; our consulting actuary has calculated the additional pension benefits using assumptions adopted for International Accounting Standard 19 reporting.

Defined benefit pension provision continues to be made through a combination of the Standard Chartered Pension Fund, an approved non-contributory plan, and an unapproved retirement benefit plan. The unapproved plan is unfunded but the benefits accrued prior to 1 April 2011 are secured by a charge, in the name of an independent trustee, over specific assets. The unapproved unfunded retirement benefit scheme provides the part of the executive's benefit that exceeds the UK Government's lifetime allowance. In other respects the terms of the unapproved scheme are designed to mirror the provisions of the Standard Chartered Pension Fund. Upon the death in service of an executive director, benefits are available to a spouse and dependent children in a lump sum form.

Base salary is the only element of remuneration that is pensionable

Executive directors with defined benefit provisions

		Accrued pension $000 (a)			Transfer value of accrued pension $000 (b)				Increase in accrued pension (net of inflation and waiver) during 2011 $000 (d)	
	Age at 31 December 2011	At 1 January 2011	Increase during the year	At 31 December 2011	At 1 January 2011	Increase/ (decrease) during the year net of waiver	At 31 December 2011	2011 waiver $000 (c)	Annual pension	Transfer value
P A Sands	49	418	81	494	6,223	1,715	7,857	0	58	945
J S Bindra (e)	51	142	77	216	2,156	741	3,573	862	26	424
R H Meddings	53	408	62	466	6,593	1,503	8,021	0	41	737
T J Miller	54	231	42	270	3,756	884	4,681	78	24	454
A M G Rees	55	359	86	441	6,138	1,873	7,926	0	67	1,277

Notes

(a) The accrued pension amounts include benefits arising from transfer payments received in respect of service with previous employers

(b) The transfer values under the unapproved scheme have been calculated using our pension accounting methodology and assumptions

(c) Directors are given the opportunity to waive a proportion of any salary potential annual performance award payable in cash to enhance their retirement benefits. The amounts waived in respect of 2011 are shown in the table

(d) The increase in the accrued pension (net of inflation and waiver) during the year is the difference between the accrued pension at the end of 2010 increased by an allowance for inflation of 5.2 per cent (2010: 4.7 per cent) and the accrued pension at the end of 2011 excluding any waiver

(e) Jaspal Bindra waived $249,231 of his 2011 annual performance award (2010: $nil) and $711,912 of his 2011 base salary (2010: $589,236. This is an amendment as the amount was incorrectly stated as $596,652 in the 2010 Standard Chartered PLC Annual Report into his pension arrangements

The amounts included in the table above as at 1 January and 31 December 2011 are calculated using the exchange rates at the end of 2011 (GBP1 : $1.5535) and 2010 (GBP1 : $1.5605) respectively. The other entries are calculated using annual average exchange rates of 2011 (GBP1 : $1.6028) and 2010 (GBP1 : $1.5439).

15. 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	Notes	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		-	-	-	-	47,364	-	-	47,364
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		463	-	105	-	-	-	-	568
Loans and advances to customers[1]		4,676	-	312	-	-	-	-	4,988
Treasury bills and other eligible bills	16	4,609	-	-	-	-	-	-	4,609
Debt securities	16	13,025	-	45	-	-	-	-	13,070
Equity shares	16	1,028	-	565	-	-	-	-	1,593
		23,801	-	1,027	-	-	-	-	24,828
Derivative financial instruments	17	66,537	1,439	-	-	-	-	-	67,976
Loans and advances to banks[1]	18	-	-	-	-	65,980	-	-	65,980
Loans and advances to customers[1]	19	-	-	-	-	263,765	-	-	263,765
Investment securities									
Treasury bills and other eligible bills	24	-	-	-	21,680	-	-	-	21,680
Debt securities	24	-	-	-	55,567	5,475	18	-	61,060
Equity shares	24	-	-	-	2,543	-	-	-	2,543
		-	-	-	79,790	5,475	18	-	85,283
Other assets	30	-	-	-	-	20,554	-	6,595	27,149
Total at 31 December 2011		90,338	1,439	1,027	79,790	403,138	18	6,595	582,345
Cash and balances at central banks		-	-	-	-	32,724	-	-	32,724
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		1,206	-	-	-	-	-	-	1,206
Loans and advances to customers[1]		5,651	-	395	-	-	-	-	6,046
Treasury bills and other eligible bills	16	5,933	-	265	-	-	-	-	6,198
Debt securities	16	11,781	-	36	-	-	-	-	11,817
Equity shares	16	1,329	-	425	-	-	-	-	1,754
		25,900	-	1,121	-	-	-	-	27,021
Derivative financial instruments	17	46,787	1,162	-	-	-	-	-	47,949
Loans and advances to banks[1]	18	-	-	-	-	52,057	-	-	52,057
Loans and advances to customers[1]	19	-	-	-	-	240,358	-	-	240,358
Investment securities									
Treasury bills and other eligible bills	24	-	-	-	17,895	-	-	-	17,895
Debt securities	24	-	-	-	50,555	4,804	25	-	55,384
Equity shares	24	-	-	-	2,517	-	-	-	2,517
		-	-	-	70,967	4,804	25	-	75,796
Other assets	30	-	-	-	-	19,628	-	5,681	25,309
Total at 31 December 2010		72,687	1,162	1,121	70,967	349,571	25	5,681	501,214

[1] Further analysed in note 20.

15. Financial instruments continued

Classification continued

Group

Liabilities	Notes	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		973	-	119	-	-	1,092
Customer accounts		1,518	-	7,600	-	-	9,118
Debt securities in issue		2,441	-	1,992	-	-	4,433
Short positions		4,956	-	-	-	-	4,956
		9,888	-	9,711	-	-	19,599
Derivative financial instruments	17	65,494	1,033	-	-	-	66,527
Deposits by banks	31	-	-	-	35,296	-	35,296
Customer accounts	32	-	-	-	342,701	-	342,701
Debt securities in issue	33	-	-	-	35,766	-	35,766
Other liabilities	34	-	-	-	19,169	4,600	23,769
Subordinated liabilities and other borrowed funds	37	-	-	-	19,462	-	19,462
Total at 31 December 2011		75,382	1,033	9,711	452,394	4,600	543,120
Financial liabilities held at fair value through profit or loss							
Deposits by banks		885	-	38	-	-	923
Customer accounts		2,307	-	7,203	-	-	9,510
Debt securities in issue		2,256	-	1,054	-	-	3,310
Short positions		6,545	-	-	-	-	6,545
		11,993	-	8,295	-	-	20,288
Derivative financial instruments	17	46,723	851	-	-	-	47,574
Deposits by banks	31	-	-	-	28,551	-	28,551
Customer accounts	32	-	-	-	306,992	-	306,992
Debt securities in issue	33	-	-	-	23,038	-	23,038
Other liabilities	34	-	-	-	15,890	5,168	21,058
Subordinated liabilities and other borrowed funds	37	-	-	-	17,418	-	17,418
Total at 31 December 2010		58,716	851	8,295	391,889	5,168	464,919

15. Financial instruments continued

Classification continued

Company

Assets	Notes	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	Assets at fair value: 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		-	-	-	-	36,268	-	-	36,268
Financial assets held at fair value through profit or loss									
Loans and advances to banks		461	-	105	-	-	-	-	566
Loans and advances to customers		4,652	-	126	-	-	-	-	4,778
Treasury bills and other eligible bills	16	894	-	-	-	-	-	-	894
Debt securities	16	6,476	-	-	-	-	-	-	6,476
Equity shares	16	872	-	-	-	-	-	-	872
		13,355	-	231	-	-	-	-	13,586
Derivative financial instruments	17	65,022	1,316	-	-	-	-	-	66,338
Loans and advances to banks	18	-	-	-	-	36,972	-	-	36,972
Loans and advances to customers	19	-	-	-	-	121,713	-	-	121,713
Investment securities									
Treasury bills and other eligible bills	24	-	-	-	6,808	-	-	-	6,808
Debt securities	24	-	-	-	27,095	3,840	-	-	30,935
Equity shares	24	-	-	-	673	-	-	-	673
		-	-	-	34,576	3,840	-	-	38,416
Other assets	30	-	-	-	-	11,411	-	4,647	16,058
Total at 31 December 2011		78,377	1,316	231	34,576	210,204	-	4,647	329,351
Cash and balances at central banks		-	-	-	-	22,782	-	-	22,782
Financial assets held at fair value through profit or loss									
Loans and advances to banks		1,163	-	-	-	-	-	-	1,163
Loans and advances to customers		5,502	-	66	-	-	-	-	5,568
Treasury bills and other eligible bills	16	1,356	-	-	-	-	-	-	1,356
Debt securities	16	6,633	-	36	-	-	-	-	6,669
Equity shares	16	1,245	-	-	-	-	-	-	1,245
		15,899	-	102	-	-	-	-	16,001
Derivative financial instruments	17	44,388	1,149	-	-	-	-	-	45,537
Loans and advances to banks	18	-	-	-	-	27,158	-	-	27,158
Loans and advances to customers	19	-	-	-	-	108,123	-	-	108,123
Investment securities									
Treasury bills and other eligible bills	24	-	-	-	3,501	-	-	-	3,501
Debt securities	24	-	-	-	22,416	2,463	-	-	24,879
Equity shares	24	-	-	-	742	-	-	-	742
		-	-	-	26,659	2,463	-	-	29,122
Other assets	30	-	-	-	-	10,596	-	3,996	14,592
Total at 31 December 2010		60,287	1,149	102	26,659	171,122	-	3,996	263,315

15. Financial instruments continued

Classification continued

Company

Liabilities	Notes	Liabilities at fair value: Trading $million	Derivatives held for hedging $million	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		973	-	40	-	-	1,013
Customer accounts		1,465	-	381	-	-	1,846
Debt securities in issue		2,366	-	-	-	-	2,366
Short positions		1,630	-	-	-	-	1,630
		6,434	-	421	-	-	6,855
Derivative financial instruments	17	64,326	786	-	-	-	65,112
Deposits by banks	31	-	-	-	27,933	-	27,933
Customer accounts	32	-	-	-	149,212	-	149,212
Debt securities in issue	33	-	-	-	24,923	-	24,923
Other liabilities	34	-	-	-	8,361	2,658	11,019
Subordinated liabilities and other borrowed funds	37	-	-	-	16,288	-	16,288
Total at 31 December 2011		70,760	786	421	226,717	2,658	301,342
Financial liabilities held at fair value through profit or loss							
Deposits by banks		885	-	38	-	-	923
Customer accounts		2,290	-	290	-	-	2,580
Debt securities in issue		2,020	-	-	-	-	2,020
Short positions		1,878	-	-	-	-	1,878
		7,073	-	328	-	-	7,401
Derivative financial instruments	17	44,626	752	-	-	-	45,378
Deposits by banks	31	-	-	-	20,220	-	20,220
Customer accounts	32	-	-	-	132,488	-	132,488
Debt securities in issue	33	-	-	-	12,736	-	12,736
Other liabilities	34	-	-	-	6,081	2,132	8,213
Subordinated liabilities and other borrowed funds	37	-	-	-	15,169	-	15,169
Total at 31 December 2010		51,699	752	328	186,694	2,132	241,605

Valuation of financial instruments

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, price testing is performed monthly against external market data. Financial instruments held at fair value in the balance sheet have been classified into a three level valuation hierarchy (see below for how each level is defined and the types of instruments included within them) that reflects the significance of the observability of the inputs used in the fair value measurement.

The market data used for price testing may include those sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. The market data used should be most representative of the market as much as possible, which can evolve over time as markets and financial instruments develop. To determine the extent of how representative the market data is, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider, are considered.

For instruments classified as level 2 or level 3 fair value adjustments are also made to system valuations to arrive at fair value in accordance with accounting requirements. The main adjustments are described below:

Bid Offer Valuation Adjustments
Where market parameters are marked on a mid market basis in the revaluation systems, a bid offer valuation adjustment is required to quantify the expected cost of neutralising the Business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. Where long positions are marked to bid and short positions marked to offer in the systems, e.g. for cash securities, no bid offer valuation adjustments are required.

15. Financial instruments continued

Valuation of financial instruments continued

Credit Adjustments
The Group makes a credit adjustment (CA) 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 CA, AIRB models are used to calculate the PD and LGD which, together with the results of the exposure simulation engine, generates a view of expected losses. The Group assesses actual losses and provisions incurred against expected losses on a portfolio basis, taking into account the fact that it takes a number of years for the workout/recovery process to complete upon a default.

In addition to periodic reassessment of the 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.

The CA is not significant in the context of the overall fair value of these financial instruments.

Model Valuation Adjustments
Certain models may have pricing deficiencies or limitations that justify a valuation adjustment. These pricing deficiencies or limitations arise could be due to the choice, implementation and calibration of the pricing model, amongst other reasons.

Day One Profit and Loss
A financial instrument is initially recognised at fair value, which is generally its transaction price. In those cases where the value obtained from the relevant valuation model differs, we record the asset or liability based on our valuation model, but do not recognise that initial difference in profit and loss. This is unless the valuation model used is widely accepted and all inputs to the model are observable.

Funding Adjustments
The Funding adjustment attributes underlying funding costs for derivative transactions (or series of transactions) where these involve a funding component (a pre paid swap, for example, or a funded loan in the form of a derivative). The Group incurs funding costs where it matches the liquidity profile on these transactions and the overall funding for the Group.

In total, the Group has made $334 million (2010: $294 million) of valuation adjustments in determining fair value for financial assets and financial liabilities.

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	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	OTC derivatives Structured deposits Credit structured debt securities in issue	Highly structured OTC derivatives with unobservable parameters Illiquid or highly structured debt securities in issue

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, 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.

15. Financial instruments continued

In line with changes in market practice, certain interest rate swaps have been subject to overnight index swap (OIS) rate discounting in 2011. The factors to be considered for the selection of such interest rate swaps include the currency in which the swaps are traded, counterparties with credit support annex agreement and the form of the collateral posted by the counterparties.

Level 3 portfolio

Level 3 assets are valued using techniques similar to those outlined for Level 2, except that if the instrument has one or more inputs that are unobservable and significant to the fair value measurement of the instrument in its entirety, it will be classified as Level 3.

At 31 December 2011, the Group held level 3 assets with a fair value of $3,347 million (2010: $2,348 million) and level 3 liabilities with a fair value of $356 million (2010: $593 million) were held in respect of which there was no observable market data, the Company held level 3 assets with a fair value of $1,086 million (2010: $1,164 million) and level 3 liabilities with a fair value $349 million (2010: $427 million) were held in respect of which there was no observable market data. For these instruments, a sensitivity analysis is presented on page 69 in respect of reasonably possible changes to the valuation assumptions.

The primary products classified as Level 3 are as follows:

Debt Securities - Asset backed securities

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, an assessment is made whether each security is traded in a liquid manner based on its credit rating and sector. If a security is of low credit rating and/or is traded in a less liquid sector, it will be classified as Level 3. Where third party pricing is not available, the valuation of the security will be estimated from market standard cash flow models with input parameter assumptions which include prepayment speeds and default rates. These input parameter assumptions are estimated with reference to factors such as underlying collateral performance, prices of comparable securities and sector spreads. These securities are also classified as Level 3.

Debt Securities - Non Asset backed securities

These debt securities include certain convertible bonds, corporate bonds, credit and equity structured notes where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product. Debt securities are valued using available prices provided through pricing vendors, brokers or trading activities. Where such liquid external prices are not available, valuation of these cash securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

Equity shares - Private equity

Private equity investments are generally valued based on earning multiples - Price-to-Earnings (P/E) or Enterprise Value to Earning Before Income Tax, Depreciation and Amortisation (EV/EBITDA) ratios - of comparable listed companies. 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. In circumstances where an investment doesn't have direct comparables or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternate valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or level 3 inputs, may be applied. 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 observable inputs are available, for example, OTC prices) are classified as Level 3 on the grounds that the valuation methods involve judgments ranging from determining comparable companies to discount rates where the discounted cash flow method is applied.

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.

Debt securities in issue

These debt securities relate to credit structured notes issued by the Group where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product. Debt securities are valued using available prices provided through pricing vendors, brokers or trading activities. Where such liquid external prices are not available, valuation of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

15. Financial instruments continued

Valuation of financial instruments continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2011.

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	110	458	-	568
Loans and advances to customers	5	4,983	-	4,988
Treasury bills and other eligible bills	4,502	107	-	4,609
Debt securities	7,516	5,261	293	13,070
Equity shares	1,027	-	566	1,593
	13,160	10,809	859	24,828
Derivative financial instruments	396	67,304	276	67,976
Investment securities				
Treasury bills and other eligible bills	18,831	2,800	49	21,680
Debt securities	17,938	36,884	745	55,567
Equity shares	1,116	9	1,418	2,543
	37,885	39,693	2,212	79,790
At 31 December 2011	51,441	117,806	3,347	172,594

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	104	988	-	1,092
Customer accounts	-	9,118	-	9,118
Debt securities in issues	-	4,261	172	4,433
Short positions	4,483	473	-	4,956
	4,587	14,840	172	19,599
Derivative financial instruments	549	65,794	184	66,527
At 31 December 2011	5,136	80,634	356	86,126

There were no significant transfers between level 1 and level 2 in 2011.

15. Financial instruments continued

Valuation of financial instruments continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2010.

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	406	800	-	1,206
Loans and advances to customers	19	6,027	-	6,046
Treasury bills and other eligible bills	6,055	143	-	6,198
Debt securities	7,257	4,333	227	11,817
Equity shares	1,434	19	301	1,754
	15,171	11,322	528	27,021
Derivative financial instruments	223	47,539	187	47,949
Investment securities				
Treasury bills and other eligible bills	15,335	2,560	-	17,895
Debt securities	20,631	29,342	582	50,555
Equity shares	1,020	446	1,051	2,517
	36,986	32,348	1,633	70,967
At 31 December 2010	52,380	91,209	2,348	145,937

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	320	603	-	923
Customer accounts	-	9,510	-	9,510
Debt securities in issues	-	2,999	311	3,310
Short positions	6,072	473	-	6,545
	6,392	13,585	311	20,288
Derivative financial instruments	546	46,746	282	47,574
At 31 December 2010	6,938	60,331	593	67,862

There were no significant transfers between Level 1 and Level 2 in 2010.

15. Financial instruments continued

Valuation of financial instruments continued

The tables below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2011

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	110	456	-	566
Loans and advances to customers	5	4,773	-	4,778
Treasury bills and other eligible bills	891	3	-	894
Debt securities	3,207	3,028	241	6,476
Equity shares	871	-	1	872
	5,084	8,260	242	13,586
Derivative financial instruments	564	65,505	269	66,338
Investment securities				
Treasury bills and other eligible bills	5,512	1,296	-	6,808
Debt securities	10,185	16,401	509	27,095
Equity shares	602	5	66	673
	16,299	17,702	575	34,576
At 31 December 2011	21,947	91,467	1,086	114,500

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	-	1,013	-	1,013
Customer accounts	-	1,846	-	1,846
Debt securities in issues	-	2,194	172	2,366
Short positions	1,157	473	-	1,630
	1,157	5,526	172	6,855
Derivative financial instruments	653	64,282	177	65,112
At 31 December 2011	1,810	69,808	349	71,967

There were no significant transfers between level 1 and level 2 in 2011.

15. Financial instruments continued

Valuation of financial instruments continued

The tables below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2010

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	406	757	-	1,163
Loans and advances to customers	19	5,549	-	5,568
Treasury bills and other eligible bills	1,351	5	-	1,356
Debt securities	3,128	3,336	205	6,669
Equity shares	1,226	19	-	1,245
	6,130	9,666	205	16,001
Derivative financial instruments	124	45,159	254	45,537
Investment securities				
Treasury bills and other eligible bills	2,112	1,389	-	3,501
Debt securities	8,303	13,463	650	22,416
Equity shares	678	9	55	742
	11,093	14,861	705	26,659
At 31 December 2010	17,347	69,686	1,164	88,197

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	320	603	-	923
Customer accounts	-	2,580	-	2,580
Debt securities in issues	-	1,750	270	2,020
Short positions	1,413	465	-	1,878
	1,733	5,398	270	7,401
Derivative financial instruments	110	45,111	157	45,378
At 31 December 2010	1,843	50,509	427	52,779

There were no significant transfers between Level 1 and Level 2 in 2010.

15. Financial instruments continued

Level 3 movement tables

Financial assets

Group

Assets	Held at fair value through profit or loss: Debt securities $million	Held at fair value through profit or loss: Equity shares $million	Derivative financial instruments $million	Investment securities: Treasury bills $million	Investment securities: Debt securities $million	Investment securities: Equity shares $million	Total $million
At 1 January 2011	227	301	187	-	582	1,051	2,348
Total (losses)/gains recognised in income statement	(30)	73	136	-	(52)	69	196
Total losses recognised in other comprehensive income	-	-	-	(4)	(52)	(199)	(255)
Purchases	223	210	68	-	226	416	1,143
Sales	(73)	(18)	(7)	-	(189)	(142)	(429)
Settlements	(89)	-	(88)	-	(33)	(41)	(251)
Transfers out	(94)	-	(33)	-	(246)	(74)	(447)
Transfers in	129	-	13	53	509	338	1,042
At 31 December 2011	293	566	276	49	745	1,418	3,347
Total gains recognised in the income statement relating to assets held at 31 December 2011	13	62	187	-	-	-	262

Transfers in during the year primarily relate to markets for certain financial instruments becoming illiquid or where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to markets for certain financial instruments where the valuation parameters became observable during the year.

Assets	Held at fair value through profit or loss: Debt securities $million	Held at fair value through profit or loss: Equity shares $million	Derivative financial instruments $million	Investment securities: Debt securities $million	Investment securities: Equity shares $million	Total $million
At 1 January 2010	129	576	138	437	756	2,036
Total (losses)/gains recognised in income statement	(3)	170	39	-	(15)	191
Total gains recognised in other comprehensive income	-	-	-	103	146	249
Purchases	107	135	-	156	225	623
Sales	(80)	(574)	-	(147)	(1)	(802)
Settlements	(63)	(6)	-	-	(50)	(119)
Transfers out	(23)	-	(24)	-	(12)	(59)
Transfers in	160	-	34	33	2	229
At 31 December 2010	227	301	187	582	1,051	2,348
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2010	(6)	50	130	-	(1)	173

Transfers in during the year primarily relate to markets for certain debt securities becoming illiquid or where the valuation parameters became unoberservable during the year

15. Financial instruments continued

Level 3 movement tables continued

Company

Assets	Held at fair value through profit or loss: Debt securities $million	Held at fair value through profit or loss: Equity shares $million	Derivative financial instruments $million	Investment securities: Debt securities $million	Investment securities: Equity shares $million	Total $million
At 1 January 2011	205	-	254	650	55	1,164
Total (losses)/gains recognised in income statement	(34)	-	86	-	(1)	51
Total gains recognised in other comprehensive income	-	-	-	33	1	34
Purchases	195	1	71	149	13	429
Issues	-	-	-	-	-	-
Sales	(45)	-	(41)	(144)	-	(230)
Settlements	(73)	-	(69)	(2)	(2)	(146)
Transfers out	(30)	-	(35)	(246)	-	(311)
Transfers in	23	-	3	69	-	95
At 31 December 2011	241	1	269	509	66	1,086
Total gains recognised in the income statement relating to assets held at 31 December 2011	12	-	168	-	-	180

Transfers in during the year primarily relate to markets for certain financial instruments becoming illiquid or where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to markets for certain financial instruments where the valuation parameters became observable during the year.

Assets	Held at fair value through profit or loss: Debt securities $million	Held at fair value through profit or loss: Equity shares $million	Derivative financial instruments $million	Investment securities: Debt securities $million	Investment securities: Equity shares $million	Total $million
At 1 January 2010	129	-	380	380	54	943
Total losses recognised in income statement	(1)	-	(132)	-	-	(133)
Total gains recognised in other comprehensive income	-	-	-	97	1	98
Purchases	49	-	-	285	-	334
Sales	(88)	-	-	(117)	-	(205)
Settlements	(3)	-	-	-	-	(3)
Transfers out	(23)	-	(24)	-	-	(47)
Transfers in	142	-	30	5	-	177
At 31 December 2010	205	-	254	650	55	1,164
Total losses recognised in the income statement relating to assets held at 31 December 2010	(10)	-	(61)	-	-	(71)

Transfers in during the year primarily relate to markets for certain debt securities becoming illiquid or where the valuation parameters became unobervable during the year.

15. Financial instruments continued

Level 3 movement tables continued

Financial liabilities

Group

Liabilities	2011 Debt securities in issue $million	2011 Derivative financial instruments $million	2011 Total $million	2010 Debt securities in issue $million	2010 Derivative financial instruments $million	2010 Total $million
At 1 January	311	282	593	-	150	150
Total (gains)/losses recognised in income statement	(8)	38	30	32	93	125
Issues	65	51	116	69	33	102
Settlements	(242)	(128)	(370)	(2)	-	(2)
Transfers out	(34)	(59)	(93)	-	(23)	(23)
Transfers in	80	-	80	212	29	241
At 31 December	172	184	356	311	282	593
Total (gains)/losses recognised in the income statement relating to liabilities held at 31 December	(38)	37	(1)	32	163	195

Transfers in during the periods primarily relate to markets for certain financial instruments which parameters became unobservable during the year.

Company

Liabilities	2011 Debt securities in issue $million	2011 Derivative financial instruments $million	2011 Total $million	2010 Debt securities in issue $million	2010 Derivative financial instruments $million	2010 Total $million
At 1 January	270	157	427	-	60	60
Total (gains)/losses recognised in income statement	(7)	(13)	(20)	26	91	117
Issues	65	56	121	51	-	51
Settlements	(210)	(90)	(300)	(2)	-	(2)
Transfers out	(26)	(58)	(84)	-	(23)	(23)
Transfers in	80	125	205	195	29	224
At 31 December	172	177	349	270	157	427
Total (gains)/losses recognised in the income statement relating to liabilities held at 31 December	(38)	76	38	27	151	178

Transfers in during the periods primarily relate to markets for certain financial instruments where valuation parameters became unobservable during the year.

15. Financial instruments continued

Sensitivities in respect of the fair values of Level 3 assets and liabilities

Group

	Held at fair value through profit or loss			Investment securities		
At 31 December 2011	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million
Financial instruments held at fair value through profit or loss						
Debt securities	293	298	288	-	-	-
Equity shares	566	623	509	-	-	-
Derivative financial instruments	92	115	69	-	-	-
Debt securities in issue	(172)	(172)	(172)	-	-	-
Investment securities						
Treasury bills				49	49	48
Debt securities	-	-	-	745	774	716
Equity shares	-	-	-	1,418	1,557	1,279
Total	779	864	694	2,212	2,380	2,043

	Held at fair value through profit or loss			Investment securities		
At 31 December 2010	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million
Financial instruments held at fair value through profit or loss						
Debt securities	227	234	220	-	-	-
Equity shares	301	331	271	-	-	-
Derivative financial instruments	(95)	(80)	(109)	-	-	-
Debt securities in issue	(311)	(310)	(312)	-	-	-
Investment securities						
Debt securities	-	-	-	582	590	576
Equity shares	-	-	-	1,051	1,167	935
Total	122	175	70	1,633	1,757	1,511

15. Financial instruments continued

Sensitivities in respect of the fair values of level 3 assets and liabilities continued

Company

At 31December 2011	Held at fair value through profit or loss: Net exposure $million	Held at fair value through profit or loss: Favourable Changes $million	Held at fair value through profit or loss: Unfavourable Changes $million	Investment securities: Net exposure $million	Investment securities: Favourable Changes $million	Investment securities: Unfavourable Changes $million
Financial instruments held at fair value through profit or loss						
Debt securities	241	246	236	-	-	-
Equity shares	1	1	1	-	-	-
Derivative financial instruments	92	100	84	-	-	-
Debt securities in issue	(172)	(172)	(172)	-	-	-
Investment securities						
Debt securities	-	-	-	509	524	495
Equity shares	-	-	-	66	83	49
Total	162	175	149	575	607	544

At 31December 2010	Held at fair value through profit or loss: Net exposure $million	Held at fair value through profit or loss: Favourable Changes $million	Held at fair value through profit or loss: Unfavourable Changes $million	Investment securities: Net exposure $million	Investment securities: Favourable Changes $million	Investment securities: Unfavourable Changes $million
Financial instruments held at fair value through profit or loss						
Debt securities	205	212	198	-	-	-
Derivative financial instruments	97	101	94	-	-	-
Debt securities in issue	(270)	(269)	(271)	-	-	-
Investment securities						
Debt securities	-	-	-	650	655	646
Equity shares	-	-	-	55	66	44
Total	32	44	21	705	721	690

Where the fair value of financial instruments are measured using valuation techniques that incorporate one or more significant inputs which are based on unobservable market data, we apply a 10 per cent increase or decrease on the values of these unobservable parameter inputs, to generate a range of reasonably possible alternative valuations in accordance with the requirements of IFRS7. The percentage shift is determined by statistical analyses performed on a set of reference prices, which included certain equity indices, credit indices and volatility indices, based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one way market move and does not consider offsets for hedges.

As of 31 December 2011, these reasonably possible alternatives could have increased fair values of financial instruments held at fair value through profit or loss by $ 85 million (2010: $ 53 million) and available-for-sale by $ 168 million (2010: $ 124 million), or decreased fair values of financial instruments held at fair value through profit or loss by $ 85 million (2010: $ 52 million) and available-for-sale by $ 169 million (2010: $ 122 million). For the Company, these reasonably possible alternatives could have increased fair values of financial instruments held at fair value through profit or loss by $ 13 million (2010: $ 12 million) and available-for-sale by $ 32 million (2010: $ 16 million), or decreased fair values of financial instruments held at fair value through profit or loss by $ 13 million (2010: $ 11 million) and available-for-sale by $ 31 million (2010: $ 15 million).

15. Financial instruments continued

Instruments carried at amortised cost

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

	2011		2010	
	Carrying value $million	Fair value $million	Carrying value $million	Fair value $million
Assets				
Cash and balances at central banks	47,364	47,364	32,724	32,724
Loans and advances to banks	65,980	65,963	52,057	51,941
Loans and advances to customers	263,765	264,529	240,358	239,446
Investment securities	5,493	5,205	4,829	4,765
Other assets	20,554	20,554	19,628	19,628
Liabilities				
Deposits by banks	35,296	35,259	28,551	28,501
Customer accounts	342,701	342,544	306,992	305,560
Debt securities in issue	35,766	36,142	23,038	22,367
Subordinated liabilities and other borrowed funds	19,462	19,321	17,418	17,738
Other liabilities	19,169	19,169	15,890	15,890

Company

	2011		2010	
	Carrying value $million	Fair value $million	Carrying value $million	Fair value $million
Assets				
Cash and balances at central banks	36,268	36,268	22,782	22,782
Loans and advances to banks	36,972	36,980	27,158	26,969
Loans and advances to customers	121,713	122,540	108,123	106,937
Investment securities	3,840	3,498	2,463	2,414
Other assets	11,411	11,411	10,596	10,596
Liabilities				
Deposits by banks	27,933	27,891	20,220	20,217
Customer accounts	149,212	149,164	132,488	132,451
Debt securities in issue	24,923	24,833	12,736	12,718
Subordinated liabilities and other borrowed funds	16,288	16,108	15,169	15,381
Other liabilities	8,361	8,361	6,081	6,081

15. Financial instruments continued

Instruments carried at amortised cost continued

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 approximately half 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 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.

15. Financial instruments continued

Reclassification of financial assets

In 2008 the Group and Company reclassified certain non-derivative 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 identified the rare circumstances permitting such a transfer as the impact of the credit crisis in financial markets, particularly from the beginning of 2008, which significantly impacted the liquidity in certain markets. The Group also reclassified certain eligible financial assets from trading and available-for-sale categories to loans and receivables where the Group had the intent and ability to hold the reclassified assets for the foreseeable future or until maturity. There have been no reclassifications since 2008.

The following tables provide details of the remaining balance of assets reclassified during 2008:

Group

			If assets had not been reclassified, fair value gains/(losses) from 1 January to 31 December 2011 which would have been recognised within				
For assets reclassified:	Carrying amount at 31 December 2011 $million	Fair value at 31 December 2011 $million	Income $million	AFS reserve $million	Income recognised in income statement in 2011 $million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows $million
From trading to AFS	176	176	1 [1]	-	9	5.8	316
From trading to loans and receivables	816	711	(44)	-	27	5.6	961
From AFS to loans and receivables	856	796	-	1	27	5.5	1,118
	1,848	1,683	(43)	1	63		
Of which asset backed securities:							
reclassified to available-for-sale	114	114	(1)[1]	-	5		
reclassified to loans and receivables	1,304	1,195	(11)	1	43		

[1] Post-reclassification, this is recognised within the available-for-sale reserve.

			If assets had not been reclassified, fair value gains from 1 January to 31 December 2010 which would have been recognised within				
For assets reclassified:	Carrying amount at 31 December 2010 $million	Fair value at 31 December 2010 $million	Income $million	AFS reserve $million	Income recognised in income statement in 2010 $million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows $million
From trading to AFS	339	339	40 [1]	-	23	5.2	416
From trading to loans and receivables	1,562	1,490	80	-	73	5.6	1,686
From AFS to loans and receivables	1,090	1,052	-	75	35	5.4	1,132
	2,991	2,881	120	75	131		
Of which asset backed securities:							
reclassified to available-for-sale	122	122	35 [1]	-	8		
reclassified to loans and receivables	1,725	1,648	42	75	53		

[1] Post-reclassification, this is recognised within the available-for-sale reserve.

15. Financial instruments continued

Reclassification of financial assets continued

Company

For assets reclassified:	Carrying amount at 31 December 2011 $million	Fair value at 31 December 2011 $million	If assets had not been reclassified, fair value gains/(losses) from 1 January to 31 December 2011 which would have been recognised within: Income $million	AFS reserve $million	Income recognised in income statement in 2011 $million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows $million
From trading to AFS	174	174	-	-	7	5.7	312
From trading to loans and receivables	617	528	(41)	-	20	5.5	689
From AFS to loans and receivables	471	449	-	1	18	5.6	601
	1,262	1,151	(41)	1	45		
Of which asset backed securities:							
reclassified to available-for-sale	114	114	-	-	5		
reclassified to loans and receivables	723	667	(11)	1	26		

For assets reclassified:	Carrying amount at 31 December 2010 $million	Fair value at 31 December 2010 $million	If assets had not been reclassified, fair value gains from 1 January to 31 December 2010 which would have been recognised within: Income $million	AFS reserve $million	Income recognised in income statement in 2010 $million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows $million
From trading to AFS	283	283	40 [1]	-	19	5.0	341
From trading to loans and receivables	1,223	1,165	59	-	59	5.6	1,257
From AFS to loans and receivables	573	559	-	46	24	5.5	588
	2,079	2,007	99	46	102		
Of which asset backed securities:							
reclassified to available-for-sale	122	122	35 [1]	-	8		
reclassified to loans and receivables	874	835	46	21	33		

[1] Post-reclassification, this is recognised within the available-for-sale reserve.

16. Financial instruments held at fair value through profit or loss

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 $417 million (2010: $ 395 million) for the Group and $ 231 million (2010: $ 66 million) for the Company.

The net fair value gain on loans and advances to customers designated at fair value through profit or loss was $2.0 million (2010: loss of $ 7 million). Of this, $nil million (2010: $nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was $3 million (2010: $ 3 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. This amount is not material for the Group's and Company's financial statements.

Debt securities, equity shares and treasury bills held at fair value through profit or loss

Group

	2011			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	7,766			
Other public sector securities	65			
	7,831			
Issued by banks:				
Certificates of deposit	488			
Other debt securities	1,564			
	2,052			
Issued by corporate entities and other issuers:				
Other debt securities	3,187			
Total debt securities	13,070			
Of which:				
Listed on a recognised UK exchange	517	26	-	543
Listed elsewhere	7,269	1,002	799	9,070
Unlisted	5,284	565	3,810	9,659
	13,070	1,593	4,609	19,272
Market value of listed securities	7,786	1,028	799	9,613

	2010			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	7,156			
Other public sector securities	120			
	7,276			
Issued by banks:				
Certificates of deposit	151			
Other debt securities	1,302			
	1,453			
Issued by corporate entities and other issuers:				
Other debt securities	3,088			
Total debt securities	11,817			
Of which:				
Listed on a recognised UK exchange	180	-	-	180
Listed elsewhere	5,865	1,453	769	8,087
Unlisted	5,772	301	5,429	11,502
	11,817	1,754	6,198	19,769
Market value of listed securities	6,045	1,453	769	8,267

16. Financial instruments held at fair value through profit or loss continued

Financial assets held at fair value through profit and loss continued

Company

	2011			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	3,239			
Other public sector securities	6			
	3,245			
Issued by banks:				
Certificates of deposit	215			
Other debt securities	1,213			
	1,428			
Issued by corporate entities and other issuers:				
Other debt securities	1,803			
Total debt securities	6,476			
Of which:				
Listed on a recognised UK exchange	307	26	-	333
Listed elsewhere	2,632	846	225	3,703
Unlisted	3,537	-	669	4,206
	6,476	872	894	8,242
Market value of listed securities	2,939	872	226	4,037

	2010			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	2,867			
Other public sector securities	71			
	2,938			
Issued by banks:				
Certificates of deposit	103			
Other debt securities	1,154			
	1,257			
Issued by corporate entities and other issuers:				
Other debt securities	2,474			
Total debt securities	6,669			
Of which:				
Listed on a recognised UK exchange	180	-	-	180
Listed elsewhere	1,778	1,245	289	3,312
Unlisted	4,711	-	1,067	5,778
	6,669	1,245	1,356	9,270
Market value of listed securities	1,958	1,245	289	3,492

16. Financial instruments held at fair value through profit or loss continued

Financial liabilities held at fair value through profit and loss continued

The net fair value loss on liabilities designated at fair value through profit or loss was $438 million for the year (2010: net loss of $ 14 million). Of this, a loss of $nil million (2010: $nil 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 (2010: $ 10 million). 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.

As at 31 December 2011, the amount the Group is contractually obliged to pay at maturity to the holders of these obligations was $60 million lower (2010: $ 447 million higher) than the carrying amount at fair value.

As at 31 December 2011, the amount the Company is contractually obliged to pay at maturity to the holders of these obligations was $ 56 million higher (2010: $ 1,207 million) than the carrying amount at fair value.

17. 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.

17. Derivative financial instruments continued

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.

Group

Total derivatives	2011 Notional principal amounts $million	2011 Assets $million	2011 Liabilities $million	2010 Notional principal amounts $million	2010 Assets $million	2010 Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	1,135,255	17,455	17,122	994,786	12,593	12,677
Currency swaps and options	1,098,433	18,000	18,774	566,291	11,343	11,712
Exchange traded futures and options	363	-	-	855	-	-
	2,234,051	35,455	35,896	1,561,932	23,936	24,389
Interest rate derivative contracts:						
Swaps	2,009,872	23,997	22,220	1,745,286	17,487	17,001
Forward rate agreements and options	242,843	1,086	1,093	234,926	1,010	1,029
Exchange traded futures and options	273,089	343	347	619,859	350	346
	2,525,804	25,426	23,660	2,600,071	18,847	18,376
Credit derivative contracts	77,776	1,783	1,807	65,986	1,602	1,679
Equity and stock index options	12,057	678	845	8,842	479	757
Commodity derivative contracts	62,426	4,634	4,319	36,524	3,085	2,373
Total derivatives	4,912,114	67,976	66,527	4,273,355	47,949	47,574

Company

Total derivatives	2011 Notional principal amounts $million	2011 Assets $million	2011 Liabilities $million	2010 Notional principal amounts $million	2010 Assets $million	2010 Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	1,096,795	17,152	17,125	925,972	13,154	13,578
Currency swaps and options	1,045,017	16,472	17,283	512,413	8,869	9,431
	2,141,812	33,624	34,408	1,438,385	22,023	23,009
Interest rate derivative contracts:						
Swaps	1,840,537	23,805	22,011	1,592,953	17,128	16,288
Forward rate agreements and options	229,506	973	967	220,121	893	906
Exchange traded futures and options	267,316	343	347	614,796	350	346
	2,337,359	25,121	23,325	2,427,870	18,371	17,540
Credit derivative contracts	81,340	1,904	1,928	66,495	1,605	1,706
Equity and stock index options	12,799	749	837	10,749	447	744
Commodity derivative contracts	64,745	4,940	4,614	35,579	3,091	2,379
Total derivatives	4,638,055	66,338	65,112	3,979,078	45,537	45,378

The Group and Company limits 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 the note 50.

17. Derivative financial instruments continued

Derivatives held for hedging

Hedge accounting is applied to derivatives and hedged items when the criteria under IAS 39 have been met. The tables below list the types of derivatives that the Group and Company hold for hedge accounting.

Countries within the Group use futures, forwards, swaps and options transactions primarily to mitigate interest and foreign exchange risk arising from their in-country exposures. The Group 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 purpose of fair value and cash flow hedging by the Group increased in 2011 compared with December 2010, as we continued to focus on liquidity management together with an active balance sheet hedging strategy. The notional amounts of interest rate swaps used for fair value hedges increased $12 billion compared to 2010, largely due to the hedging of increased debt security positions in the UK. The notional amounts of interest rate swaps used for cash flow hedging increased $5 billion compared to 2010, primarily to hedge floating rate mortgages in Singapore and reflecting increased time deposit growth in Hong Kong. Forward foreign exchange contracts used for cash flow hedging increased as we switched from using foreign exchange options to hedge costs.

We may also, under certain individually approved circumstances, enter into economic hedges that 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. Current economic hedge relationships include hedging the foreign exchange risk on certain debt issuances and on other monetary instruments held in currencies other than US dollars.

Group

	2011			2010		
	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	34,820	1,206	717	25,109	983	562
Currency swaps	3,768	60	221	3,178	46	172
Forward foreign exchange contracts	843	67	-	1,650	28	11
	39,431	1,333	938	29,937	1,057	745
Derivatives designated as cash flow hedges:						
Interest rate swaps	23,537	40	21	18,591	20	23
Options	-	-	-	950	54	-
Forward foreign exchange contracts	2,999	2	72	148	22	6
Currency swaps	3,609	30	2	1,751	9	1
	30,145	72	95	21,440	105	30
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	707	34	-	803	-	76
Total derivatives held for hedging	70,283	1,439	1,033	52,180	1,162	851

Company

	2011			2010		
	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	24,715	1,175	568	20,697	979	559
Currency swaps	2,583	30	137	3,178	46	172
Forward foreign exchange contracts	843	67	-	1,650	28	11
	28,141	1,272	705	25,525	1,053	742
Derivatives designated as cash flow hedges:						
Interest rate swaps	9,007	21	8	3,334	11	3
Options	-	-	-	950	54	-
Forward foreign exchange contracts	2,999	2	72	148	22	6
Currency swaps	2,041	21	1	1,751	9	1
	14,047	44	81	6,183	96	10
Total derivatives held for hedging	42,188	1,316	786	31,708	1,149	752

17. Derivative financial instruments continued

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, gains arising on the hedging instruments during the year were $460 million (2010: gains of $133 million) compared to losses arising on the hedged items of $435 million (2010: losses of $101 million). For the Company, gains arising on fair value hedging instruments were $456 million (2010: gains of $258 million) compared to losses arising on the hedged items of $404 million (2010: losses of $219 million).

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, currency swaps and options 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, $nil million (2010: $2 million) was recognised by the Group in the income statement in respect of ineffectiveness arising on cash flow hedges. During the year, net gains of $94 million (2010: losses of $17 million) for the Group were reclassified to profit and loss from the cash flow hedge reserve, of which, gains of $96 million (2010: losses of $30 million) were recognised within operating costs and losses of $2 million (2010: gains of $13 million) recognised within net interest income.

During the year, net gains of $97 million (2010: $19 million) for the Company were reclassified to profit and loss from the cash flow hedge reserve, of which, gains of $95 million (2010: $30 million) were recognised within operating costs and gains of $2 million (2010: $11 million) recognised within net interest income.

The Group has hedged the following cash flows which are expected to impact the income statement in the following periods:

	2011						
	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
	$million	$million	$million	$million	$million	$million	$million
Forecast receivable cash flows	1,059	432	153	81	1	-	1,726
Forecast payable cash flows	(2,686)	(1,781)	(143)	(80)	(1)	-	(4,691)
	(1,627)	(1,349)	10	1	-	-	(2,965)

	2010						
	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
	$million	$million	$million	$million	$million	$million	$million
Forecast receivable cash flows	769	190	181	129	79	-	1,348
Forecast payable cash flows	(1,432)	(170)	(170)	(124)	(79)	-	(1,975)
	(663)	20	11	5	-	-	(627)

The Company has hedged the following cash flows which are expected to impact the income statement in the following periods:

	2011						
	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
	$million	$million	$million	$million	$million	$million	$million
Forecast receivable cash flows	38	20	6	79	-	-	143
Forecast payable cash flows	(1,720)	(1,389)	(6)	(79)	-	-	(3,194)
	(1,682)	(1,369)	-	-	-	-	(3,051)

	2010						
	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
	$million	$million	$million	$million	$million	$million	$million
Forecast receivable cash flows	39	23	6	3	79	-	150
Forecast payable cash flows	(755)	(15)	(9)	(7)	(79)	-	(865)
	(716)	8	(3)	(4)	-	-	(715)

Net investment hedges

The Group uses a combination of foreign exchange contracts and non-derivative financial assets 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 off. During the year, $nil million (2010: $nil million) was recognised in the Income statement in respect of ineffectiveness arising on net investment hedges.

18. Loans and advances to banks

	Group		Company	
	2011	2010	2011	2010
	$million	$million	$million	$million
Loans and advances to banks	66,632	53,358	37,543	28,337
Individual impairment provision (note 22)	(82)	(93)	(4)	(15)
Portfolio impairment provision (note 22)	(2)	(2)	(1)	(1)
	66,548	53,263	37,538	28,321
Of which: loans and advances held at fair value through profit or loss (note 15)	(568)	(1,206)	(566)	(1,163)
	65,980	52,057	36,972	27,158

19. Loans and advances to customers

	Group		Company	
	2011	2010	2011	2010
	$million	$million	$million	$million
Loans and advances to customers	271,403	248,988	127,851	114,902
Individual impairment provision (note 22)	(1,890)	(1,824)	(1,013)	(850)
Portfolio impairment provision (note 22)	(760)	(760)	(347)	(361)
	268,753	246,404	126,491	113,691
Of which: loans and advances held at fair value through profit or loss (note 15)	(4,988)	(6,046)	(4,778)	(5,568)
	263,765	240,358	121,713	108,123

20. Structure of loan portfolio

Loan portfolio - Group

Loans and advances to customers have grown by $22.3 billion since 31 December 2010 to $268.8 billion.

Consumer Banking

The Consumer Banking portfolio in 2011 has grown by $5.1 billion, or 4 per cent since 2010.

The proportion of mortgages in the Consumer Banking portfolio is maintained at 57 per cent. Mortgage growth has slowed since the second half of 2011 in most markets due to intensified competition, rising interest rates and regulatory restrictions. This has particularly impacted Korea, where Mortgages fell $2.2 billion.

Other loans to individuals has grown particularly significantly in 2011 due to the acquisition of the GE Money consumer finance portfolio in Singapore and strong growth in Private Banking.

SME lending has grown by $1.7 billion or 9 per cent since 2010. There was particularly strong growth in the first half of this year in Korea, Hong Kong and China mainly in trade finance and working capital products.

Wholesale Banking

The Wholesale Banking portfolio has continued to grow at a consistent rate, by $17.3 billion or 13 per cent compared to December 2010.

Growth in 2011 has been spread across all regions and most customer segments, with most of our key regions showing double digit growth in percentage terms. Two thirds of the growth is due to trade finance, corporate finance and commercial lending activity as Wholesale Banking deepens relationships with clients in core markets.

Exposure to bank counterparties at $66.5 billion increased by $13.3 billion compared to 2010. We remain highly liquid and a net lender to the interbank money market.

The Wholesale Banking portfolio remains diversified across both geography and industry. There are no significant concentrations within the broad 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.

20. Structure of loan portfolio continued

The following tables show loans and advances to customers by industry and by geography split:

2011

	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $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	18,790	10,823	20,835	14,895	1,755	1,486	216	749	69,549
Other	5,558	8,909	6,098	6,218	626	2,388	962	2,686	33,445
Small and medium enterprises	2,751	3,029	4,613	5,790	2,142	741	163	2	19,231
Consumer Banking	27,099	22,761	31,546	26,903	4,523	4,615	1,341	3,437	122,225
Agriculture, forestry and fishing	356	472	16	486	13	248	810	781	3,182
Construction	345	639	371	704	463	790	201	291	3,804
Commerce	4,858	7,645	439	4,000	547	4,067	677	5,999	28,232
Electricity, gas and water	523	908	-	709	7	300	256	1,771	4,474
Financing, insurance and business services	3,824	4,107	167	4,623	645	3,247	508	8,837	25,958
Governments	-	1,312	11	1,949	2	230	9	2,160	5,673
Mining and quarrying	1,019	1,325	-	923	353	300	251	8,103	12,274
Manufacturing	7,248	2,602	3,818	8,978	2,461	2,604	1,260	7,904	36,875
Commercial real estate	3,136	1,952	1,416	1,332	1,131	681	64	543	10,255
Transport, storage and communication	1,905	3,223	228	1,123	776	1,257	577	5,607	14,696
Other	218	630	180	293	9	233	159	143	1,865
Wholesale Banking	23,432	24,815	6,646	25,120	6,407	13,957	4,772	42,139	147,288
Portfolio impairment provision	(72)	(41)	(126)	(188)	(84)	(138)	(45)	(66)	(760)
Total loans and advances to customers[1]	50,459	47,535	38,066	51,835	10,846	18,434	6,068	45,510	268,753
Total loans and advances to banks[1]	19,097	7,301	3,777	8,506	362	2,426	437	24,642	66,548

2010

	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $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	18,245	10,689	23,061	14,679	2,124	1,331	194	339	70,662
Other	4,237	6,306	5,549	6,034	721	2,593	774	2,699	28,913
Small and medium enterprises	2,314	2,944	4,568	4,938	2,102	575	132	2	17,575
Consumer Banking	24,796	19,939	33,178	25,651	4,947	4,499	1,100	3,040	117,150
Agriculture, forestry and fishing	320	360	36	708	186	110	879	1,278	3,877
Construction	193	119	356	389	387	764	67	179	2,454
Commerce	3,975	5,852	780	4,382	570	4,186	575	6,227	26,547
Electricity, gas and water	406	347	119	949	5	279	177	1,378	3,660
Financing, insurance and business services	4,359	3,363	385	3,611	984	3,135	174	7,479	23,490
Governments	-	1,542	3	572	2	293	70	1,971	4,453
Mining and quarrying	554	884	-	571	225	197	266	6,390	9,087
Manufacturing	4,965	1,468	3,426	8,975	2,598	2,858	1,128	6,895	32,313
Commercial real estate	2,365	2,775	1,314	967	675	819	1	472	9,388
Transport, storage and communication	1,462	2,362	409	1,063	762	763	391	5,944	13,156
Other	182	369	179	328	6	253	87	185	1,589
Wholesale Banking	18,781	19,441	7,007	22,515	6,400	13,657	3,815	38,398	130,014
Portfolio impairment provision	(61)	(41)	(114)	(199)	(54)	(207)	(39)	(45)	(760)
Total loans and advances to customers[1]	43,516	39,339	40,071	47,967	11,293	17,949	4,876	41,393	246,404
Total loans and advances to banks[1]	14,591	7,215	3,193	8,648	523	1,478	420	17,195	53,263

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 56)

20. Structure of loan portfolio continued

Loan portfolio - Company

Loans and advances to customers have grown by $12.8 billion since 2010 to $126.5 billion.

Compared to 2010, the Consumer Banking Portfolio has grown by $2.9 billion or 9 per cent, mainly due to increased unsecured loan lending.

The proportion of mortgages in the Company Banking Portfolio is lower than the Group proportion at 40 per cent.

SME Lending has grown by $0.5 billion or 9 per cent.

Growth in the Wholesale Banking customer portfolio was $9.9 billion or 12 per cent, since 2010. Whilst spread across the geographies and customer segments, the majority of the increase was concentrated in Singapore ($5.4 billion) and UK & Americas ($3.9 billion). The growth in Hong Kong and Singapore has been broad based across industry driven mainly by strong demand in trade finance and corporate term loans. The increase in the UK & Americas was due to growth in the syndications and commodities businesses with customers in our footprint countries.

Exposure to bank counterparties has grown by $9.2 billion since 2010 to $37.5 billion. We remain highly liquid and a net lender to the interbank money market.

The Wholesale Bank Portfolio remains diversified across both geography and industry. There are no significant concentrations within the broad industry classifications of Manufacturing; Financing, insurance and business services; Commerce; or Transport, storage and communication.

	2011						
	Asia Pacific						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Loans to individuals							
Mortgages	10,823	145	1,699	1,433	19	242	14,361
Other	8,909	950	573	2,221	-	2,412	15,065
Small and medium enterprises	3,029	418	2,127	472	-	2	6,048
Consumer Banking	22,761	1,513	4,399	4,126	19	2,656	35,474
Agriculture, forestry and fishing	472	218	13	208	586	781	2,278
Construction	639	300	442	790	93	291	2,555
Commerce	7,645	344	524	4,117	266	6,001	18,897
Electricity, gas and water	908	312	7	82	-	1,771	3,080
Financing, insurance and business services	4,107	731	625	3,214	59	8,837	17,573
Governments	1,312	120	-	230	-	2,160	3,822
Mining and quarrying	1,325	358	353	277	102	8,103	10,518
Manufacturing	2,602	1,124	2,368	1,893	309	7,895	16,191
Commercial real estate	1,952	73	1,111	681	63	543	4,423
Transport, storage and communication	3,223	358	776	1,143	20	5,459	10,979
Other	630	41	7	227	-	143	1,048
Wholesale Banking	24,815	3,979	6,226	12,862	1,498	41,984	91,364
Portfolio impairment provision	(41)	(32)	(82)	(124)	(2)	(66)	(347)
Total loans and advances to customers[1]	47,535	5,460	10,543	16,864	1,515	44,574	126,491
Total loans and advances to banks[1]	7,224	3,320	343	2,286	136	24,229	37,538

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 58)

20. Structure of loan portfolio continued

Loan portfolio - Company continued

	2010						
	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	10,689	104	2,057	1,264	27	33	14,174
Other	6,306	1,007	650	2,404	-	2,425	12,792
Small and medium enterprises	2,944	179	2,092	357	-	2	5,574
Consumer Banking	19,939	1,290	4,799	4,025	27	2,460	32,540
Agriculture, forestry and fishing	360	371	186	110	605	1,278	2,910
Construction	119	132	386	763	2	179	1,581
Commerce	5,852	422	543	4,213	194	6,228	17,452
Electricity, gas and water	347	430	5	55	37	1,378	2,252
Financing, insurance and business services	3,363	603	953	3,123	54	7,434	15,530
Governments	1,542	95	-	293	-	1,971	3,901
Mining and quarrying	884	198	225	193	98	6,390	7,988
Manufacturing	1,468	1,428	2,512	1,938	235	6,896	14,477
Commercial real estate	2,775	15	659	819	-	472	4,740
Transport, storage and communication	2,362	328	759	645	86	5,629	9,809
Other	369	84	2	232	1	184	872
Wholesale Banking	19,441	4,106	6,230	12,384	1,312	38,039	81,512
Portfolio impairment provision	(41)	(30)	(53)	(190)	(2)	(45)	(361)
Total loans and advances to customers[1]	39,339	5,366	10,976	16,219	1,337	40,454	113,691
Total loans and advances to banks[1]	7,215	2,248	436	1,360	1	17,061	28,321

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 58)

20. Structure of loan portfolio continued

Maturity analysis - Group

Approximately half of our loans and advances to customers are short-term having a contractual maturity of one year or less. The Wholesale Banking portfolio remains predominantly short-term, with 64 per cent (2010: 67 per cent) of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 57 per cent (2010: 60 per cent) of the portfolio is in the mortgage book, which is traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer terms in the normal course of business.

The following tables show the contractual maturity of loans and advances to customers by each principal category of borrowers' business or industry.

	2011			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	3,011	8,867	57,671	69,549
Other	20,194	10,502	2,749	33,445
Small and medium enterprises	10,474	3,450	5,307	19,231
Consumer Banking	33,679	22,819	65,727	122,225
Agriculture, forestry and fishing	2,607	468	107	3,182
Construction	2,300	1,366	138	3,804
Commerce	23,705	4,114	413	28,232
Electricity, gas and water	1,117	1,649	1,708	4,474
Financing, insurance and business services	16,797	8,818	343	25,958
Governments	4,301	1,372	-	5,673
Mining and quarrying	5,912	3,602	2,760	12,274
Manufacturing	25,704	9,380	1,791	36,875
Commercial real estate	4,146	5,785	324	10,255
Transport, storage and communication	7,267	5,160	2,269	14,696
Other	971	874	20	1,865
Wholesale Banking	94,827	42,588	9,873	147,288
Portfolio impairment provision				(760)
				268,753

	2010			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	2,871	8,947	58,844	70,662
Other	18,019	8,303	2,591	28,913
Small and medium enterprises	9,464	3,369	4,742	17,575
Consumer Banking	30,354	20,619	66,177	117,150
Agriculture, forestry and fishing	3,108	662	107	3,877
Construction	1,721	692	41	2,454
Commerce	22,605	3,667	275	26,547
Electricity, gas and water	1,486	907	1,267	3,660
Financing, insurance and business services	16,493	6,846	151	23,490
Governments	3,155	1,230	68	4,453
Mining and quarrying	4,610	2,818	1,659	9,087
Manufacturing	22,507	8,495	1,311	32,313
Commercial real estate	4,440	4,615	333	9,388
Transport, storage and communication	6,195	4,655	2,306	13,156
Other	1,276	242	71	1,589
Wholesale Banking	87,596	34,829	7,589	130,014
Portfolio impairment provision				(760)
				246,404

20. Structure of loan Portfolio continued

Maturity Analysis - Company

Approximately 55 per cent of the Company's loans and advances to customers are short-term having a contractual maturity of one year or less. The Wholesale Banking portfolio remains predominantly short-term, with 61 per cent (2010: 64 per cent) of loans and advances having a contractual maturity of one year or less. In Consumer Banking 40 per cent (2010: 44 per cent) of the portfolio is in the mortgage book, which is traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer term in the normal course of business.

The following tables show the contractual maturity of loans and advances to customers by each principal category of borrowers' business or industry.

	2011			
	One year or less	One to five years	Over five years	Total
	$million	$million	$million	$million
Loans to individuals				
Mortgages	319	1,311	12,731	14,361
Other	11,073	2,919	1,073	15,065
Small and medium enterprises	2,669	919	2,460	6,048
Consumer Banking	14,061	5,149	16,264	35,474
Agriculture, forestry and fishing	1,878	296	104	2,278
Construction	1,409	1,011	135	2,555
Commerce	16,186	2,417	294	18,897
Electricity, gas and water	346	1,043	1,691	3,080
Financing, insurance and business services	10,320	6,999	254	17,573
Governments	2,688	1,134	-	3,822
Mining and quarrying	4,896	2,865	2,757	10,518
Manufacturing	10,472	4,554	1,165	16,191
Commercial real estate	1,660	2,714	49	4,423
Transport, storage and communication	5,647	3,542	1,790	10,979
Other	478	568	2	1,048
Wholesale Banking	55,980	27,143	8,241	91,364
Portfolio impairment provision				(347)
				126,491

	2010			
	One year or less	One to five years	Over five years	Total
	$million	$million	$million	$million
Loans to individuals				
Mortgages	354	1,220	12,600	14,174
Other	10,484	1,677	631	12,792
Small and medium enterprises	2,433	884	2,257	5,574
Consumer Banking	13,271	3,781	15,488	32,540
Agriculture, forestry and fishing	2,377	448	85	2,910
Construction	1,101	452	28	1,581
Commerce	14,997	2,289	166	17,452
Electricity, gas and water	512	519	1,221	2,252
Financing, insurance and business services	10,213	5,276	41	15,530
Governments	2,608	1,223	70	3,901
Mining and quarrying	3,708	2,622	1,658	7,988
Manufacturing	9,028	4,497	952	14,477
Commercial real estate	2,490	2,210	40	4,740
Transport, storage and communication	4,757	3,224	1,828	9,809
Other	770	99	3	872
Wholesale Banking	52,561	22,859	6,092	81,512
Portfolio impairment provision				(361)
				113,691

21. Assets leased to customers

Finance leases and installment credit

	Group 2011 $million	Group 2010 $million	Company 2011 $million	Company 2010 $million
Finance leases	526	508	168	42
Installment credit agreements	1,949	790	1,949	758
	2,475	1,298	2,117	800

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 $275 million (2010: $269 million) for the Group and $134 million (2010: $138 million) for the Company. The cost of assets excludes amounts relating acquisition during the year.

	Group 2011 $million	Group 2010 $million	Company 2011 $million	Company 2010 $million
Minimum lease receivables under finance leases falling due:				
Within one year	91	282	52	8
Later than one year and less than five years	391	244	107	18
After five years	141	41	51	41
	623	567	210	67
Interest income relating to future periods	(97)	(59)	(42)	(25)
Present value of finance lease receivables	526	508	168	42
Of which:				
Falls due within one year	73	261	45	4
Falls due later than one year and less than five years	344	219	86	10
Falls due after five years	109	28	37	28

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft and ships which are included within property, plant and equipment in note 28. At 31 December 2011, these assets had a net book value of $2,782 million (2010: $2,033 million) in the Group.

	Group 2011 $million	Group 2010 $million
Minimum lease receivables under operating leases falling due:		
Within one year	318	196
Later than one year and less than five years	1,177	575
After five years	768	713
	2,263	1,484

22. Impairment provisions on loans and advances

Group

	2011			2010		
	Individual impairment provisions $million	Portfolio impairment provision $million	Total $million	Individual impairment provisions $million	Portfolio impairment provision $million	Total $million
At 1 January	1,917	762	2,679	1,985	876	2,861
Exchange translation differences	(40)	(14)	(54)	36	16	52
Amounts written off	(957)	-	(957)	(1,252)	-	(1,252)
Recoveries of acquisition fair values	(10)	-	(10)	(27)	-	(27)
Recoveries of amounts previously written off	265	-	265	236	-	236
Discount unwind	(70)	-	(70)	(62)	-	(62)
Other	-	-	-	(1)	-	(1)
New provisions	1,266	130	1,396	1,418	110	1,528
Recoveries/provisions no longer required	(399)	(116)	(515)	(416)	(240)	(656)
Net charge/(release) against profit	867	14	881	1,002	(130)	872
Provisions held at 31 December	1,972	762	2,734	1,917	762	2,679

Company

	2011			2010		
	Individual impairment provisions $million	Portfolio impairment provision $million	Total $million	Individual impairment provisions $million	Portfolio impairment provision $million	Total $million
At 1 January	865	362	1,227	720	439	1,159
Exchange translation differences	(25)	(9)	(34)	17	8	25
Amounts written off	(377)	-	(377)	(470)	-	(470)
Recoveries of amounts previously written off	75	-	75	68	-	68
Discount unwind	(36)	-	(36)	(28)	-	(28)
New provisions	607	49	656	691	75	766
Recoveries/provisions no longer required	(92)	(54)	(146)	(133)	(160)	(293)
Net charge/(release) against profit	515	(5)	510	558	(85)	473
Provisions held at 31 December	1,017	348	1,365	865	362	1,227

23. Non-performing loans and advances

Problem credit management and provisioning

A non-performing loan is any loan that is more than 90 days past due or is otherwise individually impaired (which represents those loans against which individual impairment provisions have been raised) and excludes:

- Loans renegotiated before 90 days past due and on which no default in interest payments or loss of principal is expected;
- Loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.

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. Individually impaired loans are those loans against which individual impairment provisions have been raised. The Group's accounting policy on loan loss provisioning is discussed in note 1 on page 37.

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.

Consumer Banking

In Consumer Banking, where there are large numbers of small value loans, a primary indicator of potential impairment is delinquency. A loan is considered delinquent (past due) when the counterparty has failed to make a principal or interest payment when contractually due. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired. 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-sized enterprises among SME customers and private banking customers) consist of a large number of comparatively small exposures. Mortgages are assessed for individual impairment on an account by account basis, but for other products it is impractical to monitor each delinquent loan individually and individual impairment is therefore assessed collectively.

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 (IIPs) are generally raised at either 150 days (Mortgages) or 90 days (Wealth Management) 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 trigger write offs and IIPs are broadly driven by past experience, which shows that once an account reaches the relevant number of days past due, the probability of 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, customer fraud and death. Write off and IIPs are accelerated for all restructured accounts to 90 days past due (unsecured and automobile finance) and 120 days past due (secured) respectively. Individually impaired loans for Consumer Banking will therefore not equate to those reported as non-performing on page 91, because non-performing loans include all those over 90 days past due. This difference reflects the fact that, while experience shows that an element of delinquent loans are impaired it is not possible to identify which individual loans the impairment relates to until the delinquency is sufficiently prolonged that loss is almost certain, which, in the Group's experience, is generally around 150 days in Consumer Banking. Up to that point the inherent impairment is captured in portfolio impairment provision (PIP).

The PIP methodology provides for accounts for which an individual impairment provision has not been raised, either individually or collectively. PIP is raised on a portfolio basis for all products, and 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 methodology applies a larger provision against accounts that are delinquent but not yet considered impaired.

The procedures for managing problem credits for the Private Bank and the medium-sized enterprises in the SME segment of Consumer Banking are similar to those adopted in Wholesale Banking (described on page 90).

Consumer Banking non-performing loans have declined compared to 2010, largely due to portfolio disposals during 2011 in the Other Asia Pacific region.

The total net impairment charge in Consumer Banking in 2011 improved by $54 million, or 9 per cent, over 2010. Individual impairment in the period is generally lower across all major markets compared to 2010, with particular improvement in MESA. In addition, net individual impairment provisions in Other Asia Pacific have reduced as a result of the loan portfolio sales in Malaysia and Taiwan.

23. Non-performing loans and advances continued

There was a portfolio impairment release of $10 million in 2011 (release of $85 million 2010) as portfolio performance indicators continue to show improvement in most markets.

The cover ratio is a common metric used in considering trends in provisioning and non-performing loans. It should be noted, 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 should be considered in conjunction with other credit risk information including that contained in page 147.

Wholesale Banking

Loans are classified as impaired and considered non-performing in line with definition on page 89 and 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, 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.

As with Consumer Banking, a PIP is held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any loan portfolio. 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 for which an individual impairment provision has not been raised.

Gross non-performing loans in Wholesale Banking have decreased by $371 million, or 11 per cent, since December 2010. The decrease is predominantly due to certain large exposures and related provisions in the MESA region being reclassified in 2011 as they met the 180 day renegotiation policy.

The total net individual impairment charge of $333 million in 2011 was $6 million marginally lower than the charge in 2010 ($339 million) as credit conditions remained relatively stable.

Portfolio provisions were reduced in most markets in 2011 to reflect the continued good performance in the portfolio. The exception to this was India where uncertainties in specific sectors of the economy have led to an increase in portfolio provision in the period. The net portfolio impairment charge for 2011 was $24 million compared to a release of $45 million in 2010.

The cover ratio reflects the extent to which gross non-performing loans are covered by individual and portfolio impairment provisions. The cover ratio as at 31 December 2011 was 58 per cent up from 50 per cent at 31 December 2010 largely as a result of the reclassification of the renegotiated loan in the MESA region noted above. The balance uncovered by individual impairment provisions represents the value of collateral held and the Group's estimate of the net outcome of any work-out strategy.

23. Non-performing loans and advances continued

Consumer Banking

The following tables set out the total non-performing loans for Consumer Banking:

Group

	2011								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $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	48	52	194	345	72	291	28	66	1,096
Individual impairment provision[1]	(17)	(14)	(68)	(113)	(32)	(159)	(16)	(39)	(458)
Non-performing loans net of individual impairment provision	31	38	126	232	40	132	12	27	638
Portfolio impairment provision									(434)
Net non-performing loans and advances									204
Cover ratio									81%

[1] The difference to total individual impairment provision at 31 December 2011 reflect provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days

	2010								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $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	50	47	145	395	76	342	29	89	1,173
Individual impairment provision	(20)	(20)	(57)	(160)	(32)	(141)	(16)	(60)	(506)
Non-performing loans net of individual impairment provision	30	27	88	235	44	201	13	29	667
Portfolio impairment provision									(451)
Net non-performing loans and advances									216
Cover ratio									82%

23. Non-performing loans and advances continued

Company

	2011						
	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	52	25	70	168	5	-	320
Individual impairment provision	(14)	(5)	(32)	(104)	(3)	-	(158)
Non-performing loans net of individual impairment provision	38	20	38	64	2	-	162
Portfolio impairment provision							(131)
Net non-performing loans and advances							31
Cover ratio							90%

	2010						
	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	41	23	75	218	6	21	384
Individual impairment provision	(20)	(4)	(32)	(97)	(5)	(21)	(179)
Non-performing loans net of individual impairment provision	21	19	43	121	1	-	205
Portfolio impairment provision							(162)
Net non-performing loans and advances							43
Cover ratio							89%

23. Non-performing loans and advances continued

Wholesale Banking

The following table sets out the total non-performing portfolio in Wholesale Banking:

Group

	2011								
	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
Loans and advances									
Gross non-performing	83	18	202	773	260	1,476	146	129	3,087
Individual impairment provision[1]	(61)	(24)	(68)	(325)	(80)	(791)	(45)	(65)	(1,459)
Non-performing loans net of individual impairment provision	22	(6)	134	448	180	685	101	64	1,628
Portfolio impairment provision									(328)
Net non-performing loans and advances									1,300
Cover ratio									58%

[1] The difference to total individual impairment provision at 31 December 2011 reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days

	2010								
	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
Loans and advances									
Gross non-performing	111	21	305	817	272	1,707	103	122	3,458
Individual impairment provision	(82)	(5)	(136)	(347)	(80)	(641)	(44)	(76)	(1,411)
Non-performing loans net of individual impairment provision	29	16	169	470	192	1,066	59	46	2,047
Portfolio impairment provision									(311)
Net non-performing loans and advances									1,736
Cover ratio									50%

23. Non-performing loans and advances continued

Company

	2011					
	Asia Pacific					
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million
Loans and advances						
Gross non-performing	18	192	255	1,265	293	2,023
Individual impairment provision	(24)	(114)	(76)	(575)	(70)	(859)
Non-performing loans net of individual impairment provision	(6)	78	179	690	223	1,164
Portfolio impairment provision						(217)
Net non-performing loans and advances						947
Cover ratio						53%

	2010					
	Asia Pacific					
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million
Loans and advances						
Gross non-performing	21	246	270	1,532	281	2,350
Individual impairment provision	(5)	(118)	(79)	(407)	(77)	(686)
Non-performing loans net of individual impairment provision	16	128	191	1,125	204	1,664
Portfolio impairment provision						(200)
Net non-performing loans and advances						1,464
Cover ratio						38%

24. Investment securities

Group

	2011					
	Debt securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	18	20,462	389			
Other public sector securities	-	690	-			
	18	21,152	389			
Issued by banks:						
Certificates of deposit	-	5,811	-			
Other debt securities	-	18,292	1,043			
	-	24,103	1,043			
Issued by corporate entities and other issuers:						
Other debt securities	-	10,312	4,043			
Total debt securities	18	55,567	5,475			
Of which:						
Listed on a recognised UK exchange	-	5,431	242 [1]	150	-	5,823
Listed elsewhere	18	17,082	820 [1]	869	7,516	26,305
Unlisted	-	33,054	4,413	1,524	14,164	53,155
	18	55,567	5,475	2,543	21,680	85,283
Market value of listed securities	18	22,513	954	1,019	7,516	32,020

[1] These debt securities listed or registered on a recognised UK exchange or elsewhere, are thinly traded or the market for these securities is illiquid

	2010					
	Debt securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	25	20,776	388			
Other public sector securities	-	629	-			
	25	21,405	388			
Issued by banks:						
Certificates of deposit	-	4,670	44			
Other debt securities	-	15,135	864			
	-	19,805	908			
Issued by corporate entities and other issuers:						
Other debt securities	-	9,345	3,508			
Total debt securities	25	50,555	4,804			
Of which:						
Listed on a recognised UK exchange	-	1,443	285 [1]	140	-	1,868
Listed elsewhere	25	14,937	1,081 [1]	830	6,574	23,447
Unlisted	-	34,175	3,438	1,547	11,321	50,481
	25	50,555	4,804	2,517	17,895	75,796
Market value of listed securities	25	16,380	1,348	970	6,574	25,297

[1] These debt securities listed or registered on a recognised UK exchange or elsewhere, are thinly traded or the market for these securities is illiquid

Equity shares largely comprise investments in corporates.

24. Investment securities continued

Company

	2011				
	Debt securities				
	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:					
Government securities	7,903	389			
Other public sector securities	152	-			
	8,055	389			
Issued by banks:					
Certificates of deposit	2,062	-			
Other debt securities	8,905	1,122			
	10,967	1,122			
Issued by corporate entities and other issuers:					
Other debt securities	8,073	2,329			
Total debt securities	27,095	3,840			
Of which:					
Listed on a recognised UK exchange	4,041	67 [1]	75	-	4,183
Listed elsewhere	9,746	887 [1]	548	432	11,613
Unlisted	13,308	2,886	50	6,376	22,620
	27,095	3,840	673	6,808	38,416
Market value of listed securities	13,787	850	623	432	15,692

[1] These debt securities listed or registered on a recognised UK exchange or elsewhere, are thinly traded or the market for these securities is illiquid

	2010				
	Debt securities				
	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:					
Government securities	9,384	387			
Other public sector securities	83	-			
	9,467	387			
Issued by banks:					
Certificates of deposit	1,924	-			
Other debt securities	5,866	608			
	7,790	608			
Issued by corporate entities and other issuers:					
Other debt securities	5,159	1,468			
Total debt securities	22,416	2,463			
Of which:					
Listed on a recognised UK exchange	828	79 [1]	12	-	919
Listed elsewhere	5,159	867 [1]	646	226	6,898
Unlisted	16,429	1,517	84	3,275	21,305
	22,416	2,463	742	3,501	29,122
Market value of listed securities	5,987	927	658	226	7,798

[1] These debt securities listed or registered on a recognised UK exchange or elsewhere, are thinly traded or the market for these securities is illiquid

Equity shares largely comprise investments in corporates.

24. Investment securities continued

The change in the carrying amount of investment securities comprised:

Group

	2011				2010			
	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	55,384	2,517	17,895	75,796	55,121	1,649	18,958	75,728
Exchange translation differences	(960)	5	(848)	(1,803)	1,403	10	483	1,896
Additions	79,385	982	50,893	131,260	78,225	757	35,094	114,076
Maturities and disposals	(72,668)	(672)	(46,491)	(119,831)	(79,595)	(279)	(36,784)	(116,658)
Impairment, net of recoveries on disposals	(84)	(12)	-	(96)	(24)	(9)	-	(33)
Changes in fair value (including the effect of fair value hedging)	99	(277)	(38)	(216)	355	389	46	790
Amortisation of discounts and premiums	(96)	-	269	173	(101)	-	98	(3)
At 31 December	61,060	2,543	21,680	85,283	55,384	2,517	17,895	75,796

At 31 December 2011, unamortised premiums on debt securities held for investment purposes amounted to $387 million (2010: $430 million) and unamortised discounts amounted to $308 million (2010: $397 million).

Income from listed equity shares amounted to $36 million (2010: $8 million) and income from unlisted equity shares amounted to $37 million (2010: $45 million).

Company

	2011				2010			
	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	24,879	742	3,501	29,122	27,597	138	3,668	31,403
Exchange translation differences	(526)	(1)	(509)	(1,036)	681	4	217	902
Additions	30,137	69	14,915	45,121	27,277	520	12,058	39,855
Maturities and disposals	(23,818)	(37)	(11,288)	(35,143)	(30,801)	(25)	(12,484)	(43,310)
Impairment, net of recoveries on disposals	(15)	-	-	(15)	(23)	(5)	-	(28)
Changes in fair value (including the effect of fair value hedging)	227	(100)	1	128	312	110	(7)	415
Amortisation of discounts and premiums	51	-	188	239	(164)	-	49	(115)
At 31 December	30,935	673	6,808	38,416	24,879	742	3,501	29,122

At 31 December 2011, unamortised premiums on debt securities held for investment purposes amounted to $307 million (2010: $351 million) and unamortised discounts amounted to $179 million (2010: $259 million).

Income from listed equity shares amounted to $25 million (2010: $1 million) and income from unlisted equity shares amounted to $1 million (2010: $4 million).

24. Investment securities continued

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables.

	Group		Company	
	2011 $million	2010 $million	2011 $million	2010 $million
At 1 January	32	30	27	26
Exchange translation differences	(1)	1	(2)	1
Amounts written off	(23)	(1)	(3)	(1)
Impairment	25	2	6	1
At 31 December	33	32	28	27

25. Investments in subsidiary undertakings, joint ventures and associates

Investment in subsidiary undertakings

	2011 $million	2010 $million
At 1 January	16,539	17,356
Additions	1,642	600
Redemption of capital	-	(885)
Disposals and liquidation	(3,911)	(532)
At 31 December	14,270	16,539

At 31 December 2011, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital %
Standard Chartered First Bank Korea Limited, Korea[1]	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	51[2]
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	73.9
Standard Chartered Private Equity Limited, Hong Kong	Hong Kong	100

[1] The subsidiary was renamed as Standard Chartered Bank Korea Limited on 11 January 2012

[2] 49 per cent is held by Standard Chartered Holdings Limited, the Group's parent company

25. Investments in subsidiary undertakings, joint ventures and associates continued

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 proportionately consolidates its share of the assets, liabilities, income and expense of this joint venture on a line by line basis. Contingent liabilities set out in note 45, include $286 million (2010: $175 million) relating to this 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:

	2011 $million	2010 $million
Current assets	3,006	1,878
Long-term assets	2,050	1,905
Total assets	5,056	3,783
Current liabilities	(4,066)	(2,968)
Long-term liabilities	(314)	(190)
Total liabilities	(4,380)	(3,158)
Net assets	676	625
Income	257	227
Expenses	(151)	(132)
Impairment	(20)	(20)
Operating profit	86	75
Tax	(22)	(15)
Share of post tax result from joint ventures	64	60

Long-term assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

Investment in joint venture

The Company accounts for its joint venture investment at cost.

	2011 $million	2010 $million
At 1 January	396	297
Additions	-	99
At 31 December	396	396

25. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in associates

	Group		Company	
	2011	2010	2011	2010
	$million	$million	$million	$million
At 1 January	631	514	53	53
Translation	10	-	-	-
Additions	272	139	-	-
Dividends received	(10)	(22)	-	-
At 31 December	903	631	53	53

The Company accounts for its investments in associates at cost.

The following amounts represent the total profit, assets and liabilities of the Group's associated undertakings.

	Group		Company	
	2011	2010	2011	2010
	$million	$million	$million	$million
Profit for the year	405	270	-	-
Total assets	57,006	47,344	59	6,124
Total liabilities	(53,738)	(45,368)	(10)	(5,433)
Net assets	3,268	1,976	49	691

Associate	Main areas of operation	Group interest in ordinary share capital %
China Bohai Bank	China	19.9
Fleming Family & Partners	Asia	20.0
Asia Commercial Bank	Vietnam	15.0

The fair value of the listed element of our investment in Asia Commercial Bank ("ACB") at 31 December 2011 is $145 million (2010: $157 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.

26. Business Combinations

2011 acquisitions

Group

Following the finalisation of the provisional fair values relating to deferred tax in respect of the Group's acquisition of the custody business of Barclays Bank PLC across various locations in Africa in 2010, the fair value of net assets acquired decreased by $18 million increasing goodwill by the same amount. Prior period numbers have been restated accordingly.

On 8 April 2011, the Group acquired 100 per cent interest in GE Money Pte Limited, a leading specialist in auto and unsecured personal loans in Singapore, for a total cash consideration of $695 million, recognising goodwill of $199 million.

On 2 September 2011, the Group acquired 100 per cent interest in Gryphon Partners Advisory Pty Ltd and Gryphon Partners Canada Inc (together "Gryphon Partners") for a total consideration of $53 million. As required by IFRS 3 *Business combination*, only $28 million of this consideration is deemed to relate to the cost of acquisition; for accounting purposes the balance is deemed to represent remuneration and is charged to the income statement over the period to 2015. Goodwill of $11 million was recognised on this transaction.

If these acquisitions had occurred on 1 January 2011 the operating income of the Group would have been approximately $17,715 million and profit before taxation would have been $6,787 million. These acquisitions contributed $66 million to the Group's operating income and $40 million to the Group's profit before taxation since acquisition.

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

	Fair value $million
Cash and balances at central banks	6
Loans and advances to customers	1,545
Intangibles other than goodwill	17
Other assets	24
Total assets	1,592
Other liabilities	1,079
Total liabilities	1,079
Net assets acquired	513
Purchase consideration settled in cash	(718)
Cash and cash equivalents in subsidiary acquired	6
Cash outflow on acquisition	(712)
Purchase consideration:	
Cash paid	718
Contingent consideration	5
Fair value of net assets acquired	(513)
Goodwill	210
Intangible assets acquired:	
Customer relationships	17
Total	17

Goodwill arising on the acquisition is attributable to the synergies expected to arise from integration with the Group, the skilled workforce acquired and the distribution networks. The primary reason for these acquisitions is to enhance capability and broaden product offering to customers.

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

The fair value of loans to banks is $16 million. The gross contractual amount due is $16 million, which is expected to be collected. The fair value of loans to customers is $1,545 million. The gross contractual amount due is $1,554 million, of which $9 million is the best estimate of the contractual cash flows not expected to be collected.

Acquisition related costs of $1.9 million are included within operating expenses.

Company

On 11 December 2011, the Company acquired business through its Singapore branch from its subsidiary GE Money Singapore PTE Limited for a consideration of $695 million recognising goodwill of $199 million.

On 5 September 2011, the Company acquired business through its Australia branch from its subsidiary Gryphon Partners Advisory Pty Ltd for a consideration of $18 million recognising goodwill of $11 million.

26. Business Combinations

2010 acquisitions

Group

On 12 April 2010, the Group acquired 100 per cent of the consumer finance business of GE Capital (Hong Kong) Limited, a Hong Kong (restricted licence) banking company. The Group purchased this interest for $144 million recognising goodwill of $3 million.

On 2 August 2010, the Group acquired 100 per cent of the consumer finance business of GE Commercial Financing (Singapore) Limited in Singapore. The businesses were acquired for $70 million and goodwill of $14 million was recognised.

On 1 October 2010 the Group purchased the remaining 25.1 per cent interest in Standard Chartered STCI Capital Markets (STCI) for $18 million. By virtue of this transaction STCI became a subsidiary of the Group. The fair value of the 74.9 per cent interest held by the Group at 1 October 2010, which is included in the purchase consideration, was $55 million. As required by IFRS 3 – 'Business Combinations', the Group recognised a gain (net of foreign exchange) of $4 million within 'other operating income' from remeasuring the 74.9 per cent interest held by the Group to fair value. Following this transaction, goodwill relating to STCI increased to $75 million.

Between 31 October 2010 and 5 December 2010 the Group acquired the custody business of Barclays Bank PLC across various locations in Africa. The business was acquired for $130 million and goodwill of $21 million was recognised.

If the acquisitions had occurred on 1 January 2010, the operating income of the Group would have been approximately $16,099 million and profit before taxation would have been approximately $6,135 million.

The assets and liabilities arising from the acquisition are as follows:	Fair value[1] $million
Cash and balances at central banks	20
Loans and advances to banks	6
Loans and advances to customers	894
Investment securities	2
Intangibles other than goodwill	112
Other assets	20
Total assets	1,054
Other liabilities	737
Accruals and deferred income	11
Total liabilities	748
Net assets acquired	306
Purchase consideration settled in cash	(364)
Cash and cash equivalents in subsidiary acquired	20
Cash outflow on acquisition	(344)
Purchase consideration:	
Cash paid	364
Fair value of interest held prior to change in control	55
Fair value of net assets acquired	(306)
Goodwill	113
Intangible assets acquired:	
Customer relationships	112
Total	112

[1] Amounts have been restated as explained in note 53

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

As part of the business combinations $7 million of intercompany liabilities were acquired and deemed to be settled. Acquisition related costs of $1 million are included within operating expenses.

The fair value of loans to banks is $6 million. The gross contractual amount due is $6 million, all of which are to be collected.

The fair value of loans to customers is $894 million. The gross contractual amount due is $907 million, of which $15 million is the best estimate of the contractual cash flows not expected to be collected.

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. The primary reason for its acquisition was to enhance capability and for strategic intent.

Company

On 2 August the Company acquired 100 per cent of the consumer finance businesses of GE Commercial Financing Limited and GE Capital Services PTE Limited in Singapore. The businesses were acquired for $70 million and goodwill of $14 million was recognised.

Between 31 October 2010 and 5 December 2010 the Company acquired the franchise in respect of the custody business of Barclays Bank PLC across various locations in Africa. The business was acquired for $5 million and goodwill of $5 million was recognised.

27. Goodwill and intangible assets

Group

	2011				2010			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill[1] $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	5,846	885	776	7,507	5,738	750	651	7,139
Exchange translation differences	(121)	(5)	(12)	(138)	155	18	65	238
Acquisitions	210	17	-	227	87	117	-	204
Additions	-	-	240	240	-	-	197	197
Disposals	-	-	(47)	(47)	(134)	-	-	(134)
Amounts written off	-	-	(141)	(141)	-	-	(137)	(137)
At 31 December	5,935	897	816	7,648	5,846	885	776	7,507
Provision for amortisation								
At 1 January	-	500	330	830	-	408	280	688
Exchange translation differences	-	(5)	(3)	(8)	-	11	19	30
Amortisation for the period	-	87	184	271	-	81	167	248
Disposals	-	-	(31)	(31)	-	-	-	-
Amounts written off	-	-	(135)	(135)	-	-	(136)	(136)
At 31 December	-	582	345	927	-	500	330	830
Net book value	5,935	315	471	6,721	5,846	385	446	6,677

Amounts have been restated as explained in note 53

At 1 January 2010, the net book value was: goodwill, $5,738 million; acquired intangibles, $342 million; and software, $371 million.

At 31 December 2011, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $69 million (2010: $69 million).

Company

	2011				2010			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	259	105	596	960	245	105	478	828
Exchange translation differences	(3)	4	(9)	(8)	-	-	45	45
Acquisitions	210	17	-	227	14	-	-	14
Additions	-	-	204	204	-	-	178	178
Amounts written off	-	-	(123)	(123)	-	-	(105)	(105)
At 31 December	466	126	668	1,260	259	105	596	960
Provision for amortisation								
At 1 January	-	56	216	272	-	34	164	198
Exchange translation differences	-	-	-	-	-	-	16	16
Amortisation for the period	-	19	159	178	-	21	139	160
Amounts written off	-	-	(123)	(123)	-	1	(103)	(102)
At 31 December	-	75	252	327	-	56	216	272
Net book value	466	51	416	933	259	49	380	688

At 1 January 2010, the net book value was: goodwill, $245 million; acquired intangibles, $71 million; and software, $314 million.

27. Goodwill and intangible assets continued

At 31 December 2011, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $69 million (2010: $69 million).

	Group		Company	
	2011	2010	2011	2010
	$million	$million	$million	$million
Acquired intangibles comprise:				
Core deposits	25	37	-	-
Customer relationships	174	202	51	49
Brand names	112	141	-	-
Licences	4	5	-	-
Net book value	315	385	51	49

Group

Acquired intangibles primarily comprise those recognised as part of the acquisitions of Korea First Bank (subsequently renamed Standard Chartered First Bank Limited and from 11 January 2012, Standard Chartered Bank Korea Limited), Permata, Union Bank (now amalgamated into Standard Chartered Bank (Pakistan) Limited), Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan) Limited), Pembroke, Harrison Lovegrove, American Express Bank and the custody business in Africa. 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 Korea First Bank (KFB).

The following table sets out the allocation of goodwill arising on acquisitions to CGUs, together with the pre-tax discount rate and long-term GDP growth rates used in determining value-in-use.

		2011			2010		
		Goodwill	Pre-tax discount rate	Long-term forecast GDP growth rates	Goodwill	Pre-tax discount rate	Long-term forecast GDP growth rates
Acquisition	Cash Generating Unit	$million	per cent	per cent	$million	per cent	per cent
KFB, A Brain and Yeahreum	Korean business	**1,720**	**18.1**	**4.0**	1,745	16.3	4.5
Union Bank	Pakistan business	**292**	**27.1**	**4.8**	307	24.7	5.9
Hsinchu and Asia Trust	Taiwan business	**1,294**	**17.2**	**4.9**	1,286	16.2	4.9
Manhattan Card Business	Credit card and personal loan - Asia, India & MESA	**494**	**16.5**	**1.6**	494	16.7	1.8
Grindlays (India) and STCI	India business	**377**	**18.7**	**8.1**	444	22.4	8.0
Grindlays (MESA)	MESA business	**370**	**21.1**	**3.7**	370	18.2	1.8
Standard Chartered Bank (Thai)	Thailand business	**324**	**16.3**	**4.9**	337	25.2	5.3
Permata	Group's share of Permata (Indonesia business)	**172**	**20.0**	**6.9**	174	23.3	7.5
American Express Bank	Financial Institutions and Private Banking Business	**396**	**15.6**	**1.6**	396	16.7	1.8
Harrison Lovegrove, Pembroke, Cazenove Asia, First Africa and Gryphon partners.	Corporate advisory business	**76**	**16.7**	**1.6**	64	16.7	1.8
GE Money and GE Singapore	Consumer banking business in Singapore	**208**	**12.8**	**4.1**	14	-	-
Other		**212**	**15.9 - 17.4**	**1.6 - 5.3**	215 [1]	16.7 - 17.1	3.8 - 9.2
		5,935			5,846		

[1] Amounts have been restated as explained in note 53

27. Goodwill and intangible assets continued

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing goodwill is allocated at the date of acquisition to a cash-generating unit (CGU), and the table above sets out the goodwill allocated to each CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amounts for all the CGUs were measured based on value-in-use. The key assumptions used in determining the recoverable amounts are set out above and are solely estimates for the purposes of assessing impairment of acquired goodwill.

The calculation of value-in-use for each CGU is based on cash flow projections over a 20 year period, including a terminal value which is determined based on long-term earnings multiples consistent with available market data. These cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the CGU as set out in the table above.

The cash flow projections are based on budgets and forecasts approved by management covering one year, except for Taiwan, Korea, Thailand, Pakistan and Permata CGUs, where management forecasts cover the three years to 2015. Management forecasts project growth rates greater than long-term GDP rates but which are in line with past performance as adjusted to reflect the current economic climate. For the period after management approved forecasts, the cash flows are extrapolated forward using steady long-term forecast GDP growth rates appropriate to the CGU.

Management believes that a 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.

Company

Acquired intangibles primarily comprise those recognised as part of the acquisitions of American Express Bank, GE Money and GE Singapore.

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

		Goodwill	
		2011	2010
Acquisition	Cash Generating Unit	$million	$million
American Express Bank	Financial Institutions and Private Banking Business	148	148
GE Money and GE Singapore	Consumer banking business in Singapore	208	14
Other		110	97
		466	259

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 a reasonable possible change in any of the key assumptions on which recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

28. Property, plant and equipment

Group

	2011				2010			
	Premises $million	Equipment $million	Operating lease assets $million	Total $million	Premises $million	Equipment $million	Operating lease assets $million	Total $million
Cost or valuation								
At 1 January	2,665	837	2,183	5,685	2,647	775	1,685	5,107
Exchange translation differences	(74)	(40)	-	(114)	69	33	-	102
Additions	138	148	1,049	1,335	240	130	498	868
Acquisitions	-	1	-	1	-	1	-	1
Disposals and fully depreciated assets written off	(138)	(120)	(211)	(469)	(200)	(102)	-	(302)
Reclassification	-	-	-	-	-	-	-	-
Transfers from/(to) assets held for re-sale	(32)	-	-	(32)	(91)	-	-	(91)
At 31 December	2,559	826	3,021	6,406	2,665	837	2,183	5,685
Depreciation								
Accumulated at 1 January	471	557	150	1,178	423	502	79	1,004
Exchange translation differences	(7)	(29)	-	(36)	9	15	-	24
Charge for the year	123	145	100	368	118	140	71	329
Attributable to assets sold or written off	(56)	(115)	(11)	(182)	(79)	(100)	-	(179)
Accumulated at 31 December	531	558	239	1,328	471	557	150	1,178
Net book amount at 31 December	2,028	268	2,782	5,078	2,194	280	2,033	4,507

At 1 January 2010, the net book value was: premises, $2,224 million; equipment, $273 million and operating lease assets, $1,606 million.

Assets held under finance leases have a net book value of $192 million (2010: $44 million) with minimum lease payments of $7 million (2010: $7 million) before and after future finance charges.

Company

	2011			2010		
	Premises $million	Equipment $million	Total $million	Premises $million	Equipment $million	Total $million
Cost or valuation						
At 1 January	696	296	992	588	267	855
Exchange translation differences	(58)	(19)	(77)	24	11	35
Additions	70	75	145	116	71	187
Disposals and fully depreciated assets written off	(38)	(67)	(105)	(32)	(53)	(85)
Reclassification	(4)	-	(4)	-	-	-
At 31 December	666	285	951	696	296	992
Depreciation						
Accumulated at 1 January	108	155	263	94	138	232
Exchange translation differences	(4)	(11)	(15)	2	5	7
Charge for the year	41	68	109	33	63	96
Attributable to assets sold or written off	(27)	(64)	(91)	(21)	(51)	(72)
Accumulated at 31 December	118	148	266	108	155	263
Net book amount at 31 December	548	137	685	588	141	729

At 1 January 2010, the net book value was; premises $494 million; and equipment $129 million.

Assets held under finance leases have a net book value of $191 million (2010: $43 million) with minimum lease payments of $4 million (2010: $4 million) before and after future finance charges.

29. Deferred tax

Group

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year:

	At 1 January 2011 $million	Exchange & other adjustments $million	Acquisitions/ disposals $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2011 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(174)	(16)	25	118	-	(47)
Impairment provisions on loans and advances	41	9	-	(31)	-	19
Tax losses carried forward	(324)	(13)	-	(96)	-	(433)
Available-for-sale assets	71	-	-	-	(74)	(3)
Premises revaluation	1	(1)	-	-	-	-
Cash flow hedges	18	-	-	-	(20)	(2)
Retirement benefit obligations	(77)	2	-	7	(37)	(105)
Share based payments	(175)	-	-	66	21	(88)
Other temporary differences	(145)	11	(13)	101	-	(46)
Net deferred tax assets	(764)	(8)	12	165	(110)	(705)

	At 1 January 2010 $million	Exchange & other adjustments $million	Acquisitions/ disposals $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2010 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(193)	25	(94)	88	-	(174)
Impairment provisions on loans and advances	(131)	-	-	172	-	41
Tax losses carried forward	(277)	(20)	(1)	(26)	-	(324)
Available-for-sale assets	75	5	-	-	(9)	71
Premises revaluation	1	-	-	-	-	1
Cash flow hedges	-	1	-	-	17	18
Unrelieved foreign tax	(53)	-	-	53	-	-
Retirement benefit obligations	(119)	-	-	25	17	(77)
Share based payments	(149)	(1)	-	(58)	33	(175)
Other temporary differences	(57)	(38)	16	(66)	-	(145)
Net deferred tax assets	(903)	(28)	(79)	188	58	(764)

Deferred taxation comprises assets and liabilities as follows:

	2011			2010		
	Total $million	Asset $million	Liability $million	Total $million	Asset $million	Liability $million
Deferred taxation comprises:						
Accelerated tax depreciation	(47)	(114)	67	(174)	(222)	48
Impairment provisions on loans and advances	19	(196)	215	41	(180)	221
Tax losses carried forward	(433)	(401)	(32)	(324)	(309)	(15)
Available-for-sale assets	(3)	(18)	15	71	42	29
Premises revaluation	-	1	(1)	1	-	1
Cash flow hedges	(2)	(6)	4	18	16	2
Retirement benefit obligations	(105)	(98)	(7)	(77)	(77)	-
Share based payments	(88)	(63)	(25)	(175)	(162)	(13)
Other temporary differences	(46)	60	(106)	(145)	(54)	(91)
	(705)	(835)	130	(764)	(946)	182

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised based on enacted laws and rates. Management's judgement is used to assess availability of future taxable profit. For the majority of deferred tax assets, the period over which availability of future taxable profit is assessed is less than 5 years. For those deferred tax assets where the period exceeds 5 years (to a maximum of 10 years) there are defined profit streams which are expected to continue beyond that period.

29. 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 2011 $million	Exchange & other adjustments $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2011 $million
Deferred taxation comprises:					
Accelerated tax depreciation	(153)	-	143	-	(10)
Impairment provisions on loans and advances	(76)	8	(26)	-	(94)
Tax losses carried forward	(192)	(1)	(74)	-	(267)
Available-for-sale assets	28	-	-	(23)	5
Cash flow hedges	21	-	-	(26)	(5)
Unrelieved foreign tax	-	-	-	-	-
Retirement benefit obligations	(60)	1	9	(25)	(75)
Share based payments	(154)	-	75	21	(58)
Other temporary differences	18	9	10	-	37
	(568)	17	137	(53)	(467)

	At 1 January 2010 $million	Exchange & other adjustments $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2010 $million
Deferred taxation comprises:					
Accelerated tax depreciation	(156)	2	1	-	(153)
Impairment provisions on loans and advances	(113)	(4)	41	-	(76)
Tax losses carried forward	(129)	(3)	(60)	-	(192)
Available-for-sale assets	12	5	-	11	28
Cash flow hedges	(1)	-	-	22	21
Unrelieved foreign tax	(53)	-	53	-	-
Retirement benefit obligations	(100)	2	24	14	(60)
Share based payments	(137)	-	(50)	33	(154)
Other temporary differences	(19)	(11)	48	-	18
	(696)	(9)	57	80	(568)

Deferred taxation comprises assets and liabilities as follows:

	2011			2010		
	Total $million	Asset $million	Liability $million	Total $million	Asset $million	Liability $million
Deferred taxation comprises:						
Accelerated tax depreciation	(10)	(37)	27	(153)	(177)	24
Impairment provisions on loans and advances	(94)	(120)	26	(76)	(76)	-
Tax losses carried forward	(267)	(267)	-	(192)	(192)	-
Available-for-sale assets	5	(3)	8	28	25	3
Cash flow hedges	(5)	(7)	2	21	20	1
Retirement benefit obligations	(75)	(74)	(1)	(60)	(60)	-
Share based payments	(58)	(58)	-	(154)	(154)	-
Other temporary differences	37	47	(10)	18	18	-
	(467)	(519)	52	(568)	(596)	28

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

29. Deferred tax continued

	Group 2011 $million	Group 2010 $million	Company 2011 $million	Company 2010 $million
No account has been taken of the following potential deferred taxation assets/(liabilities):				
Unrelieved foreign tax[1]	-	664	-	664
Unremitted earnings from overseas subsidiaries	(294)	(309)	(131)	(309)
Foreign exchange movements on investments in branches	45	(117)	45	(117)
Tax losses	78	124	72	124
Held over gains on incorporations of overseas branches	(476)	(473)	(476)	(473)

[1] Following election into the Branch Profits Exemption Regime, unrelieved foreign tax suffered by branches will no longer be eligible for UK relief

30. Other assets

	Group 2011 $million	Group 2010 $million	Company 2011 $million	Company 2010 $million
Financial assets held at amortised cost (note 15)				
Hong Kong SAR Government certificates of indebtedness (note 34)	4,043	4,063	-	-
Cash collateral	4,856	5,620	4,843	5,463
Acceptances and Endorsements	5,485	4,847	2,303	1,950
Unsettled trades and other financial assets	6,170	5,098	4,265	3,183
	20,554	19,628	11,411	10,596
Non-financial assets				
Commodities	3,523	2,852	3,523	2,852
Other	3,072	2,829	1,124	1,144
	27,149	25,309	16,058	14,592

The Hong Kong SAR government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued.

31. Deposits by banks

	Group 2011 $million	Group 2010 $million	Company 2011 $million	Company 2010 $million
Deposits by banks	35,296	28,551	27,933	20,220
Deposits by banks included within:				
Financial liabilities held at fair value through profit or loss (note 15)	1,092	923	1,013	923
Total deposits by banks	36,388	29,474	28,946	21,143

32. Customer accounts

	Group 2011 $million	Group 2010 $million	Company 2011 $million	Company 2010 $million
Customer accounts	342,701	306,992	149,212	132,488
Customer accounts included within:				
Financial liabilities held at fair value through profit or loss (note 15)	9,118	9,510	1,846	2,580
Total customer accounts	351,819	316,502	151,058	135,068

Included in customer accounts were deposits of $2,000 million (2010: $1,659 million) held for the Group and $115 million (2010: $71 million) for the Company, as collateral for irrevocable commitments under import letters of credit.

33. Debt securities in issue

Group

	2011			2010		
	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total
	$million	$million	$million	$million	$million	$million
Debt securities in issue	15,787	19,979	35,766	9,021	14,017	23,038
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	163	4,270	4,433	207	3,103	3,310
Total debt securities in issue	15,950	24,249	40,199	9,228	17,120	26,348

Company

	2011			2010		
	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total
	$million	$million	$million	$million	$million	$million
Debt securities in issue	11,930	12,993	24,923	4,874	7,862	12,736
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	-	2,366	2,366	-	2,020	2,020
Total debt securities in issue	11,930	15,359	27,289	4,874	9,882	14,756

34. Other liabilities

	Group		Company	
	2011	2010	2011	2010
	$million	$million	$million	$million
Financial liabilities held at amortised cost (note 15)				
Notes in circulation	4,043	4,063	-	-
Acceptances and endorsements	5,473	4,774	2,303	1,950
Cash collateral	3,145	2,527	2,920	2,253
Unsettled trades and other financial liabilities	6,508	4,526	3,138	1,878
	19,169	15,890	8,361	6,081
Non-financial liabilities				
Other liabilities	4,600	5,168	2,658	2,132
	23,769	21,058	11,019	8,213

Hong Kong currency notes in circulation of $4,043 million (2010: $4,063 million) which are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 30).

35. Provisions for liabilities and charges

Group

	2011		
	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January	21	294	315
Exchange translation differences	(1)	-	(1)
Charge against profit	2	263	265
Provisions utilised	(8)	(202)	(210)
At 31 December	14	355	369

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations. Other provisions include provisions for regulatory settlement, legal claims and restructuring.

Company

	2011		
	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January	102	19	121
Exchange translation differences	(1)	(1)	(2)
Charge against profit	1	14	15
Provisions utilised	2	(11)	(9)
At 31 December	104	21	125

Provision for credit commitments for the Company comprises primarily provisions made as part of risk participation agreements with subsidiaries.

36. Retirement benefit obligations

Retirement benefit obligations comprise:

	2011 $million	2010 $million
Defined benefit schemes obligation	499	297
Defined contribution schemes obligation	20	13
Net book amount	519	310

	2011 $million	2010 $million
At 1 January	310	506
Exchange translation differences	(5)	(9)
Acquisitions	-	2
Charge against profit (net of finance income)	282	182
Change in other comprehensive income	189	(83)
Net payments	(257)	(288)
At 31 December	519	310

Retirement benefit charge comprises:

	2011 $million	2010 $million
Defined benefit schemes	103	39
Defined contribution schemes	179	143
Charge against profit (note 8)	282	182

36. Retirement benefit obligations continued

Group

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 2011. Pension costs for the purpose of these accounts were assessed using the projected unit method and the assumptions set out below which were based on market data at the date of calculation.

The principal assumptions relate to the rate of inflation and the discount rate. 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.

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 actuarial assumptions having the most significant effect on valuing future defined benefit obligations 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

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. Regular contributions were set at 28 per cent of pensionable salary for all members. No additional contributions were paid in 2011 and none are payable over the two years to 31 December 2013.

Contributions paid to the Fund during 2011 were $10 million (2010: $78 million).

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, it is expected that the current service cost will increase, as a percentage of pensionable pay, as the members approach retirement.

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 (US).

Employer contributions to defined benefit plans over 2012 are expected to be $87 million.

The financial assumptions used at 31 December 2011 were:

	Funded defined benefit schemes			
	UK Fund[1]		Overseas Schemes[2]	
	2011 %	2010 %	2011 %	2010 %
Price inflation	3.10	3.50	1.50 – 4.50	1.50 – 4.50
Salary increases	3.10	3.50	3.10 – 6.00	3.50 – 5.00
Pension increases	2.10	2.60	1.75 – 3.10	1.75 – 3.30
Discount rate	4.80	5.50	1.40 – 8.80	1.60 – 8.10

There is uncertainty that these assumptions will continue in the future and any changes would affect the value placed on the liabilities. For example, if the discount rate for the UK Fund increased by 25 basis points the liability would reduce by approximately $50 million and vice versa. Whilst changes in other assumptions would also have an impact, the effect would not be as significant.

[1] The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 26 years (2010: 26 years) and a female member 29 years (2010: 29 years) and a male member currently aged 40 will live for 29 years (2010: 29 years) and a female member 31 years (2010: 31 years) after their 60th birthday

[2] The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the US. These comprise over 87 per cent of the total liabilities of funded overseas schemes

36. Retirement benefit obligations continued

Group continued

	Unfunded schemes			
	Post-retirement medical[1]		Other[2]	
	2011 %	2010 %	2011 %	2010 %
Price inflation	2.50	2.50	3.10 – 5.00	1.50 – 7.50
Salary increases	4.00	4.00	3.10 – 6.00	3.50 – 9.00
Pension increases	N/A	N/A	2.10	1.75 – 2.60
Discount rate	4.70	5.40	4.70 – 8.80	1.60 – 9.00
Post-retirement medical rate	8% in 2011 reducing by 1% per annum to 5% in 2014	9% in 2010 reducing by 1% per annum to 5% in 2014	N/A	N/A

1 The Post-retirement medical plan is in the US
2 The range of assumptions shown is for the main Unfunded schemes in India, Indonesia, UAE and the UK

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2011 were:

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2011	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	320	6.38 – 16.00	210	N/A	N/A	N/A	N/A
Bonds	3.20	889	1.00 – 16.00	208	N/A	N/A	N/A	N/A
Property	7.50	50	5.25 – 16.00	7	N/A	N/A	N/A	N/A
Others	8.00	276	0.50 – 16.00	158	N/A	N/A	N/A	N/A
Total market value of assets		1,535		583		N/A		N/A
Present value of the schemes' liabilities		(1,609)		(832) [1]		(28)		(148)
Net pension liability		(74)		(249)		(28)		(148)

1 Includes $4 million impact as a result of IFRIC 14 'unrecognisable surplus' in Kenya

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2010	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	375	5.00 – 12.00	242	N/A	N/A	N/A	N/A
Bonds	4.00	856	2.75 – 14.00	196	N/A	N/A	N/A	N/A
Property	7.50	21	5.00 – 12.00	4	N/A	N/A	N/A	N/A
Others	8.00	300	0.50 – 12.00	155	N/A	N/A	N/A	N/A
Total market value of assets		1,552		597		N/A		N/A
Present value of the schemes' liabilities		(1,545)		(741)		(21)		(139)
Net pension asset/(liability)		7		(144)		(21)		(139)

	Funded defined benefit schemes		Unfunded schemes	
	UK Fund	Overseas schemes	Post-retirement medical	Other
At 31 December 2009	Value $million	Value $million	Value $million	Value $million
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)
At 31 December 2008				
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)
At 31 December 2007				
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)

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 ended 31 December 2011	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	8	74	1	18	101
Past service cost	2	1	-	-	3
(Gain)/loss on settlements and curtailments	-	(6)	-	1	(5)
Expected return on pension scheme assets	(86)	(34)	-	-	(120)
Interest on pension scheme liabilities	85	30	1	8	124
Total charge to profit before deduction of tax	9	65	2	27	103
Loss on assets below expected return[1]	26	32	-	-	58
Experience loss on liabilities	58	61	7	5	131
Total loss recognised directly in other comprehensive income before tax	84	93	7	5	189
Deferred taxation	(11)	(22)	(3)	(1)	(37)
Total loss after tax	73	71	4	4	152

[1] The actual return on the UK fund assets was $60 million and on overseas scheme assets was $2 million

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of $300 million (2010: loss of $111 million).

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2010	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	8	63	1	16	88
Past service (benefit)/cost	(54)	5	-	(4)	(53)
Gain on settlements and curtailments	-	(1)	-	(9)	(10)
Expected return on pension scheme assets	(79)	(32)	-	-	(111)
Interest on pension scheme liabilities	91	26	1	7	125
Total (credit)/charge to profit before deduction of tax	(34)	61	2	10	39
Gain on assets in excess of expected return[2]	(42)	(17)	-	-	(59)
Experience (gain)/loss on liabilities	(67)	35	-	8	(24)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(109)	18	-	8	(83)
Deferred taxation	30	(12)	-	(1)	17
Total (gain)/loss after tax	(79)	6	-	7	(66)

[2] The actual return on the UK fund assets was $122 million and on overseas scheme assets was $48 million

36. Retirement benefit obligations continued

Group continued

	Funded defined benefit schemes		Unfunded schemes		
	UK Fund	Overseas schemes	Post-retirement medical	Other	Total
Year ended 31 December 2009	$million	$million	$million	$million	$million
Gain on assets in excess of expected return[3]	(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
Year ended 31 December 2008					
Gain on assets in excess of expected return[4]	203	130	-	-	333
Experience (gain)/loss on liabilities	(143)	35	-	4	(104)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	60	165	-	4	229
Deferred taxation	(16)	(44)	-	-	(60)
Total (gain)/loss after tax	44	121	-	4	169
Year ended 31 December 2007					
Gain on assets in excess of expected return[5]	(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)

[3] The actual return on the UK fund assets was $159 million and on overseas scheme assets was $67 million

[4] The actual return on the UK fund assets was $99 million and on overseas scheme assets was $94 million

[5] The actual return on the UK fund assets was $128 million and on overseas scheme assets was $34 million

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

	Funded defined benefit schemes		Unfunded schemes		
	UK Fund	Overseas schemes	Post-retirement medical	Other	Total
Year ended 31 December 2011	$million	$million	$million	$million	$million
Surplus/(Deficit) at 1 January 2011	7	(144)	(21)	(139)	(297)
Contributions	10	46	1	20	77
Current service cost	(8)	(74)	(1)	(18)	(101)
Past service cost	(2)	(1)	-	-	(3)
Settlement/curtailment costs	-	6	-	(1)	5
Other finance income/(charge)	1	4	(1)	(8)	(4)
Actuarial loss	(84)	(93)	(7)	(5)	(189)
Exchange rate adjustment	2	7	1	3	13
Deficit at 31 December 2011	(74)	(249)	(28)	(148)	(499)

36. Retirement benefit obligations continued

Group continued

	Funded defined benefit schemes		Unfunded schemes		
	UK Fund	Overseas schemes	Post-retirement medical	Other	Total
Year ended 31 December 2010	$million	$million	$million	$million	$million
Deficit at 1 January 2010	(226)	(118)	(20)	(134)	(498)
Contributions	78	55	1	16	150
Current service cost	(8)	(63)	(1)	(16)	(88)
Past service benefit/(cost)	54	(5)	-	4	53
Settlement/curtailment costs	-	1	-	9	10
Other finance (charge)/income	(12)	6	(1)	(7)	(14)
Actuarial gain/(loss)	109	(18)	-	(8)	83
Acquisitions	-	-	-	(2)	(2)
Exchange rate adjustment	12	(2)	-	(1)	9
Deficit at 31 December 2010	7	(144)	(21)	(139)	(297)

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

	Assets	Obligations	Total
Year ended 31 December 2011	$million	$million	$million
Deficit at 1 January 2011	2,149	(2,446)	(297)
Contributions	77	-	77
Current service cost	-	(101)	(101)
Past service cost	-	(3)	(3)
Settlement/curtailment costs	(19)	24	5
Interest cost	-	(124)	(124)
Expected return on scheme assets	120	-	120
Benefits paid out	(140)	140	-
Actuarial loss	(58)	(131)	(189)
Exchange rate adjustment	(11)	24	13
Deficit at 31 December 2011	2,118	(2,617)	(499)

	Assets	Obligations	Total
Year ended 31 December 2010	$million	$million	$million
Deficit at 1 January 2010	2,009	(2,507)	(498)
Contributions	150	-	150
Current service cost	-	(88)	(88)
Past service benefit	-	53	53
Settlement/curtailment costs	(4)	14	10
Interest cost	-	(125)	(125)
Expected return on scheme assets	111	-	111
Benefits paid out	(129)	129	-
Actuarial gain	59	24	83
Acquisitions	-	(2)	(2)
Exchange rate adjustment	(47)	56	9
Deficit at 31 December 2010	2,149	(2,446)	(297)

36. Retirement benefit obligations continued

Company

Retirement benefit obligations comprise:

	2011 $million	2010 $million
Defined benefit schemes obligation	313	191
Defined contribution schemes obligation	11	2
Net book amount	324	193

	2011 $million	2010 $million
At 1 January	193	393
Exchange translation differences	(10)	(14)
Charge against profit (net of finance income)	142	77
Change in other comprehensive income	116	(88)
Net payments	(117)	(175)
At 31 December	324	193

Retirement benefit charge comprises:

	2011 $million	2010 $million
Defined benefit schemes	48	1
Defined contribution schemes	94	76
Charge against profit	142	77

36. Retirement benefit obligations continued

Company continued

UK Fund
See the Group note on the UK Fund on page 112, there are no differences between Group and Company in respect of the Fund.

Overseas Schemes
The principal overseas defined benefit arrangements operated by the Group are in Germany, India 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 2011.

Employer contributions to defined benefit plans over 2012 are expected to be $54 million.

The financial assumptions used at 31 December 2011 were:

	Funded defined benefit schemes			
	UK Fund[1]		Overseas Schemes[2]	
	2011 %	2010 %	2011 %	2010 %
Price inflation	3.10	3.50	2.00 – 4.50	2.00 – 4.50
Salary increases	3.10	3.50	3.50 – 6.00	3.50 – 5.00
Pension increases	2.10	2.60	0.00 - 1.75	0.00 – 1.75
Discount rate	4.80	5.50	4.70 – 8.80	5.00 – 8.10

[1] The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 26 years (2010: 26 years) and a female member 29 years (2010: 29 years) and a male member currently aged 40 will live for 29 years (2010: 29 years) and a female member 31 years (2010: 31 years) after their 60th birthday

[2] The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, India, and the United States. These comprise over 75 per cent of the total liabilities of funded overseas schemes

	Unfunded schemes			
	Post-retirement medical[1]		Other[2]	
	2011 %	2010 %	2011 %	2010 %
Price inflation	2.50	2.50	2.10 – 4.50	2.00 – 7.50
Salary increases	4.00	4.00	3.10 – 6.00	3.50 – 9.00
Pension increases	N/A	N/A	0.00 - 2.10	0.00 – 2.60
Discount rate	4.70	5.40	4.70 – 8.80	5.00 – 9.00
Post-retirement medical rate[1]	8% in 2011 reducing by 1% per annum to 5% in 2014	9% in 2010 reducing by 1% per annum to 5% in 2014	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 India, UAE and the UK

36. Retirement benefit obligations continued

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2011 were:

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2011	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	320	8.90 – 9.00	53	N/A	N/A	N/A	N/A
Bonds	3.20	889	4.50 – 10.00	49	N/A	N/A	N/A	N/A
Property	7.50	50	N/A	-	N/A	N/A	N/A	N/A
Others	8.00	276	7.50 – 10.00	35	N/A	N/A	N/A	N/A
Total market value of assets		1,535		137		N/A		N/A
Present value of the schemes' liabilities		(1,609)		(227)		(28)		(121)
Net pension liability		(74)		(90)		(28)		(121)

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2010	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	375	6.40 – 12.00	53	N/A	N/A	N/A	N/A
Bonds	4.00	856	2.75 – 12.00	47	N/A	N/A	N/A	N/A
Property	7.50	21	12.00	-	N/A	N/A	N/A	N/A
Others	8.00	300	1.50 – 12.00	38	N/A	N/A	N/A	N/A
Total market value of assets		1,552		138		N/A		N/A
Present value of the schemes' liabilities		(1,545)		(207)		(21)		(108)
Net pension asset/(liability)		7		(69)		(21)		(108)

	Funded defined benefit schemes		Unfunded schemes	
	UK Fund	Overseas schemes	Post-retirement medical	Other
At 31 December 2009	Value $million	Value $million	Value $million	Value $million
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)
At 31 December 2008				
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)
At 31 December 2007				
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)

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

Company continued

The pension cost for defined benefit schemes was:

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2011	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	8	13	1	14	36
Past service cost	2	1	-	-	3
Expected return on pension scheme assets	(86)	(9)	-	-	(95)
Interest on pension scheme liabilities	85	12	1	6	104
Total charge to profit before deduction of tax	9	17	2	20	48
Loss on assets below expected return[1]	26	11	-	-	37
Experience loss on liabilities	58	10	7	4	79
Total loss recognised directly in statement of comprehensive income before tax	84	21	7	4	116
Deferred taxation	(11)	(11)	(3)	(1)	(26)
Total loss/(gain) after tax	73	10	4	3	90

[1] The actual return on the UK fund assets was a gain of $60 million and on overseas scheme assets was a loss of $2 million

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of $213 million (2010: loss of $97 million).

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2010	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	8	12	1	11	32
Past service (benefit)/cost	(54)	4	-	(1)	(51)
Expected return on pension scheme assets	(79)	(9)	-	-	(88)
Interest on pension scheme liabilities	91	11	1	5	108
Total (credit)/charge to profit before deduction of tax	(34)	18	2	15	1
Gain on assets in excess of expected return[2]	(42)	(7)	-	-	(49)
Experience (gain)/loss on liabilities	(67)	17	-	11	(39)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(109)	10	-	11	(88)
Deferred taxation	30	(14)	-	(1)	15
Total (gain)/loss after tax	(79)	(4)	-	10	(73)

[2] The actual return on the UK fund assets was $122 million and on overseas scheme assets was $48 million

36. Retirement benefit obligations continued

Company continued

	Funded defined benefit schemes		Unfunded schemes		
	UK Fund	Overseas schemes	Post-retirement medical	Other	Total
Year ended 31 December 2009	$million	$million	$million	$million	$million
Gain on assets in excess of expected return[3]	(76)	(9)	-	-	(85)
Experience loss/(gain) on liabilities	236	(7)	-	21	250
Total loss/(gain) recognised directly in statement of comprehensive income before tax	160	(16)	-	21	165
Deferred taxation	(41)	2	-	-	(39)
Total loss/(gain) after tax	119	(14)	-	21	126
Year ending 31 December 2008					
Gain on assets in excess of expected return[4]	(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 ended 31 December 2007					
Gain on assets in excess of expected return[5]	(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)

[3] The actual return on the UK fund assets was $159 million and on overseas scheme assets was $67 million

[4] The actual return on the UK fund assets was $99 million and on overseas scheme assets was $94 million

[5] The actual return on the UK fund assets was $128 million and on overseas scheme assets was $34 million

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

	Funded defined benefit schemes		Unfunded schemes		
	UK Fund	Overseas schemes	Post-retirement medical	Other	Total
Year ended 31 December 2011	$million	$million	$million	$million	$million
Surplus/(Deficit) at 1 January 2011	7	(69)	(21)	(108)	(191)
Contributions	10	13	1	8	32
Current service cost	(8)	(13)	(1)	(14)	(36)
Past service cost	(2)	(1)	-	-	(3)
Other finance income/(charge)	1	(3)	(1)	(6)	(9)
Actuarial loss	(84)	(21)	(7)	(4)	(116)
Exchange rate adjustment	2	4	1	3	10
Deficit at 31 December 2011	(74)	(90)	(28)	(121)	(313)

36. Retirement benefit obligations continued

Company continued

Year ended 31 December 2010	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 2010	(226)	(55)	(20)	(91)	(392)
Contributions	78	13	1	8	100
Current service cost	(8)	(12)	(1)	(11)	(32)
Past service benefit/(cost)	54	(4)	-	1	51
Other finance charge	(12)	(2)	(1)	(5)	(20)
Actuarial gain/(loss)	109	(10)	-	(11)	88
Exchange rate adjustment	12	1	-	1	14
Surplus/(Deficit) at 31 December 2010	7	(69)	(21)	(108)	(191)

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

Year ended 31 December 2011	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2011	1,690	(1,881)	(191)
Contributions	32	-	32
Current service cost	-	(36)	(36)
Past service cost	-	(3)	(3)
Interest cost	-	(104)	(104)
Expected return on scheme assets	95	-	95
Benefits paid out	(98)	98	-
Actuarial gain	(37)	(79)	(116)
Exchange rate adjustment	(10)	20	10
Deficit at 31 December 2011	1,672	(1,985)	(313)

Year ended 31 December 2010	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2010	1,597	(1,989)	(392)
Contributions	100	-	100
Current service cost	-	(32)	(32)
Past service cost	-	51	51
Interest cost	-	(108)	(108)
Expected return on scheme assets	88	-	88
Benefits paid out	(98)	98	-
Actuarial gain	49	39	88
Acquisitions	(1)	1	-
Exchange rate adjustment	(45)	59	14
Deficit at 31 December 2010	1,690	(1,881)	(191)

37. Subordinated liabilities and other borrowed funds

Subordinated loan capital - issued by subsidiary undertakings	2011 $million	2010 $million
$750 million 5.875 per cent subordinated notes	763	738
$300 million floating rate subordinated note 2017 (Callable 2012)	300	299
$22 million 9.75 per cent fixed to floating rate note 2021 (Callable and floating rate from 2016)	25	22
BWP 75 million Floating Rate Subordinated Notes 2017 (Callable 2012)	10	12
BWP 70 million Floating Rate Subordinated Notes 2021 (Callable 2016)	9	-
BWP 50 million Floating Rate Subordinated Notes 2015 (Callable 2011)	-	8
IDR 1,750 billion 11 per cent Subordinated Notes 2018	82	-
IDR 500 billion Floating Rate Notes 2016 (Callable 2011)	-	22
KRW 300 billion 7.05 per cent Subordinated debt 2019 (Callable 2014)	260	266
KRW 270 billion 4.67 per cent Subordinated debt 2021 (Callable 2016)	235	-
KRW 260 billion 6.08 per cent Subordinated debt 2018 (Callable 2013)	230	236
KRW 90 billion 6.05 per cent Subordinated debt 2018	86	84
KRW 30 billion Floating Rate Subordinated debt 2011	26	26
KRW 3 billion 6.11 per cent Subordinated debt 2011	-	2
MYR 500 million 4.28 per cent Subordinated Bonds 2017 (Callable and floating rate from 2012)	157	166
PKR 1 billion Floating Rate Notes 2013	8	11
PKR 750 million Floating Rate Notes 2011	-	2
SGD 750 million 4.15 per cent Subordinated Notes 2021 (Callable and Floating rate from 2016)	624	-
TWD 10 billion 2.9 per cent Subordinated debt 2019 (Callable 2014)	337	331
TZS 10 billion 11 per cent Subordinated Notes 2021 (Callable and floating rate from 2015)	6	7
UGX 40 billion 13 per cent Subordinated Notes 2020 (Callable 2015)	16	17
	3,174	2,249
Subordinated loan capital - issued by Company		
£700 million 7.75 per cent Subordinated Notes 2018	1,281	1,192
£675 million 5.375 per cent undated Step Up Subordinated Notes (Callable and floating rate from 2020)	730	659
£600 million 8.103 per cent Step Up Callable Perpetual Preferred Securities (Callable and floating rate from 2016)	1,154	1,137
£300 million 6.0 per cent Subordinated Notes 2018 (Callable and floating rate from 2013)	488	509
£200 million 7.75 per cent undated Step Up Subordinated Notes (Callable and floating rate from 2022)	419	384
€1,100 million 5.875 per cent Subordinated Notes 2017	1,662	1,622
€750 million 3.625 per cent Subordinated Notes 2017 (Callable and floating rate from 2012)	977	1,034
€675 million Floating Rate Subordinated Notes 2018 (Callable 2013)	886	915
$1.8 billion Floating Rate Undated Subordinated Notes Callable 2014	1,800	1,800
$1.5 billion 9.5 per cent Step Up Perpetual Preferred Securities (Callable 2014)	1,602	1,580
$1.3 billion Floating Rate Subordinated Notes 2021 (Callable 2016)	1,300	-
$1 billion 6.4 per cent Subordinated Notes 2017	1,193	1,143
$700 million 8.0 per cent Subordinated Notes 2031	683	594
$500 million Floating Rate Subordinated Notes 2016 (Callable 2011)	-	499
$100 million Floating Rate Subordinated Notes 2018 (Callable 2013)	100	100
JPY 10 billion 3.35 per cent Subordinated Note 2023 (callable 2018)	149	138
SGD 450 million 5.25 per cent Subordinated Notes 2023 (Callable and floating rate from 2018)	376	363
Primary Capital Floating Rate Notes:		
$400 million	57	57
$300 million (Series 2)	81	81
$400 million (Series 3)	83	83
$200 million (Series 4)	51	51
£150 million	233	234
$925 million 8.125 per cent non-cumulative redeemable preference shares (Callable 2013)	983	994
Total for Company	16,288	15,169
Total for Group	19,462	17,418

37. Subordinated liabilities and other borrowed funds continued

All subordinated liabilities 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, $12,918 million is at fixed interest rates (2010: $11,611 million).

On 12 May 2011, Standard Chartered Bank (Botswana) Limited issued BWP 70 million floating notes due May 2021.

On 20 May 2011, Standard Chartered Bank issued $1.3 billion floating rate subordinated debt due May 2021.

On 28 June 2011, PT Bank Permata Tbk issued IDR 1,750 billion fixed interest rate subordinated notes due June 2018.

On 27 October 2011, Standard Chartered Bank (Hong Kong) Limited issued SGD 750 million fixed interest rate subordinated notes due 2021.

On 6 December 2011, Standard Chartered First Bank Korea Limited[1] issued KRW 270 billion fixed interest rate subordinated debt due 2021.

During January 2011, Standard Chartered (Pakistan) Limited redeemed the remaining balance of its PKR750 million floating rates note 2011 of PKR 187 million.

On 21 January 2011, Standard Chartered First Bank Korea Limited[1] redeemed its KRW 3 billion 6.11 per cent notes in full.

On 9 June 2011, Standard Chartered Bank exercised its right to redeem its $500 million subordinated floating rate notes in full on the first optional call date.

On 20 June 2011, Standard Chartered Bank (Botswana) Limited redeemed BWP 50 million fixed rates notes in full.

On 15 December 2011, PT Bank Permata Tbk redeemed IDR 500 billion floating rate notes.

[1] The entity has been renamed as Standard Chartered Bank Korea Limited on 11 January 2012.

38. Share capital, reserves and own shares

Share capital

The authorised share capital of the Company at 31 December 2011 was $15,005 million (2010: $15,005 million) made up of 15,000 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 2010	11,246	11,246	-	11,246
Shares issued	441	441	-	441
At 31 December 2010	11,687	11,687	-	11,687
Shares issued	367	367	-	367
At 31 December 2011	12,054	12,054	-	12,054

38. Share capital, reserves and own shares continued

During the year the company issued 367 million shares (2010: 441 million shares) to its parent company, Standard Chartered Holdings limited.

Reserves

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.

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 represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions and own shares (treasury shares).

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. Non-controlling interests

	$300m 7.267% Hybrid Tier 1 Securities $million	Other non-controlling interests $million	Total $million
At 1 January 2010	324	1,959	2,283
Income in equity attributable to non-controlling interests	-	9	9
Other profits attributable to non-controlling interests	19	371	390
Comprehensive income for the year	19	380	399
Distributions	(22)	(472)	(494)
Other increases[1]	-	866	866
At 31 December 2010	321	2,733	3,054
Income in equity attributable to non-controlling interests	-	(142)	(142)
Other profits attributable to non-controlling interests	22	628	650
Comprehensive income for the year	22	486	508
Distributions	(23)	(414)	(437)
Other increases	-	20	20
At 31 December 2011	320	2,825	3,145

[1] Part disposal of an interest in Standard Chartered (Hong Kong) Limited to Standard Chartered Holdings Limited (note 55)

40. Share based payments

The Group operates a number of share based arrangements for its directors and employees. Details of the share based payment charge are set out below:

	2011 Equity $ million	2010 Equity $million
Deferred share awards	295	262
Other share awards	135	128
Total	430	390
Deferred tax	59	(18)
Total charge taken to the income statement	489	372

2011 Standard Chartered Share Plan (the 2011 Plan)

The 2011 Standard Chartered Share Plan replaced all the Standard Chartered PLC Group's existing discretionary share plan arrangements following approval by shareholders at the Group's Annual General Meeting on 5 May 2011. It is the Group's main share plan, applicable to all employees with the flexibility to provide a variety of award types including performance shares, deferred awards (shares or cash) and restricted shares. Performance and restricted share awards will generally be in the form of nil price options to acquire shares in the Company. The remaining life of the plan is ten years.

Performance shares

Performance share awards vest after a three year period and are subject to Total Shareholder Return (TSR), Earnings per share (EPS) and Return on Risk Weighted Assets (RoRWA) performance measures:

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 shareholders 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 provides an appropriate measure of a company's underlying financial performance.

RoRWA — Return on Risk Weighted Assets is a key performance indicator of the Group that is already used to calculate capital adequacy. This performance measure takes into account not only the return on assets but also risk adjusts the assets by looking at credit, operational, and market risk.

The weighting between the three elements is split equally (one third of the award depending each on the achievement of TSR, EPS and RoRWA, assessed independently of one another) supporting a balanced scorecard approach through equal focus upon financial measures, investor interests and prudent risk taking. Using a risk adjusted measure ensures that there is an appropriate return for the risk taken and that the measure is aligned with the Group's risk appetite.

40. Share based payments continued

TSR element

The constituents of our comparison peer group for awards made in 2009, 2010 (under the 2001 Performance Share Plan) and 2011 (under the 2011 Standard Chartered Share Plan) are set out in the table below. For awards granted from 2011 the Group changed the way it calculates the TSR ranking to be better aligned to market practice and excludes Standard Chartered's TSR is positioned within the comparator group to determine what proportion of the award should vest.

TSR Comparators	Awards made in 2011 and going forward[1]	Awards made in 2010[1,2]	Awards made in 2009[1,2]
Banco Santander	√	√	√
Bank of America	√	√	√
Bank of China	√	√	√
Bank of East Asia	√	√	√
Barclays	√	√	√
Citigroup	√	√	√
Credit Suisse	√	√	
DBS Group	√	√	√
Deutsche Bank	√	√	√
HSBC	√	√	√
ICBC	√	√	√
ICICI	√	√	√
JP Morgan Chase	√	√	√
Kookmin	√	√	√
Overseas Chinese Banking Corporation	√	√	√
Royal Bank of Scotland	√	√	√
Société Générale	√	√	
Standard Bank	√		√
State Bank of India	√	√	√
Unicredito	√	√	√
United Overseas Bank	√	√	√
Standard Chartered		√	√
Lloyds Banking Group			√

Notes:

1 The percentage of the award that employees receive at the end of the relevant three year performance period depends on where the Group is ranked against its comparators' TSR performance. Minimum vesting is achieved if Standard Chartered Bank is ranked median, with full vesting if the Group is ranked in the upper quintile of our comparison group. Straight-line vesting applies between the two vesting points

2 Awards made in 2010 and 2009 were granted under the 2001 Performance Share Plan

TSR performance is measured using a local currency approach. This reflects the international composition of the Group, but also takes into account that a significant proportion of each company's profit is generated in the same currency as its primary listing. This approach measures the real impact for a shareholder by focusing on relative share 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.

Deferred share awards / Restricted shares

Deferred share awards will be granted as restricted shares and are subject to a three-year deferral period, vesting equally one-third on each of the first, second and third anniversaries. On vesting the awards will be adjusted for dividend equivalent payments.

Awards which are made outside of the annual performance process, as additional incentive or retention mechanisms, are provided as restricted shares under the 2011 Plan. These awards vest in equal instalments on the second and the third anniversaries of the award date.

Deferred and restricted share awards do not have any performance conditions, although the Group's claw-back policy will apply.

40. Share based payments continued

2000 Executive Share Option Scheme (2000 ESOS)

The Group previously operated the 2000 ESOS for executive directors and selected senior managers. Executive share options to purchase ordinary shares in Standard Chartered PLC were exercisable after the third, but before the tenth, anniversary of the date of grant subject to an EPS performance criteria being satisfied. The exercise price per share is the share price at the date of grant. Although there are unexercised awards outstanding under the 2000 ESOS, the scheme is now closed to new grants.

2001 Performance Share Plan (PSP)

The Group's previous plan for delivering performance shares was the PSP. Although the PSP was replaced in 2011, there are still outstanding vested and unvested awards under the plan.

Under the PSP half the award is dependent upon TSR performance and the balance is subject to a target of defined EPS growth. Both measures use the same three-year period and are assessed independently. No PSP awards were granted in 2011 and no further awards can be granted under the plan.

1997/2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS)

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There are still unvested and vested awards outstanding under these plans which were previously used to deliver the deferred portion of annual performance awards and as an incentive to motivate and retain high performing employees. Awards will generally be in the form of nil cost options and do not have any performance conditions. Generally deferred restricted share awards vest equally over three years and for non-deferred awards half vests two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

2004 Deferred Bonus Plan (DBP)

Under the DBP, shares are conditionally awarded as part of certain executive directors' annual performance award. Awards under the DBP are made in very limited circumstances to a small number of employees. The remaining life of the plan is three years.

All Employee Sharesave Schemes (Sharesave)

Under the Sharesave schemes, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company. The price at which they may purchase shares is at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the Sharesave schemes.

In some countries in which the Group operates, it is not possible to operate Sharesave schemes, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based scheme to its employees. The remaining life of the Sharesave schemes is three years.

2011 Standard Chartered Share Plan (the 2011 Plan)

Performance Shares - 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 and the relevant performance condition applying to that portion of the award. The fair value of the TSR component is derived by discounting a third 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 one third of the award respectively by the loss of expected dividends over the performance period. The same approach is applied to calculate the RoRWA fair value for one third of the award. In respect of the EPS and RoRWA components only, the number of shares expected to vest is adjusted for actual performance when calculating the charge for the year. The same fair value is applied to awards made to both directors and employees of the Group.

	2011			
Grant date	14 December	20 September	22 June	6 May
Share price at grant date (£)	14.35	13.52	15.75	16.31
Vesting period (years)	3	3	3	3
Expected dividend yield (%)	4.0	4.0	3.7	3.7
Fair value (EPS) (£)	4.26	4.01	4.70	4.87
Fair value (RoRWA) (£)	4.26	4.01	4.70	4.87
Fair value (TSR) (£)	1.67	1.58	1.85	1.91

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

40. Share based payments continued

Deferred share awards / Restricted shares - 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 for non-deferred awards. The same fair value is applied for awards made to both the directors and employees of the Group.

Deferred Share Awards

	2011
Grant date	22 June
Share price at grant date (£)	15.75
Vesting period (years)	1/2/3
Expected dividend yield (%)	n/a
Fair value (£)	15.75

Deferred awards accrue dividend equivalent payments during the vesting period.

Other Restricted Share Awards

	2011		
Grant date	14 December	20 September	22 June
Share price at grant date (£)	14.35	13.52	15.75
Vesting period (years)	2/3	2/3	2/3
Expected dividend yield (%)	2.9	2.9	4.1
Fair value (£)	13.36	12.59	14.25

The expected dividend yield is based on the historical dividend for three years prior to grant.

2001 Performance Share Plan (PSP)

Valuation

The fair value of awards is based on the same principles as the TSR and EPS element of performance shares granted under the 2011 Plan with half the awards subject to the TSR valuation and the balance subject to the EPS valuation.

	2010			
Grant date	16 December	21 September	18 June	11 March
Share price at grant date (£)	17.66	19.12	17.40	17.40
Vesting period (years)	3	3	3	3
Expected dividend yield (%)	3.8	3.8	3.5	3.5
Fair value (EPS) (£)	7.90	8.55	7.85	7.85
Fair value (TSR) (£)	3.10	3.36	3.08	3.08

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

40. Share based payments continued

1997/2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS)

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.

	2011	2010			
Grant date	10 March	16 December	21 September	18 June	11 March
Share price at grant date (£)	16.82	17.66	19.12	17.40	17.40
Vesting period (years) – 2006 RSS	1/2/3	2/3	2/3	2/3	2/3
Vesting period (years) – 2007 SRSS	2/3	2/3	2/3	2/3	1/2/3
Expected dividend yield (%) – 2006 RSS	4.1	3.7	3.7	3.9	3.9
Expected dividend yield (%) – 2007 SRSS	4.1	3.7	3.7	3.9	2.7/3.9
Fair value (£) – 2006 RSS	16.82/15.22	16.11	17.46	15.80	15.80
Fair value (£) – 2007 SRSS	15.22	16.11	17.46	15.80	16.93/15.80

The expected dividend yield for the 2006 RSS and 2007 SRSS is based on the historical dividend for three years prior to grant. Deferred awards accrue dividend equivalent payments during the vending period.

All Employee Sharesave Schemes (Sharesave)

Valuation

Options under the Sharesave schemes 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:

	2011		2010	
Grant date	11 October	4 October	9 October	6 October
Share price at grant date (£)	14.11	11.70	18.70	18.48
Exercise price (£) [1]	10.65	10.65	15.19	15.19
Vesting period (years)	3/5	3/5	3/5	3/5
Expected volatility (%)	53.8/45.8	53.3/45.5	56.0/46.0	56.0/46.0
Expected option life (years)	3.33/5.33	3.33/5.33	3.33/5.33	3.33/5.33
Risk free rate (%)	0.9/1.4	0.7/1.2	0.9/0.6	0.9/0.6
Expected dividend yield (%)	3.9/3.5	3.9/3.5	3.5/3.4	3.5/3.4
Fair value (£)	5.46/5.39	3.87/3.87	7.2/7.0	7.0/6.9

[1] The Exercise Price detailed above for 2010 awards was pre the 2010 rights issue and was subsequently adjusted to £14.632

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.

40. Share based payments continued

Reconciliation of option movements for the year to 31 December 2011

	2011 Plan[1]									
	Performance shares	Deferred/ Restricted shares	PSP[1]	RSS[1]	SRSS[1]	DBP [1, 2]	ESOS	Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)
Outstanding at 1 January	-	-	9,571,846	24,500,160	13,885,072	383,985	1,386,144	7.01	14,818,577	11.33
Granted	4,195,006	635,136	-	12,500,000	250,000	70,255	-	-	5,927,063	10.65
Lapsed	(35,163)	(3,611)	(1,134,210)	(1,094,879)	(121,192)	-	-	-	(1,777,148)	11.31
Exercised	-	-	(1,576,869)	(5,833,733)	(6,903,430)	(398,445)	(427,768)	6.71	(3,586,853)	9.74
Outstanding at 31 December	4,159,843	631,525	6,860,767	30,071,548	7,110,450	55,795	958,376	7.10	15,381,639	11.42
Exercisable at 31 December	-	-	1,035,851	2,354,817	1,633,368	-	958,376	7.10	1,859,857	9.72
Range of exercise prices (£)	-	-	-	-	-	-	5.82-8.77	-	8.32-14.63	-
Intrinsic value of vested but not exercised options ($ million)	-	-	9	10	4	-	1	-	7	-
Weighted average contractual remaining life (years)	9.35	6.67	7.18	5.25	4.85	-	1.70	-	2.53	-
Weighted average share price for options exercised during the period (£)	-	-	15.61	15.74	15.76	16.64	15.04	-	14.81	-

1 Employees do not contribute towards the cost of these awards

2 Notes:

a) The market value of shares on date of awards (8 March 2011) was £16.80

b) The shares vest one year after the date of award

c) A notional scrip dividend accrues on the shares held in the Trust. The dividend is normally delivered in the form of shares and is released on vesting

40. Share based payments continued

Reconciliation of option movements for the year to 31 December 2010

	PSP[1]	RSS[1]	SRSS[1]	DBP[1, 2]	ESOS	Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)
Outstanding at 1 January	10,775,552	17,277,162	7,414,532	350,581	3,403,965	7.29	17,521,228	10.27
Additional shares for rights issue	1,326,976	9,998,480	7,280,693	14,375	58,484	-	650,471	-
Granted	359,003	918,061	508,709	378,569	-	-	3,495,017	15.19
Lapsed	(938,348)	(1,041,580)	(300,657)	-	-	-	(2,995,921)	9.57
Exercised	(1,951,337)	(2,651,963)	(1,018,205)	(359,540)	(2,094,305)	7.28	(3,852,218)	9.58
Outstanding at 31 December	9,571,846	24,500,160	13,885,072	383,985	1,386,144	7.01	14,818,577	11.33
Exercisable at 31 December	836,321	1,841,565	637,014	-	1,386,144	7.01	2,099,064	9.95
Range of exercise prices (£)	-	-	-	-	5.82-8.76	-	8.32-14.63	-
Intrinsic value of vested but not exercised options ($ million)	1	16	-	-	1	-	28	-
Weighted average contractual remaining life (years)	7.8	5.4	5.7	-	2.8	-	2.23	-
Weighted average share price for options exercised during the period (£)	17.58	17.79	18.13	-	17.78	-	17.60	-

[1] Employees do not contribute towards the cost of these awards

[2] Notes:

a) The market value of shares on date of awards (9 March 2010) was £17.19

b) The shares vest one year after the date of award

c) A notional scrip dividend accrues on the 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 included within income statement

	Group		Company	
	2011	2010 [1]	2011	2010 [1]
	$million	$million	$million	$million
Amortisation of discounts and premiums of investment securities	(173)	3	(239)	115
Interest expense on subordinated liabilities	562	536	237	476
Interest expense on senior debt liabilities	581	145	417	2
Other non - cash income items	(454)	(464)	(281)	(91)
Depreciation and amortisation	639	577	287	256
Pension costs for defined benefit schemes	103	39	48	1
Share based payment costs	395	360	307	219
UK bank levy	69	-	69	-
Impairment losses on loans and advances and other credit risk provisions	908	883	516	475
Dividend income from subsidiaries	-	-	(940)	(603)
Other impairment	111	76	25	56
Profit from associates	(74)	(42)	-	-
Total	2,667	2,113	446	906

Change in operating assets

	Group		Company	
	2011	2010 [1]	2011	2010
	$million	$million	$million	$million
Increase in derivative financial instruments	(21,570)	(8,801)	(22,245)	(9,816)
Decrease in amounts due to parents/subsidiaries/other related parties	-	9,169	-	4,511
Net (increase)/decrease in debt securities, treasury bills and equity shares held at fair value through profit or loss	(2,373)	(13,554)	274	(5,285)
Net increase in loans and advances to banks and customers	(38,771)	(50,518)	(26,081)	(25,960)
(Increase)/decrease in pre-payments and accrued income	(440)	1,216	(286)	824
(Increase)/decrease in other assets	(16,758)	1,438	(5,111)	(11,544)
Total	(79,912)	(61,050)	(53,449)	(47,270)

Change in operating liabilities

	Group		Company	
	2011	2010 [1]	2011	2010 [1]
	$million	$million	$million	$million
Increase in derivative financial instruments	20,426	9,779	21,112	10,258
Net increase in deposits from banks, customer accounts, debt securities in issue and short positions	56,598	40,306	39,120	23,876
Increase/(decrease) in accruals and deferred income	239	(79)	(20)	(92)
Increase in amounts due to parents/subsidiaries/other related parties	1,870	-	3,125	-
Increase/(decrease) in other liabilities	14,601	(2,790)	4,860	8,144
Total	93,734	47,216	68,197	42,186

[1] Amounts have been restated as explained in note 53

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	
	2011 $million	2010 $million	2011 $million	2010 $million
Cash and balances at central banks	47,364	32,724	36,268	22,782
Less restricted balances	(9,961)	(7,385)	(4,673)	(3,138)
Treasury bills and other eligible bills	3,244	4,770	1,031	154
Loans and advances to banks	27,470	26,162	14,080	14,807
Trading securities	2,333	3,463	160	1,667
Total	70,450	59,734	46,866	36,272

43. Capital commitments

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

	Group		Company	
	2011 $million	2010 $million	2011 $million	2010 $million
Contracted	9	42	1	40

44. Operating lease commitments

Group

	2011		2010	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	290	2	259	4
Later than one year and less than five years	637	2	518	5
After five years	479	-	405	-
	1,406	4	1,182	9

During the year $393 million (2010: $354 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 2011 is $2 million (2010:$3 million).

Company

	2011		2010	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	84	1	105	1
Later than one year and less than five years	245	-	280	1
After five years	277	-	369	-
	606	1	754	2

During the year $151 million (2010: $152 million) was recognised as an expense in the income statement in respect of operating leases. 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 2011 are $nil million (2010: $nil million).

45. Contingent liabilities and commitments

The table below shows the contract or underlying principal 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.

Group

	2011	2010
	Contract or underlying principal amount	Contract or underlying principal amount
Contingent liabilities[1]	$million	$million
Guarantees and irrevocable letters of credit	27,022	31,765
Other contingent liabilities	15,858	10,039
	42,880	41,804
Commitments[1]		
Documentary credits and short term trade-related transactions	8,612	7,505
Forward asset purchases and forward deposits placed	733	877
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	28,507	24,014
Less than one year	24,193	21,610
Unconditionally cancellable	88,652	80,525 [2]
	150,697	134,531

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

2 Amounts have been restated to include facilities extended to certain Consumer Banking customers

Company

	2011	2010
	Contract or underlying principal amount	Contract or underlying principal amount
	$million	$million
Contingent liabilities		
Guarantees and irrevocable letters of credit	17,515	21,561
Other contingent liabilities	14,572	8,864
	32,087	30,425
Commitments		
Documentary credits and short term trade-related transactions	5,759	4,687
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	21,579	16,221
Less than one year	5,789	5,455
Unconditionally cancellable	52,537	47,019 [3]
	85,664	73,382

3 Amounts have been restated to include facilities extended to certain Consumer Banking customers

Contingent liabilities

Where the Group undertakes to make a payment on behalf of its 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.

The Group receives legal claims against it in a number of jurisdictions arising in the normal course of business. The Group considers none of these matters as material either individually or in aggregate. Where appropriate the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation (see note 35).

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 - Reverse repurchase agreements

	Group		Company	
	2011	2010	2011	2010
	$million	$million	$million	$million
Banks	5,706	10,740	3,468	6,266
Customers	1,890	3,540	1,523	2,664
	7,596	14,280	4,991	8,930

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	
	2011	2010	2011	2010
	$million	$million	$million	$million
Securities and collateral which can be repledged or sold (at fair value)	7,076	14,168	4,602	9,441
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)	1,005	2,153	1,005	2,120

Balance sheet liabilities - Repurchase agreements

	Group		Company	
	2011	2010	2011	2010
	$million	$million	$million	$million
Banks	1,913	1,707	247	1,119
Customers	1,850	1,305	1,772	1,298
	3,763	3,012	2,019	2,417

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. The table below discloses the collateral pledged against repurchase agreements.

Collateral pledged against repurchase agreements

	Group		Company	
	2011	2010	2011	2010
	$million	$million	$million	$million
Debt securities	2,055	1,243	649	882
Treasury bills	724	1,197	311	812
Equity shares	-	-	-	-
Loans and advances to customers	15	39	15	15
Repledged securities	1,005	2,153	1,005	2,120
	3,799	4,632	1,980	3,829

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 cross-border, market, liquidity, operational, pension, reputational and other risks that 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 the Group.

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 return: 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 responsibilities and our commitments to customers 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 ensure awareness of all known risks
- Competitive advantage: We seek to achieve 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.

Acting within an authority delegated by the Board, the Board Risk Committee (BRC), whose membership is comprised exclusively of non-executive directors of the Group, has responsibility for oversight and review of prudential risks including but not limited to credit, market, capital, liquidity, operational and reputational. It reviews the Group's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, considering the implications of material regulatory change proposals, ensuring effective due diligence on material acquisitions and disposals, and monitoring the activities of the Group Risk Committee (GRC) and Group Asset and Liability Committee (GALCO).

The BRC receives regular reports on risk management, including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference.

The Brand and Values Committee (BVC) oversees the brand, values and good reputation of the Group. It ensures that the management of reputational risk is consistent with the risk appetite approved by the Board and with the creation of long term shareholder value.

Overall accountability for risk management is held by the Standard Chartered Bank Court (the Court) which comprises the group executive directors and other senior executives of Standard Chartered Bank.

The Court delegates authority for the management of risk to the GRC and the GALCO.

The GRC is responsible for the management of all risks other than those delegated by the Court to the GALCO. The GRC is responsible for the establishment of, and compliance with, policies relating to credit risk, country cross-border risk, market risk, operational risk, pension risk and reputational risk. The GRC also defines our overall risk management framework.

The GALCO is responsible for the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate risk.

Members of the Court are also members of both the GRC and the 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 cross-border risk, market risk and operational 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.

47. Financial risk management continued

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 to the country, business, functional and Group-level committees.

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence describes a specific set of responsibilities for risk management and control.

The first line of defence is that all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities. Business, function and geographic governance heads are accountable for risk management in their respective businesses and functions, and for countries where they have governance responsibilities.

The second line of defence comprises the Risk Control Owners, supported by their respective control functions. Risk Control Owners are responsible for ensuring that the risks within the scope of their responsibilities remain within appetite. The scope of a Risk Control Owner's responsibilities is defined by a given Risk Type and the risk management processes that relate to that Risk Type. These responsibilities cut across the Group and are not constrained by functional, business and geographic boundaries. The major risk types are described individually in following sections.

The third line of defence is the independent assurance provided by the Group Internal Audit (GIA) function. Its role is defined and overseen by the Audit Committee.

The findings from GIA's audits are reported to all relevant management and governance bodies – accountable line managers, relevant oversight function or committee and committees of the Board.

GIA provides independent assurance of the effectiveness of management's control of its own business activities (the first line) and of the processes maintained by the Risk Control Functions (the second line). As a result, GIA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

The Risk Function

The GCRO directly manages a Risk function that 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.

The role of the Risk function is:

- To maintain the Risk Management Framework, ensuring it remains appropriate to the Group's activities, is effectively communicated and implemented across the Group and for administering related governance and reporting processes
- To uphold the overall integrity of the Group's 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 the Group's standards
- To exercise direct Risk Control Ownership for Credit, Market, Country Cross-Border, Short-term Liquidity and Operational risk types

The Group appoints Chief Risk Officers (CROs) for its two business divisions and principal countries and regions. CROs at all levels of the organisation fulfil the same role as the GCRO, in respect of the business, geography or legal entity for which they are responsible. The roles of CROs are aligned at each level.

The Risk function is independent of the origination, trading and sales functions to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This is particularly important given that revenues are recognised from the point of sale while losses arising from risk positions typically manifest themselves over time.

In addition, the Risk function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the wider organisation.

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 risk 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 Group's risk appetite statement 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 and GALCO are responsible for ensuring that our risk profile is managed in compliance with the risk appetite set by the Board.

47. Financial risk management continued

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
- Ensure adherence to regulatory requirements

Our stress testing activity focuses on the potential impact of macroeconomic, geopolitical and physical events on relevant geographies, customer segments and asset classes.

A Stress Testing Committee, 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 Committee generates and considers pertinent and plausible scenarios that have the potential to adversely affect our business and considers impact across different risk types and countries.

Stress tests are also performed at country and business level.

48. Country cross-border risk

Group

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 our country cross-border risk limits and delegates the setting and management of 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 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 also includes the value of commodity aircraft and shipping assets owned by the Group that are held in a given country.

Our cross-border exposure to China, Hong Kong, India, Indonesia and Singapore has risen significantly over the past year, reflecting our business focus and continued expansion in our core countries.

For China the increase was driven initially by banks making increased use of foreign currency funding for their trade finance activities and latterly by significant increases in CNY deposits with our Hong Kong offices that were placed with Chinese banks. A sizeable portion of these deposits were also placed with Hong Kong banks boosting our exposure there.

India cross-border exposure reflects financing of overseas acquisitions by Indian corporate clients and continued growth in short-term trade business.

In Indonesia there is significant growth in cross border exposure due to increased client demand for US dollar loans, principally from local corporates.

For Singapore, increased exposure reflected growth across businesses but particularly higher fixed income trading and interbank lending.

The growth in onshore client commodity holdings in the US has contributed significantly to the higher cross border exposure.

Cross-border exposure to countries in which we do not have a significant presence predominantly relates to short-dated money market activity, and some global corporate business. Such business is originated in our footprint countries with counterparties domiciled outside our footprint. This explains our significant exposure in the US and Switzerland.

48. Country cross-border risk continued

The table below, which is based on our internal cross-border country risk reporting requirements, shows cross-border outstandings where they exceed one per cent of total assets.

	2011			2010		
	One year or less $million	Over one year $million	Total $million	One year or less $million	Over one year $million	Total $million
China	24,351	10,497	34,848	12,623	7,131	19,754
India	12,061	16,904	28,965	13,117	12,706	25,823
US	17,581	4,728	22,309	13,857	4,226	18,083
Hong Kong	16,796	4,586	21,382	12,781	5,542	18,323
Singapore	13,372	5,158	18,530	11,692	3,514	15,206
United Arab Emirates	6,691	10,687	17,378	5,927	10,717	16,644
South Korea	6,931	7,138	14,069	7,488	5,846	13,334
Switzerland	4,897	3,939	8,836	3,918	2,362	6,280
Indonesia	3,949	3,395	7,344	2,782	2,231	5,013

Selected European country exposures - Group

The following table summarises the Group's exposure (both on and off balance sheet) to certain specific European countries within the eurozone which have been identified on the basis of their higher bond yields experienced during the year compared to the rest of the eurozone. Direct gross exposures represent balance sheet outstandings (including any accrued interest but before provisions) and positive mark-to-market amounts on derivatives, before netting. Exposures are assigned to a country based on incorporation country of the counterparty.

The Group has no direct sovereign exposure (as defined by the EBA) to Greece, Ireland, Italy, Portugal and Spain (GIIPS) and only $0.2 billion direct sovereign exposure to other eurozone countries.

The Group's non-sovereign exposures to GIIPS is $3.2 billion ($1.8 billion after collateral and netting). Non-sovereign exposure to other eurozone countries is $23.2 billion after collateral and netting, and primarily relates to France, Germany and the Netherlands. Of this, $16 billion relates to banks (including central banks) and other financial institutions. The Group conducts stress tests around eurozone scenarios in order to assess second order impact on the portfolio and take mitigating actions.

	2011					
Country	Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
Direct sovereign exposure	-	-	-	-	-	-
Banks	5	1,143	411	121	401	2,081
Other financial institutions	-	752	4	-	16	772
Other corporate	42	47	208	23	55	375
Total gross exposure	47	1,942	623	144	472	3,228
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	(1,136)	(29)	-	(196)	(1,361)
Other financial institutions	-	-	(4)	-	-	(4)
Other corporate	(5)	(43)	(2)	-	-	(50)
Total collateral/netting	(5)	(1,179)	(35)	-	(196)	(1,415)
Direct sovereign exposure	-	-	-	-	-	-
Banks	5	7 [1]	382	121	205	720
Other financial institutions	-	752 [2]	-	-	16	768
Other corporate	37	4	206	23	55	325
Total net exposure	42	763	588	144	276	1,813

[1] This represents a single exposure, which is fully guaranteed by its US parent company

[2] This represents a single exposure which is part of a wider structured finance transaction and is unaffected by Irish economic risk

Approximately 70 per cent of the Group's gross exposures to GIIPS relate to derivatives, and this also forms nearly all of the exposures in Ireland. Derivative exposures to GIIPS are primarily interest rate and foreign exchange related. Of the remaining 30 per cent, the majority represents trade-related instruments carried at amortised cost or held off-balance sheet. The amount of gross off-balance sheet exposures included in the table above is $1.1 billion. The majority of the GIIPS total exposures have a tenor of less than 3 years. There was no objective evidence of impairment in respect of these exposures as at 31 December 2011.

48. Country cross-border risk continued

Selected European country exposures - Company

The following table summarises the Company's direct exposure to certain specific European countries within the eurozone which have been identified on the basis of their higher bond yields experienced during the year compared to the rest of the eurozone.

The Company has no direct sovereign exposure to GIIPS and only $0.2 billion direct sovereign exposure to other eurozone countries.

The Company's direct non-sovereign exposures to GIIPS is $3.0 billion ($1.6 billion after collateral and netting). Non-sovereign exposure to other eurozone countries is $19.2 billion after collateral and netting, and primarily relates to France, Germany and the Netherlands.

	2011					
Country	Greece	Ireland	Italy	Portugal	Spain	Total
	$million	$million	$million	$million	$million	$million
Banks	5	1,143	243	119	392	1,902
Other financial institutions	-	752	4	-	13	769
Other corporate	42	47	208	23	25	345
Total gross exposure	47	1,942	455	142	430	3,016
Banks	-	(1,136)	(29)	-	(196)	(1,361)
Other financial institutions	-	-	(4)	-	-	(4)
Other corporate	(5)	(43)	(2)	-	-	(50)
Total collateral/netting	(5)	(1,179)	(35)	-	(196)	(1,415)
Banks	5	7 [1]	214	119	196	541
Other financial institutions	-	752 [2]	-	-	16	768
Other corporate	37	4	206	23	25	295
Total net exposure	42	763	420	142	237	1,604

[1] This represents a single exposure, which is fully guaranteed by its US parent company
[2] This represents a single exposure which is part of a wider structured finance transaction and is unaffected by Irish sovereign risk

Approximately 70 per cent of the Company's gross exposures to GIIPS relate to derivatives, and this also forms nearly all of the exposures in Ireland. Derivative exposures to GIIPS are primarily interest rate and foreign exchange related. Of the remaining 30 per cent, the majority represents trade-related instruments carried at amortised cost or held off balance sheet. The amount of gross off-balance sheet exposures included in the table above is $0.9 billion. There was no objective evidence of impairment in respect of these exposures as at 31 December 2011.

49. Market risk

We recognise market risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. Our exposure to market risk arises 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;
- 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 GRC approves our market risk appetite taking account of market volatility, the range of products and asset classes, business volumes and transaction sizes. Market risk exposures have remained broadly stable in 2011.

The Group Market Risk Committee (GMRC), under authority delegated by the GRC, is responsible for setting VaR and stress loss triggers 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 option's value.

Value at Risk

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 that applies recent historical 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:

- historical simulation: involves the revaluation of all existing positions 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 historical 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

In both methods a historical observation period of one year is chosen and applied.

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 2011 there have been four exceptions in the regulatory back testing, compared with one in 2010. This is 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.

GMR 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 GMRC has responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. The GRC considers the results of stress tests 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 and Trading book average VaR in 2011 have dropped slightly compared to 2010. Non-trading book average VaR has risen by 10 per cent, with increased non-trading equity risk in the Private Equity portfolio. Within the Trading book, Commodities average VaR in 2011 was 16 per cent higher than in 2010 which reflects increased volatility in the commodities markets in 2011. Foreign exchange average VaR, however was 23 per cent lower.

Group

Daily value at risk (VaR at 97.5%, 1 day)

	2011				2010			
Trading and Non-trading	Average $million	High[3] $million	Low[3] $million	Actual[4] $million	Average $million	High[3] $million	Low[3] $million	Actual[4] $million
Interest rate risk[1]	20.4	25.1	15.2	23.5	20.1	25.5	16.3	19.2
Foreign exchange risk	4.3	8.8	2.6	3.4	5.6	12.5	3.1	7.6
Commodity risk	2.2	3.7	1.1	1.2	1.9	4.0	0.7	3.5
Equity risk	11.2	13.9	9.0	12.7	9.5	11.3	6.9	10.7
Total[2]	21.4	27.7	15.3	24.5	22.1	31.0	17.3	25.2
Trading								
Interest rate risk[1]	8.4	11.4	5.4	8.7	8.7	11.9	5.1	6.7
Foreign exchange risk	4.3	8.8	2.6	3.4	5.6	12.5	3.1	7.6
Commodity risk	2.2	3.7	1.1	1.2	1.9	4.0	0.7	3.5
Equity risk	1.9	3.1	1.1	1.1	1.9	2.9	1.2	1.4
Total[2]	10.7	14.4	7.0	9.7	11.2	16.7	8.1	9.6
Non-trading								
Interest rate risk[1]	16.0	21.6	11.1	20.1	15.0	22.2	11.2	14.3
Equity risk	11.4	13.7	9.4	12.7	9.4	10.8	8.1	10.0
Total[2]	19.2	25.3	11.0	22.6	17.4	23.2	13.5	16.9

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

Average daily income earned from market risk related activities

Trading	2011 $million	2010 $million
Interest rate risk	4.6	4.8
Foreign exchange risk	5.7	4.7
Commodity risk	2.0	1.3
Equity risk	0.3	0.4
Total	12.6	11.2
Non-Trading		
Interest rate risk	3.6	3.6
Equity risk	(0.4)	0.5
Total	3.2	4.1

49. Market risk continued

Company

Daily Value at Risk (VaR at 97.5%, 1 Day)

Trading and non-trading	2011 $million	2010 $million
Interest rate risk[1]	16.3	11.7
Foreign exchange risk	3.2	5.9
Commodity risk	1.2	3.5
Equity risk	12.7	10.7
Total[2]	20.9	19.8

Trading	2011 $million	2010 $million
Interest rate risk[1]	7.9	5.3
Foreign exchange risk	3.2	5.9
Commodity risk	1.2	3.5
Equity risk	1.1	1.4
Total[2]	8.8	8.0

Non-trading	2011 $million	2010 $million
Interest rate risk[1]	13.9	8.5
Equity risk	12.7	10.0
Total[2]	18.6	12.9

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 non-trading book portfolios is transferred to Financial Markets where it is managed by local ALM desks under the supervision of local Asset and Liability Committees (ALCO). ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

VaR and stress tests are therefore applied to these non-trading book exposures (except Group Treasury, see below) 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 and are match funded, 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. These are included as Level 3 assets as disclosed in note 15 to the financial statements.

Group Treasury market risk

Group Treasury raises debt and equity capital and the proceeds are invested within the Group as capital or placed with ALM. Interest rate risk arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements. This risk is measured as the impact on net interest income (NII) of an unexpected and instantaneous adverse parallel shift in rates and is monitored over a rolling one-year time horizon (see table below).

This risk is monitored and controlled by the Group's Capital Management Committee (CMC).

Group Treasury

NII sensitivity to parallel shifts in yield curves

	2011 $million	2010 $million
+25 basis points	30.9	29.9
–25 basis points	(30.9)	(29.9)

50. Credit risk

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group in accordance with agreed terms. 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 GRC, 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 judgment and experience, in informing risk taking and portfolio management decisions. It is a primary area for sustained investment and senior management attention.

Since 1 January 2008, Standard Chartered has used the advanced Internal Ratings Based (IRB) approach under the Basel II regulatory framework to calculate credit risk capital.

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 a customer and portfolio level, setting strategy and optimising our risk-return decisions.

IRB 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 that develop and maintain the models. Models undergo a detailed annual review. 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 judgment and experience and a risk-adjusted scale that 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 country and industry in Wholesale Banking; and tracked 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 GCC.

Credit monitoring

We regularly monitor credit exposures, portfolio performance, and external trends that 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; and IRB portfolio metrics including credit grade migration.

50. Credit risk continued

Credit monitoring continued

The Wholesale Banking Credit Issues Forum (WBCIF) is a sub-committee of the Wholesale Banking Risk Committee, which in turn is a sub-committee of and derives its authority from the GRC. The WBCIF 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, portfolio and underwriting standards, risk policy and procedures.

Clients or portfolios are placed on early alert when they display signs of actual or potential weakness. For example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, non-performance of an obligation within the stipulated period, or there are concerns relating to ownership or management.

Such accounts and portfolios are subjected to a dedicated process overseen by Early Alert Committees in countries. Client account plans and credit grades are re-evaluated. In addition, 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 Group Special Assets Management (GSAM), our specialist recovery unit.

In Consumer Banking, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and is considered for lending decisions. Accounts that 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 small and medium-sized enterprise (SME) business is managed within Consumer Banking in two distinct customer sub-segments: small businesses and medium enterprises, differentiated by the annual turnover of the counterparty. The credit processes are further refined based on exposure at risk. Larger exposures are managed through the Discretionary Lending approach, in line with Wholesale Banking procedures, and smaller exposures are managed through Programmed Lending, in line with Consumer Banking procedures. Discretionary Lending 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. Further details on collateral are set out on pages 147 to 148.

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 (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Further details on CSAs are set out on page 147.

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 within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, is controlled by Wholesale Banking Risk, while price risk is controlled by Group Market Risk.

The Underwriting Committee approves individual proposals to underwrite new security issues for our clients. 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.

Maximum exposure to credit risk

The table below presents the Group's maximum exposure to credit risk of its on-balance sheet and off-balance sheet financial instruments at 31 December 2011, 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.

The Group's exposure to credit risk is spread across our markets. The Group is affected by the general economic conditions in the territories in which it operates. The Group sets limits on the exposure to any counterparty and credit risk is spread over a variety of different personal and commercial customers.

50. Credit risk continued

Maximum exposure to credit risk continued

The Group's maximum exposure to credit risk has increased by $73.9 billion when compared to 2010. Exposure to loans and advances to banks and customers has increased by $37.3 billion since 2010 due to growth in the mortgage portfolio and broad based growth across several industry sectors in Wholesale Banking. Further details of the loan portfolio are set out on page 82. Improving customer appetite for derivatives has increased the Group's exposure by $20.1 billion when compared to 2010.

The Group has transferred to third parties by way of securitisation the rights to any collection of principal and interest on customer loan assets with a face value of $2,212 million (2010: $3,072 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 $1,843 million (2010: $2,385 million) arising from the securitisations.

The Company has transferred to third parties by way of securitisation the rights to any collection of principal and interest on customer loan assets with a face value of $248 million (2010: $295 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 $71 million (2010: $114 million) arising from the securitisations.

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $20.3 billion (2010: $18.7 billion). The Group continues to hold the underlying assets referenced in the credit default swaps.

With respect to derivatives the Group enters into master netting arrangements which result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market (MTM) values of applicable derivative transactions. At 31 December 2011 $40,605 million (2010: $26,789 million) is available for offset as a result of master netting agreements. 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 reciprocal 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. The Group holds $2,452 million (2010: $2,128 million) under CSAs.

The Group holds cash collateral against derivative and other financial instruments of $3,145 million (2010: $2,527 million) as disclosed in note 34 on page 110.

	Group		Company	
	2011 $million	2010 $million	2011 $million	2010 $million
Financial assets held at fair value through profit or loss[1]	23,235	25,267	12,714	14,756
Derivative financial instruments	67,976	47,949	66,338	45,537
Loans and advances to banks and customers	329,745	292,415	158,685	135,281
Investment securities	82,740	73,279	37,743	28,380
Contingent liabilities	42,880	41,804	32,087	30,425
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	52,700	45,624	27,368	21,676
Documentary credits and short term trade-related transactions	8,612	7,505	5,759	4,687
Forward asset purchases and forward deposits placed	733	877	-	-
	608,621	534,720	340,694	280,742

[1] Excludes equity shares

Collateral

Collateral is held to mitigate credit risk exposures and risk mitigation policies determine the eligibility of collateral types. Collateral types that 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.

For certain types of lending – typically mortgages, asset financing – the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default.

Collateral is reported 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. Where appropriate, collateral values are adjusted to reflect current market conditions, its probability of recovery and the period of time to realise the collateral in the event of possession. The collateral values reported are also adjusted for the effects of over-collateralisation.

Loans and advances

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. In determining the financial effect of collateral held against loans neither past due or impaired, we have assessed the significance of the collateral held in relation to the type of lending. For loans and advances to banks and customer (including those held at fair value through profit or loss), the Group held the following amounts of collateral, adjusted where appropriate as discussed above.

Within Consumer Banking, 74 per cent of lending is secured, with a loan-to-value ratio of 49 per cent in respect of the mortgages portfolio.

Wholesale Banking includes collateral held in respect of reverse repo transactions undertaken by the Group, further details of which are set out in note 46.

Non-tangible collateral – such as guarantees and letters of credit – may also be held against corporate exposures although the financial effect of this type of collateral is less significant in terms of recoveries. However this type of collateral is considered when determining probability of default and other credit related factors.

Group

	Consumer Banking			Wholesale Banking			Total		
	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans
	$million	$million	$million	$million	$million	$million	$million	$million	$million
As at 31 December 2011									
Collateral	88,471	2,481	568	53,790	328	459	142,261	2,809	1,027
Amount outstanding[1]	122,225	4,035	1,089	213,838	984	3,494	336,063	5,019	4,583
As at 31 December 2010									
Collateral	86,418	2,244	381	49,436	268	460	135,854	2,512	841
Amount outstanding[1]	117,150	3,403	927	183,279	556	3,458	300,429	3,959	4,385

[1] Includes loans at fair value through profit and loss amounts

Company

	Consumer Banking			Wholesale Banking			Total		
	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans
	$million	$million	$million	$million	$million	$million	$million	$million	$million
As at 31 December 2011									
Collateral	27,943	669	163	36,693	71	291	64,636	740	454
Amount outstanding[1]	35,474	1,362	241	128,903	310	2,417	164,377	1,672	2,658
As at 31 December 2010									
Collateral	26,112	688	171	32,469	23	265	58,581	711	436
Amount outstanding[1]	32,540	1,070	310	109,834	265	2,350	142,374	1,335	2,660

[1] Includes loans at fair value through profit and loss amounts

50. Credit risk continued

Forbearance and other renegotiated loans

Forbearance

Forbearance strategies assist customers that are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the customer, the bank or a third party (including Government sponsored programmes or a conglomerate of credit institutions) and includes debt restructuring, such as a new repayment schedule, payment deferrals, tenor extensions and interest only payments.

The Group's impairment policy generally requires higher impairment charges for restructured assets than for fully performing assets. A discount provision is raised if there is a shortfall when comparing the present value of future cash flows under the revised terms and the carrying value of the loan before restructuring. Individual impairment recognition is accelerated compared to those under normal contractual policy.

In Consumer Banking excluding Medium Enterprises and Private Banking, all loans subject to forbearance (in addition to other renegotiated loans) are managed within a separate portfolio. If such loans subsequently become past due, write off and IIP is accelerated to 90 days past due (unsecured loans and automobile finance) or 120 days past due (secured loans). The accelerated loss rates applied to this portfolio are derived from experience with other renegotiated loans, rather than the Consumer Banking portfolio as a whole, to recognise the greater degree of inherent risk.

At 31 December 2011 the Group had $708 million (2010: $747 million) of Consumer Banking loans were subject to forbearance programmes, which represents 0.6 per cent of total loans and advances to Consumer Banking customers. These loans were largely concentrated in countries that have active government sponsored forbearance programmes. Provision coverage against these loans was 16 per cent (2010: 18 per cent), reflecting collateral held and expected recovery rates.

At 31 December 2011 the Company had $180 million (2010: $152 million) of Consumer Banking loans being subject to forbearance programmes, which represents 0.5 per cent of total loans and advances to Consumer Banking customers. These loans were largely concentrated in countries that have active Government sponsored forbearance programmes. Provision coverage against these loans was 14 per cent (2010: 17 per cent), reflecting collateral held and expected recovery rates.

For Wholesale Banking and Medium Enterprise and Private Banking accounts, forbearance and other renegotiations are applied on a case-by-case basis and are not subject to business wide programmes. In some cases, a new loan is granted as part of the restructure and in others, the contractual terms and repayment of the existing loans are changed or extended (for example, interest only for a period).

These accounts are managed by GSAM even if they are not impaired (that is the present value of the new cash flows is the same or greater than the present value of the original cash flows) and are reviewed at least quarterly to assess and confirm the client's ability to adhere to the restructured repayment strategy. Accounts are also reviewed if there is a significant event that could result in a deterioration in their ability to repay.

If the terms of the restructure are such that an independent party in the same geographic area would not be prepared to provide financing on substantially the same terms and conditions, or where the present value of the new cash flows is lower than the present value of the original cash flows, the loan would be considered to be impaired and at a minimum a discount provision would be raised. These accounts are monitored as described on page 145.

Renegotiated loans that would otherwise be past due or impaired

Renegotiated loans which are included within forborne loans that would otherwise be past due or impaired if their terms had not been renegotiated for Group were $837 million (2010: $1,475 million), $228 million (2010: $312 million) of which relates to Consumer Banking loans to customers and $609 million (2010: $1,163 million) of which relates to Wholesale Banking loans to customers.

Company Renegotiated loans that would otherwise be past due or impaired if their terms had not been renegotiated were $555 million (2010: $829 million), $135 million (2010: $145 million) of which relates to Consumer Banking loans to customers and $420 million (2010: $684 million) of which relates to Wholesale Banking loans to customers

Loans whose terms have been renegotiated to include concessions that the Group would not ordinarily make will usually be classified as impaired. Renegotiated loans that have not defaulted on interest or principal payments for 180 days post renegotiation and against which no loss of principal is expected are excluded from non-performing loans but remain impaired because they are subject to discount provisions.

Analysis of the loan portfolio

The table on page 150 sets out an analysis of the loan portfolio between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired.

Loans to banks have increased by $13.3 billion in 2011 since 31 December 2010. Most of the Group's loans to financial institutions are in the credit grade 1-5 category as we lend in the interbank market to highly rated counterparties. Exposure in the credit grade 6-8 category predominantly relates to trade finance business with financial institutions in our core markets.

In the Wholesale Banking corporate portfolio, the negative credit grade migration observed during 2009 stabilised in 2010, and in 2011 the trend has been largely positive. This is also reflected in the level of early alert accounts throughout the period, which remain at a low level.

Total loans to Wholesale Banking customers increased by $17.3 billion, or 13 per cent, since December 2010. As at 31 December 2011 only 2.8 per cent of the loans are either past due or individually impaired remaining stable from 31 December 2010. The increase in loans to customers is due to increased commercial lending, corporate finance and trade financing activity as Wholesale Banking deepens relationships in core markets.

Consumer Banking loans to customers increased by $5.1 billion, or 4 per cent, since December 2010. The mortgage portfolio makes up 57 per cent of the Consumer Banking portfolio as at 31 December 2011, is well collateralised and has an average loan to value ratio of 49 per cent. The proportion of past due or individually impaired loans has increased to 4.2 per cent at 31 December 2011 compared to 3.7 per cent at 31 December 2010, largely driven though by an increase in loans in the less than 30 days past due category. In a high proportion of cases the overdue amounts are collected well before they reach more than 30 days past due.

Group

	2011				2010			
	Loans to banks	Loans to customers – Wholesale Banking	Loans to customers – Consumer Banking	Total loans to customers	Loans to banks	Loans to customers – Wholesale Banking	Loans to customers – Consumer Banking	Total loans to customers
	$million	$million	$million	$million	$million	$million	$million	$million
Neither past due nor individually impaired loans								
- Grades 1-5	54,837	59,755	52,940	112,695	42,978	48,518	54,603	103,121
- Grades 6-8	10,432	60,162	40,238	100,400	9,263	55,577	35,521	91,098
- Grades 9-11	980	22,925	22,579	45,504	843	21,914	21,219	43,133
- Grade 12	76	1,674	1,835	3,509	19	1,564	1,983	3,547
	66,325	144,516	117,592	262,108	53,103	127,573	113,326	240,899
Past due but not individually impaired loans								
- Up to 30 days past due	75	577	3,187	3,764	5	223	2,587	2,810
- 31 - 60 days past due	-	129	477	606	1	190	412	602
- 61 - 90 days past due	-	203	217	420	-	137	223	360
- 91 - 150 days past due	-	-	154	154	-	-	181	181
	75	909	4,035	4,944	6	550	3,403	3,953
Individually impaired loans	232	3,262	1,089	4,351	249	3,209	927	4,136
Individually impairment provisions	(82)	(1,399)	(491)	(1,890)	(93)	(1,318)	(506)	(1,824)
Net individually impaired loans	150	1,863	598	2,461	156	1,891	421	2,312
Total loans and advances	66,550	147,288	122,225	269,513	53,265	130,014	117,150	247,164
Portfolio impairment provision	(2)	(326)	(434)	(760)	(2)	(309)	(451)	(760)
	66,548	146,962	121,791	268,753	53,263	129,705	116,699	246,404
Of which, held at fair value through profit or loss:								
Neither past due nor individually impaired								
- Grades 1-5	217	1,599	-	1,599	295	1,174	-	1,174
- Grades 6-8	351	2,651	-	2,651	904	4,118	-	4,118
- Grades 9-11	-	563	-	563	7	586	-	586
- Grade 12	-	175	-	175	-	168	-	168
	568	4,988	-	4,988	1,206	6,046	-	6,046

50. Credit risk continued

Company

	2011				2010			
	Loans to banks	Loans to customers – Wholesale Banking	Loans to customers – Consumer Banking	Total loans to customers	Loans to banks	Loans to customers – Wholesale Banking	Loans to customers – Consumer Banking	Total loans to customers
	$million	$million	$million	$million	$million	$million	$million	$million
Neither past due nor individually impaired loans								
- Grades 1-5	27,440	36,567	12,075	48,642	19,853	30,371	12,799	43,170
- Grades 6-8	9,157	37,770	15,849	53,619	7,745	34,789	12,469	47,258
- Grades 9-11	800	13,859	5,358	19,217	649	13,408	5,122	18,530
- Grade 12	75	1,367	747	2,114	16	1,074	949	2,023
	37,472	89,563	34,029	123,592	28,263	79,642	31,339	110,981
Past due but not individually impaired loans								
- Up to 30 days past due	13	224	1,034	1,258	-	105	768	873
- 31 - 60 days past due	-	69	182	251	-	143	156	299
- 61 - 90 days past due	-	4	80	84	-	17	72	89
- 91 - 150 days past due	-	-	66	66	-	-	74	74
	13	297	1,362	1,659	-	265	1,070	1,335
Individually impaired loans	58	2,359	241	2,600	74	2,276	310	2,586
Individually impairment provisions	(4)	(855)	(158)	(1,013)	(15)	(671)	(179)	(850)
Net individually impaired loans	54	1,504	83	1,587	59	1,605	131	1,736
Total loans and advances	37,539	91,364	35,474	126,838	28,322	81,512	32,540	114,052
Portfolio impairment provision	(1)	(216)	(131)	(347)	(1)	(199)	(162)	(361)
	37,538	91,148	35,343	126,491	28,321	81,313	32,378	113,691
Of which, held at fair value through profit or loss:								
Neither past due nor individually impaired								
- Grades 1-5	215	1,527	-	1,527	252	941	-	941
- Grades 6-8	351	2,526	-	2,526	904	3,899	-	3,899
- Grades 9-11	-	562	-	562	7	560	-	560
- Grade 12	-	163	-	163	-	168	-	168
	566	4,778	-	4,778	1,163	5,568	-	5,568

50. Credit risk continued

Collateral and other credit enhancements possessed or called upon

During the year, the Group and Company obtained assets by taking possession of collateral or calling upon other credit enhancements (such as guarantees), the carrying value of which are detailed in the table below. Repossessed properties are sold in an orderly fashion. Where the proceeds are in excess of the outstanding loan balance they are returned to the borrower. Certain equity securities acquired continue to be held by the Group for investment purposes and are classified as available-for-sale, and the related loan written off.

Group

	2011			2010		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Property	79	-	79	67	-	67
Debt securities and equity shares	-	-	-	-	3	3
Other	3	-	3	2	-	2
	82	-	82	69	3	72

Company

	2011			2010		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Property	6	-	6	11	-	11
Other	2	-	2	1	-	1
	8	-	8	12	-	12

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

Group

	2011			2010		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
Impaired securities	432	-	432	241	-	241
Impairment	(187)	-	(187)	(180)	-	(180)
Net impaired securities	245	-	245	61	-	61
Securities neither past due nor impaired	73,885	26,289	100,174	67,140	24,093	91,233
	74,130	26,289	100,419	67,201	24,093	91,294
Of which:						
Held at fair value	13,070	4,609	17,679	11,817	6,198	18,015

50. Credit risk continued

Company

	2011			2010		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
Impaired securities	144	-	144	185	-	185
Impairment provisions	(132)	-	(132)	(174)	-	(174)
Net impaired securities	12	-	12	11	-	11
Securities neither past due nor impaired	37,399	7,703	45,102	31,538	4,857	36,395
	37,411	7,703	45,114	31,549	4,857	36,406
Of which:						
Held at fair value	6,476	894	7,370	6,669	1,356	8,025

The impaired debt securities includes the Group's holdings of asset backed securities, on which a $7 million (2010: $22 million) impairment charge was taken in 2011. The increase in impaired securities in 2011 is due to a bond investment in India arising from credit concerns around the issuer. The movement in impairment provision for securities classified as loans and receivables is set out in note 24 to the financial statements.

The above table also analyses debt securities and treasury bills that are neither past due nor impaired by external credit rating. The standard credit ratings used by the Group are those used by Standard & Poor's or their equivalent. Debt securities held that have a short-term rating are reported against the long-term rating of the issuer. For securities that are unrated, the Group applies an internal credit rating as described under Loans and Advances.

Group

	2011			2010		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
AAA	15,164	3,285	18,449	10,427	2,791	13,218
AA- to AA+	18,806	7,959	26,765	19,689	8,562	28,251
A- to A+	23,849	8,712	32,561	18,384	8,378	26,762
BBB- to BBB+	7,090	4,396	11,486	8,078	2,516	10,594
Lower than BBB-	2,435	1,347	3,782	2,947	1,361	4,308
Unrated	6,541	590	7,131	7,615	485	8,100
	73,885	26,289	100,174	67,140	24,093	91,233

Unrated securities primarily relate to corporate issues. Using internal credit ratings $6,254 million (2010: $6,775 million) of these securities are considered to be investment grade.

Company

	2011			2010		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
AAA	12,809	3,285	16,094	6,585	2,315	8,900
AA- to AA+	7,505	324	7,829	7,073	68	7,141
A- to A+	5,325	165	5,490	4,694	240	4,934
BBB- to BBB+	4,687	3,376	8,063	5,322	1,648	6,970
Lower than BBB-	1,755	147	1,902	1,327	250	1,577
Unrated	5,318	406	5,724	6,537	336	6,873
	37,399	7,703	45,102	31,538	4,857	36,395

Using internal credit ratings, $5,724 million (2010: $5,717 million) of these securities are considered to be investment grade.

51. Liquidity Risk

Liquidity risk is the risk that we either do not have sufficient financial resources available to meet our obligations 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 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 where required. In the medium-term, the focus is on ensuring the balance sheet remains structurally sound and aligned to our strategy.

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 or delegating authority to set liquidity limits and proposing liquidity risk policies. 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 practices and local regulatory requirements. GMR and Group Treasury 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 customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the expected maturity date. To mitigate these uncertainties, our customer deposit base is diversified by type and maturity. In addition we have contingency funding plans including 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

Our policy is to manage liquidity, in each country without presumption of Group support. Each Country ALCO is responsible for ensuring that the country is 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 local and foreign currency cash flow gaps
- The level of external wholesale borrowing to ensure that the size of this funding is proportionate to the local market and our local operations
- The level of borrowing from other countries within the Group to contain the risk of contagion from one country to another
- 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 assets that may be funded from other currencies

In addition, we prescribe a liquidity stress scenario that includes 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 GMR and Finance. 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.

We have significant levels of marketable securities, including government securities 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.

In terms of Basel III, we already meet the requirements of 100 per cent for both the Net Stable Funding Ratio and the Liquidity Coverage Ratio, well ahead of the required implementation date.

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 ALCO 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. The 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 wholesale funding markets in all major financial centres and countries in which we operate as well as to commercial paper issuance. 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.

Encumbered assets

Encumbered assets include those assets pledged or used as collateral and primarily relate to assets pledged as collateral in respect of repo transactions. Details of the amount and types of assets pledged in relation to repos is set out in note 46 on page 136. Hong Kong government certificates of indebtedness (included within other assets) are also considered to be encumbered as they secure the equivalent amount of Hong Kong currency notes in circulation (included with other liabilities). Taken together, these encumbered assets comprise 1 per cent (2010: 1 per cent) of total assets.

Liquidity metrics

We also monitor key liquidity metrics on a regular basis, both on a country basis and in aggregate across the Group. The key metrics are:

Advances to deposits 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	
	2011 $million	2010 $million	2011 $million	2010 $million
Loans and advances to customers[1]	268,753	246,404	126,491	113,691
Customer accounts[2]	351,819	316,502	151,058	135,068
	%	%	%	%
Advances to deposits ratio	76.4	77.9	83.7	84.2

[1] see note 19

[2] see note 32

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	
	2011 %	2010 %	2011 %	2010 %
Liquid assets[1] to total assets ratio	27.5	26.6	22.7	20.1

[1] Liquid assets are the total of Cash (less restricted balances), net unsecured interbank, treasury bills and debt securities less illiquid securities

51. Liquidity Risk continued

This table 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.

Contractual maturity of assets and liabilities - Group

	2011				
	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	37,402	-	-	9,962	47,364
Derivative financial instruments	12,952	18,283	24,679	12,062	67,976
Loans and advances to banks[1]	46,369	16,381	3,269	529	66,548
Loans and advances to customers[1]	85,480	42,266	65,405	75,602	268,753
Investment securities[1]	20,695	32,456	41,208	10,196	104,555
Other assets	14,898	5,966	310	22,265	43,439
Total assets	217,796	115,352	134,871	130,616	598,635
Liabilities					
Deposits by banks[1]	34,092	1,488	524	284	36,388
Customer accounts[1]	297,054	40,242	7,284	7,239	351,819
Derivative financial instruments	11,621	19,232	23,251	12,423	66,527
Debt securities in issue[1]	24,549	7,993	5,144	2,513	40,199
Due to parent companies	13,666	-	-	(39)	13,627
Subordinated liabilities and other borrowed funds	26	-	8	19,428	19,462
Other liabilities	19,070	2,316	882	12,895	35,163
Total liabilities	400,078	71,271	37,093	54,743	563,185
Net liquidity gap	(182,282)	44,081	97,778	75,873	35,450

1 Amounts include financial instruments held at fair value through profit or loss (see note 15)

	2010				
	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	25,339	-	-	7,385	32,724
Derivative financial instruments	9,204	12,182	19,596	6,967	47,949
Loans and advances to banks[2]	39,799	10,715	2,391	358	53,263
Loans and advances to customers[2]	81,268	35,921	55,450	73,765	246,404
Investment securities[2]	20,269	32,564	31,566	11,166	95,565
Other assets[3]	13,831	5,839	65	20,641	40,376
Total assets	189,710	97,221	109,068	120,282	516,281
Liabilities					
Deposits by banks[2]	26,565	2,258	498	153	29,474
Customer accounts[2]	269,213	37,464	6,943	2,882	316,502
Derivative financial instruments	9,159	11,887	19,606	6,922	47,574
Debt securities in issue[2]	10,817	9,052	5,349	1,130	26,348
Due to parent companies	11,757	-	-	-	11,757
Subordinated liabilities and other borrowed funds	5	290	904	16,219	17,418
Other liabilities[3]	16,153	2,681	766	14,248	33,848
Total liabilities	343,669	63,632	34,066	41,554	482,921
Net liquidity gap	(153,959)	33,589	75,002	78,728	33,360

2 Amounts include financial instruments held at fair value through profit or loss (see note 15)

3 Amounts have been restated, see note 53

51. Liquidity risk continued

Company

	2011				
	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	31,595	-	-	4,673	36,268
Derivative financial instruments	12,157	17,888	24,218	12,075	66,338
Loans and advances to banks[1]	26,408	7,887	2,714	529	37,538
Loans and advances to customers[1]	49,194	20,501	32,292	24,504	126,491
Investment securities[1]	7,693	12,254	19,347	7,364	46,658
Investment in subsidiary undertakings	-	-	-	16,845	16,845
Other assets	9,232	4,670	5	5,987	19,894
Due from subsidiary undertakings	13,915	-	-	-	13,915
Total assets	150,194	63,200	78,576	71,977	363,947
Liabilities					
Deposits by banks[1]	27,536	981	203	226	28,946
Customer accounts[1]	131,311	16,793	2,851	103	151,058
Derivative financial instruments	11,116	18,829	23,399	11,768	65,112
Debt securities in issue[1]	19,666	4,216	3,034	373	27,289
Other liabilities	8,984	1,041	415	5,746	16,186
Due to subsidiary undertakings	36,014	-	-	-	36,014
Subordinated liabilities and other borrowed funds	-	-	-	16,288	16,288
Total liabilities	234,627	41,860	29,902	34,504	340,893
Net liquidity gap	(84,433)	21,340	48,674	37,473	23,054

1 Amounts include financial instruments held at fair value through profit or loss (see note 15)

Company

	2010				
	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	19,644	-	-	3,138	22,782
Derivative financial instruments	8,815	11,155	18,883	6,684	45,537
Loans and advances to banks[2]	20,304	5,686	1,972	359	28,321
Loans and advances to customers[2]	48,811	16,661	26,642	21,577	113,691
Investment securities[2]	7,826	7,462	16,364	6,740	38,392
Investment in subsidiary undertakings	-	-	-	19,102	19,102
Other assets	9,071	3,875	8	5,141	18,095
Due from subsidiary undertakings	12,626	-	-	-	12,626
Total assets	127,097	44,839	63,869	62,741	298,546
Liabilities					
Deposits by banks[2]	19,585	1,257	263	38	21,143
Customer accounts[2]	118,437	14,111	2,436	84	135,068
Derivative financial instruments	8,742	11,087	19,366	6,183	45,378
Debt securities in issue[2]	7,029	4,746	2,833	148	14,756
Other liabilities	5,773	579	650	6,643	13,645
Due to subsidiary undertakings	31,588	-	-	-	31,588
Subordinated liabilities and other borrowed funds	-	-	877	14,292	15,169
Total liabilities	191,154	31,780	26,425	27,388	276,747
Net liquidity gap	(64,057)	13,059	37,444	35,353	21,799

2 Amounts include financial instruments held at fair value through profit or loss (see note 15)

51. Liquidity Risk continued

Within the tables above cash and balances with central banks, loans and advances to banks, treasury bills and investment securities that are available-for-sale 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, certain 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:

	2011				
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	33,717	1,745	628	298	36,388
Customer accounts	139,369	57,673	125,291	29,486	351,819
Total	173,086	59,418	125,919	29,784	388,207

	2010				
	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	25,306	3,124	892	152	29,474
Customer accounts	130,275	49,199	113,104	23,922	316,500
Total	155,581	52,323	113,996	24,074	345,974

	2011				
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	27,403	1,034	278	231	28,946
Customer Accounts	68,771	25,797	33,100	23,390	151,058
Total	96,174	26,831	33,378	23,621	180,004

	2010				
	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	18,582	2,045	478	38	21,143
Customer Accounts	63,207	22,853	29,353	19,655	135,068
Total	81,789	24,898	29,831	19,693	156,211

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's financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the table below will not agree to the balances reported in the consolidated balance sheet as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

Within the 'More than five years and undated' maturity band are undated financial liabilities of $6,517 million (2010: $5,118 million), 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.

	2011				2010 [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	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 [2]	34,184	1,549	635	330	24,463	2,623	523	169
Customer accounts [2]	298,211	41,538	8,151	5,954	263,081	38,288	7,644	4,488
Debt securities in issue [1,2]	24,965	8,367	5,863	3,393	11,377	10,179	5,567	1,633
Due to parent companies	13,627	-	-	-	11,757	-	-	-
Subordinated liabilities and other borrowed funds [1]	166	498	2,921	17,884	193	793	3,170	22,995
Other liabilities	23,151	2,321	708	9,279	22,560	2,678	432	8,908
Total liabilities	394,304	54,273	18,278	36,840	333,431	54,561	17,336	38,193
Gross loan commitments	70,558	22,349	3,968	1,120	61,642	18,746	13,476	1,739

[1] Amount has been re-presented for 2010

[2] Amounts include financial instruments held at fair value through profit or loss (see note 15)

	2011				2010 [1]			
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 [2]	27,584	1,023	259	262	17,619	1,665	439	39
Customer accounts [2]	130,361	17,576	2,708	93	116,792	14,841	2,647	159
Debt securities in issue [1,2]	19,995	4,432	3,201	496	7,173	6,064	3,033	174
Subordinated liabilities and other borrowed funds [1]	156	552	3,020	27,043	203	575	3,722	29,844
Due to parent companies	36,014	-	-	-	31,588	-	-	-
Other liabilities[2]	9,961	1,134	488	4,087	8,157	574	576	3,923
Total liabilities	224,071	24,717	9,676	31,981	181,532	23,719	10,417	34,139
Gross loan commitments	33,287	18,933	1,659	1,120	26,940	4,672	7,924	1,108

[1] Amount has been re-presented

[2] Amounts include instruments held at fair value through profit or loss (see note 15)

51. Liquidity risk continued

Derivatives financial instruments on an undiscounted basis

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 receiving leg is not shown in this table and as a result the derivative amounts in this table are inflated by their exclusion.

	2011				2010			
	Three months or less	Between three months and one year	Between one year and five years	More than five years	Three months or less	Between three months and one year	Between one year and five years	More than five years
Group	$million	$million	$million	$million	$million	$million	$million	$million
Derivative financial instruments	352,344	272,637	169,305	24,964	285,164	187,036	126,684	21,961

	2011				2010			
	Three months or less	Between three months and one year	Between one year and five years	More than five years	Three months or less	Between three months and one year	Between one year and five years	More than five years
Company	$million	$million	$million	$million	$million	$million	$million	$million
Derivative financial instruments	477,466	340,652	173,485	25,139	378,449	206,324	104,534	22,373

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 2011, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial instruments) of $1,115 million (2010: $1,112 million) to partly cover its exposure to Korean won.

The table below sets out the principal structural foreign exchange exposures (net of investment hedges) of the Group and Company at 31 December 2011 and 2010:

	Group		Company	
	2011 $million	2010 $million	2011 $million	2010 $million
Hong Kong dollar	**5,712**	5,817	-	-
Korean won	**5,316**	5,266	181	178
Indian rupee	**3,305**	3,400	2,735	2,756
Taiwanese dollar	**2,847**	2,606	50	53
Chinese yuan	**1,993**	1,420	-	-
Singapore dollar	**1,791**	841	758	664
Thai baht	**1,514**	1,495	-	-
UAE dirham	**1,490**	1,343	1488	1,343
Malaysian ringgit	**1,213**	1,047	-	-
Indonesian rupiah	**892**	882	261	305
Pakistani rupee	**639**	614	-	-
Other	**3,152**	2,838	1,650	1,547
	29,864	27,569	7,123	6,846

An analysis has been performed on these exposures 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 the positions above would be an increase of $221 million (2010: $197 million). Changes in the valuations of these positions are taken to reserves.

53. Restatement of prior periods

Cash flow statement

The cash flow statement has been restated as follows:

- Interest expense relating to senior debts have been reclassified to 'non-cash items included within income statement' from 'change in operating liabilities'
- Also reflects restatement relating to Group's acquisition of the custody business from Barclays Bank PLC in 2010 of $18m

Group

	As reported at 2010 $million	Restatement $million	Restated at 2010 $million
Non-cash items included within income statement	1,968	145	2,113
Change in operating assets	(61,032)	(18)	(61,050)
Change in operating liabilities	47,343	(127)	47,216

Company

	As reported at 2010 $million	Restatement $million	Restated at 2010 $million
Non-cash items included within income statement	904	2	906
Change in operating liabilities	42,188	(2)	42,186

Acquisitions

Provisional balances relating to the Group's acquisition of the custody business from Barclays Bank PLC in 2010 have been finalised. As a result, the Group has revised the fair value of the deferred tax balances by $18 million. Goodwill at acquisition has been restated to $39 million.

Balance sheet	As reported at 2010 $million	Reclassified $million	Restated at 2010 $million
Goodwill and intangible assets	6,980	18	6,998
Deferred tax liabilities	165	18	183
Tangible net asset value per share (cents)	1,274.1	(0.7)	1,273.4
Cash flow statement			
Change in operating assets	(24,355)	(18)	(24,373)
Change in operating liabilities	14,425	18	14,443

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 50).

The total assets of unconsolidated SPEs in which the Group has an interest are set out below.

	2011		2010	
	Total assets	Maximum exposure	Total assets	Maximum exposure
	$million	$million	$million	$million
Portfolio management vehicles	1,136	130	2,083	262
Principal Finance Funds[1]	1,089	131	995	134
Global Liquidity Fund	291	99	-	-
Structured finance	-	-	948	690
	2,516	360	4,026	1086

[1] Committed capital for these funds is $375 million (2010 : $375 million) of which $129 million (2010 : $129 million) has been drawn down net of provisions for impairment of $33 million (2010 : $33 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.

The Group's exposure to Principal Finance Funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure and real estate.

Structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more SPEs, which provide beneficial arrangements for customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions in 2011 largely related to the provision of ship finance.

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

Details of directors' remuneration and interests in shares are disclosed in note 14 on Remuneration of Directors.

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

	2011 $million	2010 $million
Salaries, allowances and benefits in kind	19	19
Pension contributions	5	6
Bonuses paid or receivable	11	12
Share based payments	39	35
	74	72

Transactions with directors, officers and others

At 31 December 2011, the total amounts to be disclosed under the Companies Act 2006 (the Act) about loans to directors and officers were as follows:

	2011		2010	
	Number	$000	Number	$000
Directors	3	5,594	3	6,470
Officers[1]	1	20	1	17

[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

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

	2011				2010			
	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	39	43	-	-	-	-	-	-
Fellow subsidiaries of Joint ventures	7	-	-	-	-	90	-	-
	46	43	-	-	-	90	-	-
Liabilities								
Ultimate parent company	13,600	601	505	45	11,998	441	72	15
Fellow subsidiaries of Joint ventures	29	-	-	-	-	-	-	-
	13,629	601	505	45	11,998	441	72	15

	2011		2010	
	Interest expense $million	Dividend expense $million	Interest expense $million	Dividend expense $million
Ultimate parent company	318	1,111	208	693
	318	1,111	208	693

55. Related party transactions continued

Group continued

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 license value as explained below.

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 2011 $72 million (2010: $91 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 $7 million at 31 December 2011 (2010: $2 million), and deposits of $29 million (2010: $24 million). The Group has investments in subordinated debt issued by PT Bank Permata Tbk of $132 million (2010: $127 million).

Associates

The Group has loans and advances to Merchant Solutions and China Bohai Bank totalling $39 million and $172 million respectively at 31 December 2011 (2010: $42 million and $6 million respectively) and amounts payable to Merchant Solutions and China Bohai Bank of $30 million and $10 million respectively at 31 December 2011 (2010: $34 million and $2 million respectively). During the year China Bohai Bank and ACB undertook a rights issue to which the Group subscribed, increasing its investment by $182 million and $12 million respectively. Except as disclosed, the Group did not have any amounts due to or from associate investments.

Company

	2011				2010			
	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	39	43	-	-	239	90	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	16,490	4,570	-	45	15,188	4,311	21	3
Joint ventures	7	-	-	-	2	-	-	-
	16,536	4,613	-	45	15,429	4,401	21	3
Ultimate parent company	13,600	601	505	45	11,966	441	506	15
Subsidiaries and fellow subsidiaries of SC PLC Group	36,014	4,463	-	61	31,588	4,300	-	44
Joint ventures	29	-	-	-	24	-	-	-
	49,643	5,064	505	106	43,578	4,741	506	59

55. Related party transactions continued

Company continued

	2011					
	Fees and commission income $million	Fees and commission expense $million	Interest income $million	Interest expense $million	Dividend income $million	Dividend expense $million
Ultimate parent company	-	-	-	318	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	121	471	74	373	-	-
	121	471	74	691	-	-

	2010					
	Fees and commission income $million	Fees and commission expense $million	Interest income $million	Interest expense $million	Dividend income $million	Dividend income $million
Ultimate parent company	-	-	-	208	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	93	122	132	344	-	-
	93	122	132	552	-	-

As at 31 December 2011, the Company had created a charge over $42 million (2010: $38 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 $2 million (2010: $nil million).

The Company has entered into risk participation agreements with its subsidiary undertakings which transferred exposures of $658 million (2010: $1,066 million).

As at 31 December 2011 the Company holds debt securities issued by subsidiary undertakings of $638 million (2010: $695 million) and has issued debt securities to subsidiary undertakings of $2 million (2010: $nil 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 $7 million at 31 December 2011 (2010: $nil million), and deposits of $29 million (2010: $24 million).

56. Post balance sheet events

Tax

On 23 March 2011, the UK government announced a further reduction in the UK corporation tax rate of 1 per cent with effect from 1 April 2011, in addition to the stepped reductions as announced in June 2010. The effect of the further reduction is to reduce the UK corporation tax rate from 28 per cent in 2010-11 to 26 per cent in 2011-12, with further reductions to 25 per cent in 2012-13, 24 per cent in 2013-14 and 23 per cent in 2014-15.

As of 31 December 2011, only the further tax rate change for 2012-13 to 25 per cent had been substantively enacted. Had the changes of UK corporation tax rates for 2013-15 been enacted at that date, the Group estimates that the UK deferred tax assets for 2011 would have reduced by a further $25 million.

Subsidiarisation of local branch in Singapore

On 29 February 2012 the Bank announced its intention to establish and incorporate a wholly-owned subsidiary in Singapore. As its Consumer Banking business continues to grow in Singapore, the Bank has decided to subsidiarise its Consumer Banking retail and SME operations there. The decision was taken working in conjunction with the Monetary Authority of Singapore (MAS), and is in line with their thinking. It follows the MAS setting out its view that "there are clear benefits for foreign banks with a large retail presence in Singapore to operate their retail business from a locally-incorporated subsidiary".

Subject to the necessary regulatory and legal approvals, Standard Chartered's new locally-incorporated subsidiary will hold a Full Bank License with Qualifying Full Bank privileges and the transfer of the business to the Subsidiary is targeted to take around 18 months. It will oversee the entire Consumer Banking retail and SME businesses in Singapore. Standard Chartered Wholesale Banking and Private Bank in Singapore will continue to operate under the existing branch structure.

57. 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 five year horizon and are approved by the Board. The capital plan ensures 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:

- current regulatory capital requirements and our assessment of future standards
- demand for capital due to business growth forecasts, loan impairment outlook and market shocks or stresses
- forecast demand for capital to support credit ratings and as a signaling tool to the market
- available supply of capital and capital raising options

We use a capital model to assess the capital demand for material risks, and support this with 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 Board Risk Committee reviews specific risk areas and the issues discussed at the key capital management committees, namely the Capital Management Committee and the Group Asset and Liability Committee (GALCO).

Current compliance with Capital Adequacy Regulations

Our lead supervisor is the UK's Financial Services Authority (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' requirements and the Group's assessment of capital requirements under normal and stress conditions. Suitable processes and controls are in place to monitor and manage capital adequacy and ensure compliance with local regulatory ratios in all our legal entities. These processes are designed to ensure that we have sufficient capital available to meet local regulatory capital requirements at all times.

The table on page 168 summarises the consolidated capital position of the Group.

Basel II

The Group complies with the Basel II framework, which has been implemented in the UK through the FSA's 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 (IRB) 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.

We apply the Standardised Approach for determining the capital requirements for operational risk.

Basel III

The Basel III rules text published in December 2010 by the Basel Committee on Banking Supervision (BCBS) serves to bring together the details of global regulatory standards on bank capital adequacy and liquidity. While these give us greater clarity on the global regulatory standards and the various timelines for transition, significant uncertainty remains around the specific application and the combined impact of these proposals, in particular their effect at Group level via the implementation of changes to European Union legislation (the package of reforms commonly referred to as the Capital Requirements Directive IV (CRD IV)).

57. Capital management continued

Capital Base	2011 $million	2010 $million
Shareholders' equity		
Parent company shareholders' equity per balance sheet	32,305	30,306
Preference share classified as equity included in Tier 1 capital	(1,500)	(1,500)
	30,805	28,806
Non-controlling interests		
Non-controlling interests per balance sheet	3,145	3,057
Non-controlling Tier 1 capital included in other Tier 1 capital	(320)	(321)
	2,825	2,736
Regulatory adjustments		
Unrealised losses on available-for-sale debt securities	282	175
Unrealised gains on available-for-sale equity securities included in Tier 2	(308)	(544)
Cash flow hedge reserve	13	(64)
Other adjustments	(46)	(46)
	(59)	(479)
Deductions		
Goodwill and other intangible assets	(6,721)	(6,677)
50 per cent of excess of expected losses [2]	(703)	(664)
50 per cent of tax on expected losses	187	183
50 per cent of securitisation positions	(106)	(132)
Other regulatory adjustments	(52)	(60)
	(7,395)	(7,350)
Core Tier 1 capital	26,176	23,713
Other Tier 1 capital		
Preference shares included within shareholder's equity	1,500	1,500
Included within 'Subordinated debt and other borrowings'	929	914
Innovative Tier 1 securities (excluding non-controlling Tier 1 capital)	2,507	2,507
Non-controlling Tier 1 capital	320	321
	5,256	5,242
Deductions		
50 per cent of tax on expected losses	187	183
50 per cent of material holdings	(521)	(326)
	(334)	(143)
Total Tier 1 capital	31,098	28,812
Tier 2 capital:		
Qualifying subordinated liabilities: [1]		
Subordinated liabilities and other borrowed funds per balance sheet	19,462	17,418
Preference shares eligible for Tier 1 capital	(929)	(915)
Innovative Tier 1 securities eligible for Tier 1 capital	(2,507)	(2,507)
Adjustments relating to fair value hedging and non-eligible securities	(1,578)	(1,101)
	14,448	12,895
Regulatory adjustments		
Reserves arising on revaluation of available-for-sale equities	308	544
Portfolio impairment provision	239	266
	547	810
Deductions		
50 per cent of excess of expected losses [2]	(703)	(664)
50 per cent of material holdings	(521)	(326)
50 per cent of securitisation positions	(106)	(132)
	(1,330)	(1,122)
Total Tier 2 capital	13,665	12,583
Deductions from Tier 1 and Tier 2 capital	(4)	(3)
Total Capital Base	44,759	41,392

[1] Consists of perpetual subordinated debt $3,289 million (2010: $3,293 million) and other eligible subordinated debt $11,159 million (2010: $9,602 million)
[2] Excess of expected losses in respect of IRB portfolios are shown gross

57. Capital management continued

Movement in Core Tier 1 capital

	2011 $million	2010 [1] $million
Opening Core Tier 1 capital	23,713	18,524
Ordinary shares issued during the year and share premium	367	441
Profit for the year	4,271	4,116
Dividends, net of scrip	(1,212)	(794)
Change in goodwill and other intangible assets	(44)	(226)
Foreign currency translation differences	(1,002)	776
Other	83	876
Closing core Tier 1 capital	26,176	23,713

Non-Core Tier 1 capital decreased by $177 million since 31 December 2010 (due to increased material holdings deductions). Tier 2 capital increased by $ 1,082 million since 31 December 2010 (largely due to issuance of lower tier 2 subordinated debt of $1.3 billion offset by increased material holdings deductions and excess expected losses).

58. Operational risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. We seek to minimise our 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 oversees the management of operational risks across the Group, supported by business, functional, and country-level committees. This formal structure of governance provides the GRC 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. In addition specialist operational risk control owners have responsibility for the management of operational risk arising from the following activities Group-wide: legal processes, people management, technology management, vendor management, property management, security management, accounting and financial control, tax management, corporate authorities and structure and regulatory compliance. (See additional information relating to regulatory compliance under "Regulatory changes and compliance" on page 16).

Each risk control owner is responsible for identifying risks that are material to the Group and for maintaining an effective control environment, which includes defining appropriate policies and procedures for approval by authorised risk committees.

Glossary

Advances-to-deposits 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 Debt Obligation (CDOs), the reference pool may be ABS.
Advanced Internal Rating Based (IRB) approach	The IRB approach under the Basel II framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters.
Alt-A	Loans regarded as lower risk than sub-prime, but they share higher risk characteristics than lending under normal criteria.
ASEAN	Association of South East Asian Nations (ASEAN) which includes the Group's operations in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.
Attributable profit to ordinary shareholders	Profit for the year after non-controlling interests and the declaration of dividends on preference shares classified as equity.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel III	In December 2010, the BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements will be phased in starting 1 January 2013 with full implementation by 31 December 2019.
Basis point	One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities.
CAD2	An amendment to Capital Adequacy Directive that gives national regulators the discretion to permit firms to use their own value at risk model for calculating capital requirements subject to certain criteria.
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).
Collectively assessed loan impairment provisions	Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified at the balance sheet date. Typically assets within the Consumer Banking business are assessed on a portfolio basis.
Commercial Mortgage Backed Securities (CMBS)	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 Paper (CP)	An unsecured promissory note issued to finance short-term credit needs. It specifies the face amount paid to investors on the maturity date.
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.
Constant currency	Constant currency change is derived by applying a simple translation of the previous period functional currency number in each entity using the current average and period end US dollar exchange rates to the income statement and balance sheet respectively.
Contractual maturity	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.
Core Tier 1 Capital	Core Tier 1 capital comprises called-up ordinary share capital and eligible reserves plus non-controlling interests, less goodwill and other intangible assets and deductions relating to excess expected losses over eligible provisions and securitisation positions as specified by the UK's Financial Services Authority (FSA).
Core Tier 1 Capital ratio	Core Tier 1 capital as a percentage of risk weighted assets.
Cost to income ratio	Represents the proportion of total operating expense to total operating income.
Cover ratio	Represents the extent to which non-performing loans are covered by impairment allowances.
Credit Conversion Factor (CCF)	CCF is an internally modelled parameter based on historical experience to determine the amount that is expected to be further drawn down from the undrawn portion in a committed facility.
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.
Credit valuation adjustments (CVA)	An adjustment to fair value primarily in respect of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions.
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 and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.
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.
Effective tax rate (ETR)	The tax on profits on ordinary activities as a percentage of profit on ordinary activities before taxation.
Expected loss (EL)	The Group measure of anticipated loss for exposures captured under an internal ratings based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), with a one-year time horizon.
Exposures	Credit exposures represent the amount lent to a customer, together with an undrawn commitments.
Exposure at default (EAD)	The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.
Forbearance	Arrangements initiated by customers, the Group or third parties to assist customers in financial difficulty where the Group agrees to accept less than the contractual amount due where financial distress would otherwise prevent satisfactory repayment within the original terms and conditions of the contract. Such arrangements include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures, and loan restructurings.
Foundation Internal Ratings Based Approach	A method of calculating credit risk capital requirements using internal PD models but with supervisory estimates of LGD and conversion factors for the calculation of EAD.
Funded/unfunded exposures	Exposures where the notional amount of the transaction is funded or unfunded. Represents exposures where there is a commitment to provide future funding is made but funds have been released / 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.
Impaired loans	Loans where individual identified impairment provisions have 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 (specific) or collective (portfolio).
Individually assessed loan impairment provisions	Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Wholesale Banking business of the Group are assessed individually.
Innovative Tier 1 Capital	Innovative Tier 1 Capital consists of instruments which incorporate certain features, the effect of which is to weaken (but only marginally) the key characteristics of **Tier 1 Capital** (that is fully subordinated, perpetual and non-cumulative). Innovative Tier 1 Capital is subject to a limit of 15 per cent of total Tier 1 Capital.
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.

Investment grade	A debt security, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.
Jaws	The rate of income growth less the rate of expense growth, expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws).
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 (earnings before interest tax, depreciation and amortisation)) 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 over-collateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing commercial paper.
Liquid asset buffer	High quality unencumbered assets that meet the UK FSA's requirements for liquidity. These assets include high quality government or central bank securities, certain deposits with central banks and securities issued by designated multilateral development banks.
Liquid asset ratio	Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.
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.
Loans to individuals	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.
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.
Loss given default (LGD)	LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.
Master netting agreement	An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.
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.
Medium term notes (MTNs)	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 the number of ordinary shares outstanding at the end of a reporting period.
Net interest income	The difference between interest received on assets and interest paid on liabilities.
Net interest margin	The margin is expressed as net interest income divided by average interest earning assets.
Net interest yield	Interest income divided by average interest earning assets less interest expense divided by average interest bearing liabilities.
Non-performing loans	A non performing loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is: – renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; or – renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.
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.

Over the counter (OTC) derivatives	A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.
Pre-provision profit	Operating profit before impairment losses and taxation.
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.
Probability of default (PD)	PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.
Profit attributable to ordinary shareholders	Profit for the year after non-controlling 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. Such assets 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 may lead to a new agreement, which would be treated as a new loan.
Repo/Reverse repo	A repurchase agreement or repo 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.
Residential mortgage	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 Home loan.
Residential Mortgage Backed Securities (RMBS)	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).
Return on equity	Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.
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.
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 a special purpose entity (SPE) 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.
Sovereign exposures	**Exposures** to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures as defined by the European Banking Authority includes only exposures to central governments.
Special purpose entities (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.
Standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
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.
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.

Tangible net asset value per share	Ratio of parent shareholders' equity less preference shares classified as equity and goodwill and intangible assets to the number of ordinary shares outstanding at the end of the reporting period.
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.
UK bank levy	A levy that applies to certain UK banks and the UK operations of foreign banks from 1 January 2011. The levy is payable each year based on a percentage of the chargeable liabilities of the Group as at 31 December.
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.
Working profit	Operating profit before impairment losses and taxation.
Write Downs	After an advance has been identified as impaired and is subject to an impairment allowance, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write downs will occur when and to the extent that, the whole or part of a debt is considered irrecoverable.

PARTIES

Issuer and its Principal Office

Standard Chartered Bank

1 Aldermanbury Square
London EC2V 7SB
United Kingdom

Issuer's Principal Place of Business in Hong Kong
registered under Part XI of the Companies Ordinance

Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

Legal Advisers to the Issuer

King & Wood Mallesons

13th Floor, Gloucester Tower
The Landmark, 15 Queen's Road Central
Central
Hong Kong

Issuer's Auditors

KPMG Audit Plc

15 Canada Square
E14 5GL, London
United Kingdom