Standard Chartered
Here for good

Leading the way
in Asia, Africa and the Middle East

About us

Standard Chartered is a leading international banking group. It has operated for over 150 years in some of the world's most dynamic markets and earns around 90 per cent of its income and profits in Asia, Africa and the Middle East.

This geographic focus and commitment to developing deep relationships with clients and customers has driven the Group's growth in recent years.

Standard Chartered PLC is listed on the London and Hong Kong stock exchanges as well as the Bombay and National Stock Exchanges in India.

With 1,700 branches and offices in 68 markets, the Group offers exciting and challenging international career opportunities to over 89,000 employees.

It is committed to building a sustainable business over the long term and upholding high standards of corporate governance, social responsibility, environmental protection and employee diversity.

Standard Chartered's heritage and values are expressed in its brand promise, Here for good.

Online

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Cover: **Gangnam District, Seoul, South Korea**

What's inside this report

Unless another currency is specified the word 'dollar' or symbol '$' in this document means US dollar and the word 'cent' or symbol 'c' means one-hundredth of one US dollar.

Within this document, the Hong Kong Special Administrative Region of the People's Republic of China is referred to as Hong Kong; The Republic of Korea is referred to as Korea or South Korea; Middle East and Other South Asia (MESA) includes: Bangladesh, Bahrain, Jordan, Pakistan, Qatar, Sri Lanka and UAE; and Other Asia Pacific includes: Brunei, China, Indonesia, Malaysia, the Philippines, Taiwan, Thailand and Vietnam.

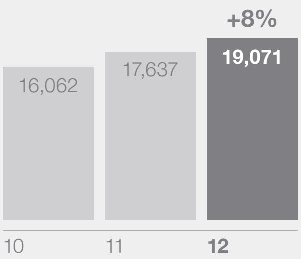
Standard Chartered PLC is headquartered in London where it is regulated by the UK's Financial Services Authority. The Group's head office provides guidance on governance and regulatory standards. Standard Chartered PLC stock code: 02888.

Performance highlights

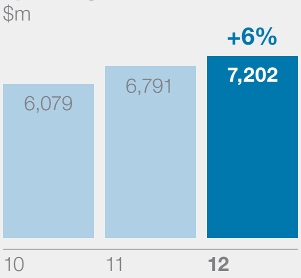
Delivering growth

Financial highlights

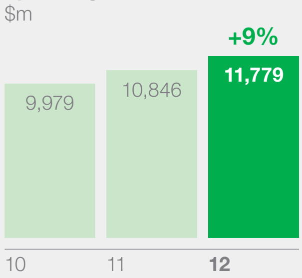
Operating income[3]
$m



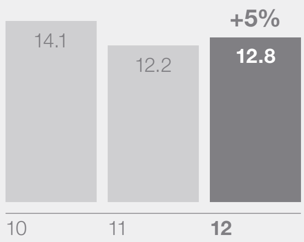
Consumer Banking operating income
$m



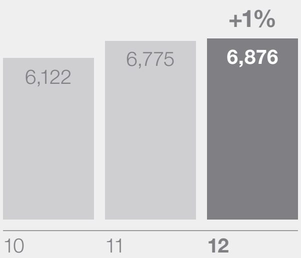
Wholesale Banking operating income
$m



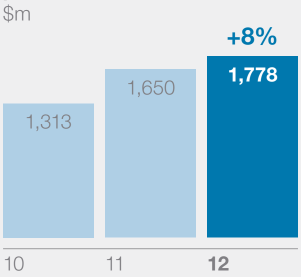
Normalised return on equity[1]
%



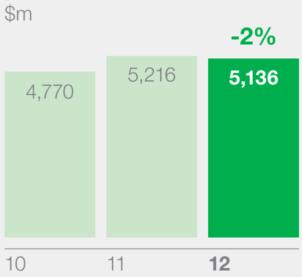
Profit before taxation[3]
$m



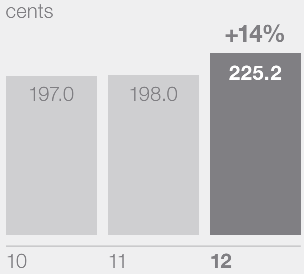
Consumer Banking profit before taxation
$m



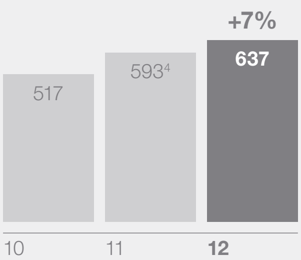
Wholesale Banking profit before taxation
$m



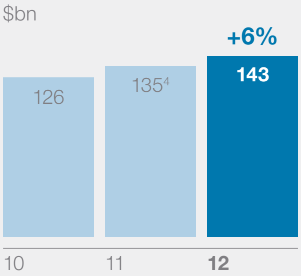
Normalised earnings per share[1]
cents



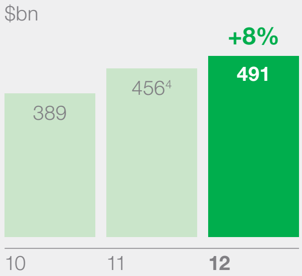
Total assets[3]
$bn



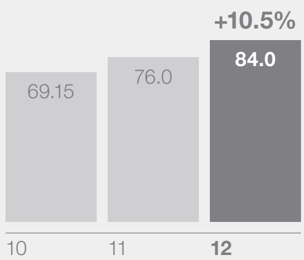
Consumer Banking total assets
$bn



Wholesale Banking total assets
$bn



Dividend per share[2]
cents



1 Standard Chartered uses non-GAAP measures, where these are not defined under IFRS or they have been adjusted. See note 14 to the financial statements

2 Represents the recommended final dividend per share for the respective years together with the interim dividend per share declared and paid in those years. Further details are set out in note 13 to the financial statements

3 Also includes corporate items as set out in note 2 to the financial statements

4 Amounts have been restated as set out in note 45 to the financial statements

Operational overview
Building diversity

Operational highlights in 2012

- Tenth consecutive year of income and profit growth, with disciplined execution of our strategy
- Broad-based and diverse performance across clients and customers, products and geographies, with 26 markets delivering over $100 million of income
- Consumer Banking income up 6 per cent, with the next generation markets of Africa, China and Indonesia growing at double digit rates
- Wholesale Banking income up 9 per cent, with Africa exceeding $1 billion of income for the first time
- Conservatively managed and highly liquid balance sheet, with an advances-to-deposits ratio of 74.1 per cent and a strong Core Tier 1 capital ratio of 11.7 per cent
- Consistent strategy of funding before lending, with Americas, UK & Europe, Singapore and Hong Kong growing deposits at more than 10 per cent
- Continued growth in our distribution network in China where we opened our 100th outlet in 2012
- Appointment of four new independent non-executive directors to our Board
- Rebranded SC First Bank to Standard Chartered Bank Korea

Non-financial highlights

Employees

89,058

2011: 86,865 2010: 85,231

Nationalities

127

2011: 130 2010: 129

Markets

68

2011: 71 2010: 71

Our business
A strong international bank

Standard Chartered is an international bank with 1,700 branches and offices in 68 markets, predominantly in Asia, Africa and the Middle East. This international perspective, coupled with our deep local knowledge, enables us to meet effectively both the local and cross-border needs of our clients and customers. We offer a wide range of banking products and services through our two businesses, Consumer Banking and Wholesale Banking. We think and operate as 'One Bank', supporting clients and customers by collaborating and creating synergies across our international network, businesses and functions.

Consumer Banking

Our customer-focused approach, centred around providing superior service and solutions to financial needs while rewarding our customers for their total relationships with the Group, differentiates us from the competition.

We offer solutions and services through multiple channels including branches, call centres, award winning online and mobile applications to bring greater convenience and flexibility to our clients and customers.

Personal and Preferred Banking

- We provide a wide range of banking products and services including deposits and savings accounts, loans, mortgages and credit cards to serve the diverse and varied needs of our customers

Priority and International Banking

- We offer wealth management and cross-border solutions for the more affluent. Our Priority customers are recognised and rewarded for their total relationship with us and have access to a dedicated relationship manager, supported by a team of experts

Small and Medium-sized Enterprise (SME) Banking

- We deliver a full suite of financial products, services and advice to SMEs across our network, and take advantage of both our Consumer and Wholesale Banking capabilities to help our clients grow and expand their businesses

Private Banking

- Our international network provides access to growth markets around the world while our One Bank approach draws on the full complement of our resources and capabilities to offer advisory services and customised solutions to our clients

Wholesale Banking

We offer a wide range of financing and investment solutions to corporate and institutional clients. One of the key advantages we offer is our ability to facilitate trade and investment across some of the world's fastest growing markets.

We take a relationship-focused approach to business and combine international capabilities with on-the-ground expertise to deliver a superior service to our clients.

Global Corporates

- We provide seamless international service and offer a full suite of products and services to multinational corporations and large businesses with sophisticated cross-border needs

Local Corporates

- We partner with our clients to understand their needs and growth aspirations. Our local knowledge and extensive network is a differentiator and this helps them achieve their strategic goals

Financial Institutions

- We deliver a broad suite of services to support our institutional clients and facilitate commerce, financing, risk management and investor solutions

Commodity Traders and Agribusiness

- We leverage the strength of our footprint to offer tailored services and solutions for commodity traders, producers and processors for and in Asia, Africa and the Middle East

We combine the knowledge of a local bank with the network, platforms and capabilities of an international institution and offer the following solutions and services to meet the financial needs of our clients:

- Transaction Banking
- Corporate Finance
- Financial Markets
- Principal Finance

Islamic Banking

- In markets where we provide Islamic Banking under the 'Saadiq' brand, we offer a comprehensive suite of Shariah-compliant products and services to both business clients and retail customers

Performance and Risk

- A review of the 2012 performance of Consumer Banking and Wholesale Banking can be found on pages 38 to 53
- An analysis of the risks relating to these businesses and their associated risk weighted assets are set out in the Risk review on pages 56 to 115 and Capital on pages 116 to 121 respectively

Our strategy

Leading the way in Asia, Africa and the Middle East

Our strategic intent

To be the world's best international bank, leading the way in Asia, Africa and the Middle East

We have a disciplined focus on Asia, Africa and the Middle East – the markets where we have built deep local knowledge, have a competitive advantage and a commitment for the long term

Our brand promise

Here for good

Here for good underpins everything we do. It guides how we do business and the decisions we make, whether strategic or operational

- We aim to lead the industry in how we do business, by being profitable and sustainable while also having a social purpose
- We believe our existing culture and values put us in a good position to achieve this and we aim to protect and reinforce them at all times
- Our culture and values reassure clients and customers in a market where trust and ethics have re-emerged as critical
- Our values attract employees to the Group and strengthen our relationships with clients, customers, investors, regulators, colleagues and society

Our distinctive strengths

Collaborative network

Combining global capability and local knowledge

- We focus on the fast growing economies in Asia, Africa and the Middle East supported by superior insight and deep local relationships
- We have a long history in our markets going back more than 150 years
- Our two businesses, Consumer Banking and Wholesale Banking, work together as One Bank to create value
- Our network operates effectively across borders as well as between businesses and functions

Clients and customers

Building deep and long-term relationships

- We focus on carefully understanding our clients' and customers' immediate and future banking needs
- We develop products and services around those needs rather than taking a purely product driven approach
- By anticipating industry trends, we aim to be innovative and are increasingly digitising our services

Disciplined growth

Delivering results without compromising balance sheet strength or control of risks and costs

- Balance sheet strength is a cornerstone of our strategy: building a sustainable business and creating confidence with our clients and customers through our ability to continue lending in times of scarce liquidity
- As we grow, we aim to increase productivity and the scalability of our business so we can invest even more in growth opportunities
- We believe that organic growth, rather than acquisitions, drives the greatest value creation for our shareholders

Our values

Our five core values are at the heart of our culture and what we expect of our people

We have measured and rewarded our employees on the extent to which their behaviour at work supports the Group's values since 2003

We believe behaviour that reflects the values creates long-term value for our shareholders, clients and customers while having a positive social and economic impact on society

Courageous – We take measured risks and stand up for what is right
International – We value diversity and work as One Bank
Trustworthy – We are reliable, open and honest
Responsive – We deliver relevant timely solutions for clients and customers
Creative – We innovate and adapt, continuously improving the way we work

Chairman's statement
Consistent strategy

Sir John Peace
Chairman

"2012 was another year of good performance for Standard Chartered, thanks to a consistent strategy, a stable management team, supportive clients, customers and shareholders, and, above all, our great people. The Board remains confident for the year ahead."

Key highlights

Normalised earnings per share

225.2 cents

2011: 198.0 cents

Dividend per share

84.00 cents

2011: 76.00 cents

I am pleased to report that 2012 was our tenth consecutive year of income and profit growth. Throughout a turbulent decade – for the world economy and for banking – we have continued to deliver consistent value for our shareholders, and Standard Chartered remains a growth story.

- Income rose 8 per cent to $19.1 billion
- Profit before tax increased 1 per cent to $6.9 billion
- Normalised earnings per share were up 14 per cent to 225.2 cents

Clearly the settlements reached with the US authorities[1] had an impact on our profits, but despite this, we are increasing the total amount of dividend paid to shareholders. The Board is recommending a final dividend of 56.77 cents per share. This brings the total annual dividend to 84.00 cents per share, up 10.5 per cent in line with our long track record of performance.

Over the past decade, Standard Chartered has delivered consistently, not just for shareholders, but for the communities in which we operate. We have tripled the number of people we employ to over 89,000 across our footprint; we have paid in excess of $11 billion in corporate tax, and we have increased our lending more than five-fold to $289 billion.

Importantly, we have achieved this by sticking to our strategy, focusing on the basics of good banking in markets we know well, with clients and customers with whom we have deep, and in many cases long, relationships.

As 2012 showed, there is still work to be done to rebuild public trust in banks, and questions continue to be raised about how banks reward their management and staff. We have not changed our approach. We continue to remunerate our people, not just for what they achieve, but for how they demonstrate our values, rewarding long-term performance, not failure. Reflecting the Group's overall performance in 2012 and the impact of the US settlements, our bonus pool is down some 7 per cent.

And once again, the amount paid out in bonuses is less than the amount paid to our shareholders by way of a dividend, less than corporate taxation and well under half of the retained earnings.

1 The US authorities comprise The New York Department of Financial Services (DFS), the Office of Foreign Assets Control (OFAC), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Federal Reserve (NYFED)

We know that we will be held to our brand promise, Here for good, and continue to work hard to embed this commitment in everything we do. We are not pretending we will get everything right, but Here for good means we will try to do the right thing and take a long-term view of our obligations to our shareholders, our clients and customers and the communities in which we operate. We accept and acknowledge responsibility for the violations specified in the US settlement agreements and are committed to meeting the ongoing obligations arising from these agreements.

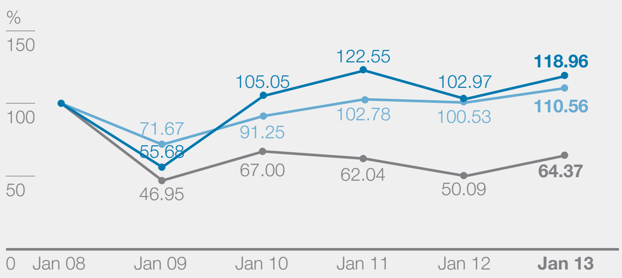
Strong governance is crucial to our long-term success. During 2012, we appointed four new independent non-executive directors: Om Bhatt, Louis Cheung, Margaret Ewing and Lars Thunell. These appointments are in line with our multi-year Board succession plan, which aims to maintain a core of directors with longstanding knowledge of the Group, while regularly refreshing the Board's composition with directors who bring new perspectives.

This first phase of appointments has added significant banking, financial and risk management experience to the Board, as well as increasing its diversity. Om, Louis, Margaret and Lars bring with them a wealth of experience from some of our largest markets including China, Hong Kong, India and Taiwan.

In summary, 2012 was another year of good performance for Standard Chartered, thanks to a consistent strategy, a stable management team, supportive clients, customers and shareholders, and, above all, our great people. The Board remains confident for the year ahead.

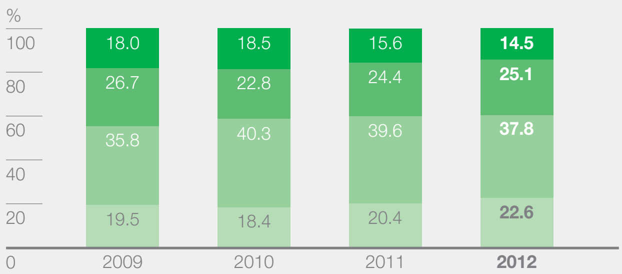
Sir John Peace
Chairman
5 March 2013

Percentage change in TSR over a five-year period



Data provided by Thomson Reuters
- Standard Chartered
- FTSE 100
- Comparator median

Allocation of the Group's earnings between stakeholders



- Cost of discretionary variable compensation
- Corporate taxation including levy
- Retained by shareholders
- Paid to shareholders in dividends

Group Chief Executive's review

Well positioned in exciting markets

Peter Sands
Group Chief Executive

"There continues to be a clear gap between the growth in our markets and growth in the West. We are seeing the emergence of vast numbers of middle class consumers: 28 per cent of the world's middle class lived in Asia in 2009; by 2030 it will be 66 per cent."

2012 was a milestone year for the Group: our tenth year of unbroken growth in income, profits and dividends; the tenth year since we created Wholesale Banking; and the tenth year since we launched our values.

Standard Chartered has changed enormously over the past decade. It is easy to underestimate how much, since it has happened primarily through continuous rapid evolution – through organic growth, rather than big steps such as major acquisitions. Over the past 10 years, the Group's income has grown by a compound annual growth rate (CAGR) of 15 per cent, and pre-tax profit by 18 per cent.

During this time, we have seen rapid growth across many of our markets. Take our business in Nigeria: in 2003, it produced $21 million of income; this year it produced $258 million, a twelve-fold increase. In mainland China, we produced $44 million of income in 2003, with 14 branches and 409 employees. In 2012, we generated $1 billion of income in mainland China, plus over $700 million in network income (or income from clients based in a market, but booked elsewhere in our network), with over 8,500 employees and 100 branches across 25 cities. In Indonesia our income has grown almost seven-fold to $813 million over the same period.

It is not just a story of small markets getting bigger. In 2003, Hong Kong generated 29 per cent of the Group's income, at $1.4 billion. Now, while Hong Kong's income has more than doubled to $3.4 billion, it accounts for just 18 per cent of income, illustrating not only the pace of our growth, but also its diversity.

Our resilient business model

Our history shapes the way we think about the future: we keep an emphasis on organic growth, in big markets as well as small; invest with a long-term perspective and build diverse income streams. Of course, it gets harder to deliver the same rates of growth as we get bigger. Every year brings new challenges, and 2012 was no exception.

The most obvious challenge was the resolution of the issues related to our past compliance with US sanctions. The $667 million settlements dented our profit growth and damaged our reputation. We accept and acknowledge responsibility for the violations specified in the US settlement agreements and are committed to meeting the ongoing obligations arising from these agreements. We also suffered significant headwinds from a multitude of regulatory changes, most notably income drag from the liquid asset buffer and the increase in the UK bank levy.

The macroeconomic environment – normally a tailwind for us, given the markets we are in – also proved quite challenging in 2012. Economic growth slowed in most of our markets, reflecting the global slowdown. Local currencies fell against the US dollar, and some of our markets were particularly challenged. India was one example: the country's GDP slowed sharply, from an average of 7.9 per cent over the previous five years to 5.2 per cent, and the rupee fell 15 per cent year-on-year. Business momentum plummeted as political deadlock and governance scandals rocked confidence. Consequently, our India business slowed, with income falling 12 per cent, while we saw some increase in impairments, resulting in profits falling by 16 per cent.

Yet, network income grew more than 30 per cent as a result of us supporting more of India's leading companies as they invest and grow overseas. So overall income from our Indian franchise was more resilient. Moreover, the mood in India has changed noticeably since last summer. The economic reform agenda appears to be back on track, and business and investor activity has undoubtedly picked up. We have a great business in India, and are confident that this will be a huge part of our future growth story.

Given the headwinds we faced in 2012, it is no surprise that both income and profit growth for the Group as a whole were somewhat slower. But we have showed once again that we can be disciplined on costs, without compromising investment, and the underlying momentum of the Group's businesses remains robust.

Global macroeconomic outlook

Global sentiment has improved. There is undoubtedly more momentum in markets and more confidence in businesses. However, the underlying problems of the weaker eurozone countries have not gone away. The US fiscal cliff has been moved, not scaled. Unemployment levels, particularly for the young, remain shockingly high in many parts of the world. And the unconventional monetary policies of central banks have taken us into uncharted territory. The risks of inflation and currency volatility should not be underestimated.

Our markets in Asia, Africa and the Middle East are not immune. Slower growth or shocks in the West will undoubtedly affect them, but there continues to be a clear gap between the growth in our markets and growth in the West. GDP growth in the US is forecast at 2.3 per cent for 2013, and the eurozone –0.2 per cent, contrasting with China at 8.3 per cent, Nigeria at 6.6 per cent and Indonesia at 6.5 per cent. Even India, for all its challenges, will grow at multiples of the West.

The underlying drivers of growth in the emerging world – industrialisation, urbanisation, demographics – remain extraordinarily powerful. We have seen strong growth in intra-regional trade and investment across our markets. For example, from 2000 until 2011, Africa's trade with India increased by a CAGR of 25 per cent, while China-MENA trade rose from a value of $18 billion to over $240 billion. We are also seeing the emergence of vast numbers of middle class consumers, and the scale is staggering: 28 per cent of the world's middle class lived in Asia in 2009; by 2030 it will be 66 per cent.

The rapid internationalisation of the renminbi (RMB) is a symbol of the shift in global economic power. In 2012 we estimate that 12.6 per cent of China's trade was settled in RMB, up from 5.1 per cent in 2010. Our recently launched Renminbi Globalisation Index, which measures the size of this market across four asset classes, shows more than a seven-fold increase over the same period.

Group Chief Executive's review continued

"For Standard Chartered, the network is key to our competitiveness. We are a true network, with no dominant geography, and a culture of cross-border collaboration."

Refreshing our priorities

At our annual meeting of the Group's top leadership in January, we took stock of our strategy and debated our priorities for 2013. We have refreshed our statement of strategic intent, sharpening the language and changing the emphasis. The essentials of our strategy remain the same: we want to lead the way in Asia, Africa and the Middle East, and we want to be Here for good. Yet, every year the context and challenges differ, so our immediate priorities must shift as well. We have set seven priorities:

First, we must build stronger relationships with our clients and customers. Deep, long-term client relationships have always been the foundation of our business, but we have to get even better: more relevant, more committed and more responsive.

Second, we must prove to a sceptical world that we really are Here for good. This is about doing the right thing and being there for the long term. It is about recognising that we have an important role to play in the economy and broader society.

Third, we must step up our efforts to innovate and digitise. Whilst we have made enormous progress in automating processes and offering online and mobile access to our services, we are only in the early stages of using technology to transform the business of banking. We want to make this happen, rather than have it happen to us.

Fourth, we have to intensify collaboration across our network. For Standard Chartered, the network is key to our competitiveness. We are not a dominant local bank and not dominant in any specific product segment. We are differentiated by our ability to facilitate cross-border trade and investment, and that is as much about the way we work as about our physical network.

Fifth, we need to get fitter and more flexible in the way we work. We need to be ever more efficient, smarter in deploying scarce resources, and more adaptable and agile.

Sixth, we must accelerate the next generation of leaders. Taking a long-term perspective means building a strong succession pipeline of diverse leaders.

Finally, we have to deliver superior financial performance. By focusing on the fundamentals, sticking to our strategy, funding before lending and keeping a tight grip on risks and costs, we can continue to deliver a distinctive combination of growth and returns for our investors.

Embedding our values and culture

Proving we are Here for good is all about our values and culture. Lots of people are now talking about the culture of banks, but we have been investing time and energy in reinforcing our culture for a long time. We see it as a key source of competitive differentiation and a key risk management tool.

We identified and introduced our values a decade ago, embedding them into our performance management system to reward our people, not just for what they achieve, but for how they achieve it.

There is no single tool to reinforce culture, no magic recipe, and no organisation of nearly 90,000 people can ensure that everyone does everything perfectly all the time. But we need to keep working at reinforcing this aspect of Standard Chartered, because it is one of the things that make us stand out. That is why we created a Board Brand and Values Committee in 2010, and why we launched Here for good.

Investing in technology-driven innovation

We must also keep innovating, to offer our clients and customers new and better solutions, cut costs and reinforce risk management. In an inherently digital industry, failing to embrace technology-driven innovation would be suicidal.

We have been investing to increase automation of our back-end systems to drive down transaction costs and to improve service quality and resilience. As a result, our operations cost/income ratio has declined consistently, whilst staff productivity has risen.

We are also investing in underlying data management systems and analytical capabilities. This is critical for seamless management of client relationships across multiple geographies, and vital for risk management.

We are accelerating innovation to make the Group more accessible and easier to use through social media, online and mobile. We continue to roll out Breeze, our mobile banking app, and have reached over a million downloads since it was launched. We have come a long way in Internet banking. Ten years ago we were a laggard; today our platform is award-winning.

In Wholesale Banking, we are investing in our global platforms to enhance product capability and seamless delivery. In cash management we are harmonising our underlying infrastructure and enhancing functionality. In custody management, we are enabling clients to streamline cash and foreign exchange processing and achieve better cut-off times. And in foreign exchange and asset liability management, a new project will enable us to carry out straight-through processing of payments 24/7 across 43 markets, reducing risk and lowering costs per trade by around 10 per cent. Across the bank, we are investing harder and faster in technology than ever before.

Collaborating across our network

Both culture and technology are crucial tools in intensifying collaboration across our network. Since our earliest years in the nineteenth century, we have focused on international trade. We opened in India and China in 1858 and in Hong Kong and Singapore a year later. Our long history in our markets has real resonance with our clients and cannot be replicated by new entrants. Today, we are one of the top two trade finance banks in the world. Trade represents around 16 per cent of our Wholesale Banking income directly, but when you include products and services linked to trade, the figure is more than 50 per cent.

Most big international banks operate through a hub and spoke model. By contrast, we are a true network, with no dominant geography and with a culture of cross-border collaboration. We aim to be even more seamless in serving our clients' cross-border needs and even more effective in optimising deployment of our balance sheet. This will require refined performance metrics, streamlined information and process flows, and, above all, an infectious spirit of co-operation and co-ordination.

We continue to expand our network. In 2011, we opened our representative office in Mongolia. In November 2012, we completed our acquisition of Credit Agricole's business in Turkey, upgrading our representative office to a subsidiary, and in February 2013, we opened our representative office in Myanmar, returning to a country we first entered in 1862.

During February, we also signed an agreement to form a joint venture bank with ENSA, one of Angola's largest insurance companies. By upgrading our presence in this way, we will become one of the first international banks to have an onshore presence in sub-Saharan Africa's third largest economy. In all of these places, we are serving the needs of our existing clients. We are taking a long-term perspective, investing now with a horizon of at least 10 years.

Group Chief Executive's review continued

"The story of the past decade is one of resilience, of growth, of consistent delivery. Since 2002, Standard Chartered has been transformed. The next 10 years should be equally exciting. We are in the right markets. We have a clear strategy. We are investing in our businesses."

ASEAN

With our return to Myanmar, we are now the only major international bank present in all 10 Association of South East Asian Nations (ASEAN). Over the past five years, our income in ASEAN has grown by a CAGR of 14 per cent, although in 2012 income growth slowed to just over 7 per cent. We saw good growth in Indonesia, up 13 per cent; Malaysia, up 18 per cent; Thailand, up 13 per cent; the Philippines, up 11 per cent; and Vietnam, up 27 per cent. Singapore, our largest market in the region, grew by 1 per cent, but it is important to put this performance in context: income in Singapore grew 26 per cent in 2011, and has grown by a CAGR of 20 per cent over the past five years.

We are taking advantage of domestic growth within ASEAN, as the region's 600 million people become increasingly prosperous, and we are taking advantage of intra-regional trade and investment, as ASEAN's economies become increasingly integrated. At $4.5 billion, ASEAN now represents just under 24 per cent of the Group's total income.

Greater China

We are also benefiting from the economic convergence of Greater China. In 2012, Hong Kong, Taiwan and mainland China delivered income of $4.9 billion, up 11 per cent and exceeding the CAGR of 9 per cent over the past five years. Greater China now represents just over a quarter of the Group's total income.

Our income in China grew by 21 per cent in 2012, and we will keep investing. With our network across 25 cities, we are one of very few international banks that reach huge inland cities such as Chongqing, Chengdu and Xi'an. With growth inland now faster than growth in the coastal regions, we are well placed to exploit the changing shape of China's economy.

In Consumer Banking, we are concentrating on the high value segments, and on SMEs in particular. In Wholesale Banking, we are focusing on rapidly growing mid-market companies. We are also supporting multinationals investing in China, such as Shell and Tesco, and helping China's leading companies as they expand overseas. In addition to what we do onshore, China is now our largest generator of network income, up 25 per cent year-on-year to over $700 million. Hong Kong is the largest recipient, as we increasingly run our Hong Kong and China businesses as one. Income in Hong Kong grew by 10 per cent, with Wholesale Banking income from RMB-denominated business up 30 per cent, mainly in foreign exchange and trade, whilst RMB deposits in the Consumer Bank grew by 70 per cent year-on-year.

Taiwan had a more challenging year in 2012, given regulatory constraints on consumer lending, and the year-on-year distortions from one-off gains in 2011. Yet, in Wholesale Banking we are now making real progress, benefiting from the links with China, particularly in Transaction Banking.

Greater China is a key engine of growth for Standard Chartered. With a significant presence, long history and deep relationships across all three markets, we are extraordinarily well placed to benefit from the region's continued growth and convergence.

Outlook

2012 was undoubtedly a challenging year and 2013 will no doubt bring new challenges. But the story of the past decade is one of resilience, of growth, of consistent delivery. Since 2002, Standard Chartered has been transformed. I would like to thank our investors for their support throughout this journey. I would also like to thank our employees for their hard work, professionalism and commitment.

The next 10 years should be equally exciting. We are in the right markets. We have a clear strategy. We are investing in our businesses. No doubt our markets will continue to change dramatically, as they grow and get richer. No doubt technology will change the way banks work and compete, and no doubt regulation will force further change in business models. We are not at all complacent. Yet, by sticking to our strategy, by staying true to our culture, and by being innovative and adaptive, I am confident that we can continue to be successful.

Looking at January and our momentum through February, the Group has started 2013 well. Consumer Banking income is well ahead of the comparable period last year. Wholesale Banking client income is also ahead, with good levels of client activity and very strong volumes across our markets. However, own account income is down, reflecting lower asset liability management income.

We continue to have a firm grip on the levers of risk, cost and investment, and are using our balance sheet strength to increase the financing support to our clients and customers. We continue to take a conservative approach to managing the balance sheet, maintaining a strong liquidity position and keeping a watchful eye on asset quality given the uncertainties that remain in the external environment.

We remain focused on consistent delivery against the framework of our four financial objectives: double-digit income growth, costs growing in line with income, double-digit growth in earnings per share and mid-teens return on equity in the medium term.

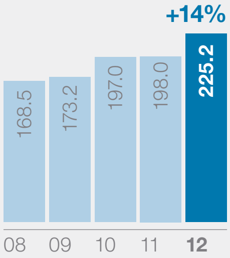
In summary, we have started the year with very good momentum and an exceptionally strong balance sheet. We are well positioned in some of the most dynamic growth markets in the world, and we are well placed to make the most of the opportunities they present. We continue to take market share, we continue to grow and we remain confident and committed to consistent financial delivery.

Peter Sands
Group Chief Executive
5 March 2013

Key performance indicators
Sustained delivery to shareholders, clients and customers

1
To be the world's best international bank

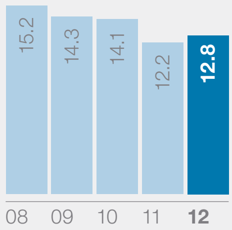
Normalised earnings per share
cents



Aim
To deliver consistent year-on-year growth in earnings per share.

Analysis
During 2012, normalised earnings per share increased to 225.2 cents, reflecting the strong underlying earnings of the Group.

Normalised return on shareholders' equity
%

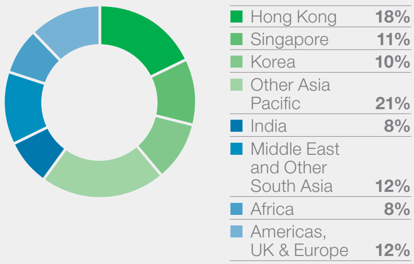


Aim
To deliver mid-teens returns whilst balancing the long-term objective of having strong yet efficient levels of capital.

Analysis
The normalised return on equity improved to 12.8 per cent, as we continue to deliver profit growth.

2
Focusing on Asia, Africa and the Middle East

Operating income by region in 2012

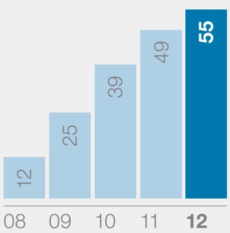


Aim
To deliver diversified income growth.

Analysis
Our income stream remains highly diversified with 26 markets delivering over $100 million of income.

3
Building long-term, deep relationships with our clients and customers

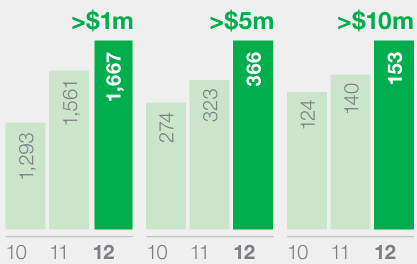
Consumer Banking
Net Promoter Score (NPS)[1] Index



Aim
To increase customer satisfaction with our products and services and to become the bank that customers recommend.

Analysis
Our global NPS is up 6 points from 49 to 55.

Wholesale Banking
Core bank – number of client relationships



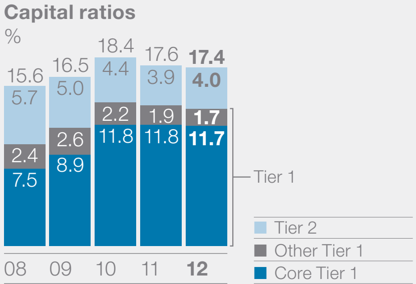
Aim
To continue to grow the total number of client relationships that deliver income in excess of $1 million, $5 million and $10 million.

Analysis
We have consistently grown the number of leading clients that generate income in excess of $1 million, $5 million and $10 million per year, demonstrating our strong and consistent progress in delivering our Wholesale Banking strategy to become the core bank to more clients.

1 'Net Promoter Score' and 'NPS' are trademarks of Satmetrix Systems Inc., Bain & Company, and Fred Reichheld. Standard Chartered uses Bain methodology recalibrated for financial services to calculate NPS

4

Continue to run our balance sheet conservatively

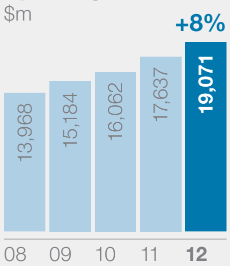


Aim
To maintain a strong capital base, with an increasing emphasis on Core Tier 1 capital.

Analysis
Core Tier 1 ratio for 2012 was 11.7 per cent and total Tier 1 was 13.4 per cent. The Group's capital position continues to be strong with good levels of organic equity generation, positioning us well for future changes as the regulatory environment continues to evolve.

5

Focusing on organic growth as the primary driver of value creation

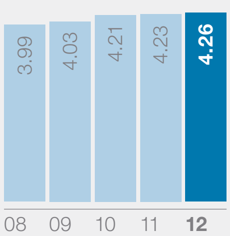


Aim
To sustain organic momentum, with growing revenue.

Analysis
Operating income grew by 8 per cent, with the sources of growth remaining well diversified across clients and customers, products and geographies.

6

Continuing to nurture and reinforce our distinctive culture



Aim
To foster a culture of high employee engagement as we continue to grow and change.

Analysis
During a year of strong competition and in the context of an uncertain market, we sustained our increase in employee engagement. The Q[12] Grand Mean score increased to 4.26 on a scale of 1 to 5 where 5 is the highest score.

Normalised earnings per share
This key performance indicator (KPI) is calculated as profit attributable to ordinary shareholders of the Group as normalised for certain one-off or irregular items, divided by the weighted average of the shares in issue during the year.
Source: *This measure is reported in note 14 of the Group's audited financial statements.*

Normalised return on shareholders' equity
Normalised return on shareholders' equity. This KPI is calculated as the normalised profit attributable to ordinary shareholders as a percentage of average ordinary shareholders' equity.
Source: *This measure is derived from information within the Group's audited financial statements, being normalised earnings (note 14) as a percentage of average shareholders' equity (excluding preference shares).*

Operating income by region
Source: *This information is discussed in note 2 to the financial statements.*

Consumer Banking
Net Promoter Score (NPS) Index
NPS gauges customer support for the Consumer Banking products and services we provide. We ask our customers "How likely are you to recommend Standard Chartered to a friend or colleague?" and apply a 10-point-scale where one is not likely at all and 10 is most likely. We then derive the NPS by subtracting the percentage of detractors (those who score one to five) from the percentage of promoters (those who score eight to 10). It operates on a scale from –100 (all detractors) to +100 (all promoters).
Source: *Market Probe Customer Satisfaction Survey (20 markets on average each year). The survey uses interviews completed in 2012.*

Wholesale Banking
Core bank – number of client relationships
The metric charts our progress towards becoming the core bank to more clients by measuring the number of client relationships where total global income exceeds the threshold amount. The bar chart displays solid growth and the deepening of client relationships year after year.
Source: *Standard Chartered client income. Numbers for 2010 and 2011 have been restated based on the Single Customer Identifier indicator as at 31 December 2012.*

Capital ratios
The components of the Group's capital are summarised on page 118. The Tier ratios are measured by the ratio of respective capital to risk weighted assets.
Source: *This measure is reported in the Capital section on page 119.*

Operating income
Operating income is calculated as the sum of net interest income, net fees and commission income, net trading income, and other operating income.
Source: *This measure is reported in the Consolidated Income Statement on page 197.*

Q[12] Grand Mean
The Q[12] Grand Mean is the average of all responses by employees to the annual employee engagement survey carried out by The Gallup Organisation, a well-known survey of 12 highly researched items that predict employee and workgroup performance.
Source: *The Gallup Organisation, Q[12] Employee Engagement Survey.*

Business environment
Divided, disconnected, but growing

2012 was a year of contrasts. As forecast at the start of the year, a fragile West contrasted with a resilient East. The US economy, still the world's largest, showed signs of a gradual recovery from the 2008-09 recession; but growth remained below par at 2.2 per cent. The euro area was much weaker, contracting 0.4 per cent, as fiscal tightening, deleveraging by banks and households and uncertainties around the future of the common currency hurt business and consumer sentiment. In contrast, Standard Chartered's biggest markets remained resilient – Asian economies expanded by 6.2 per cent, Africa by 4.9 per cent and the Middle East by 3.5 per cent. The continued weakness in Europe meant the world economy decelerated for the second consecutive year, growing 2.5 per cent, compared with 3.1 per cent in 2011.

This divergence in economic performance between the West and the East has been a feature of the global economy for more than a decade, driven largely by the dramatic rise of China and other emerging markets. But the diverging trend has accelerated since the financial crisis as consumers in the West pared back debt while companies curtailed investments, causing a sharp slowdown in the developed economies. The West's retrenchment has impacted emerging markets, including those in Standard Chartered's footprint across Asia, Africa and the Middle East, as exports to the US and Europe slowed. Meanwhile, the euro area crisis led European banks to repatriate funds from the emerging markets. However, a combination of rising domestic demand by an ever-expanding middle class, growing intra-regional trade and investment flows, innovation and infrastructure spending across the emerging markets have resulted in Standard Chartered's markets becoming the growth engines that power the global economy.

2013 outlook

This positive trend in our markets is likely to continue through 2013 into the following years. Global growth is expected to accelerate to 2.9 per cent in 2013, led by the outperformance of the emerging markets and a rebound in growth in China following two slower years. Growth worldwide is already getting an added impetus from extremely easy money policies in the developed economies and monetary conditions are likely to remain slack for at least two more years.

There is a possibility that world growth in 2013 could exceed expectations if the US Congress decides to smooth out tax increases and spending cuts over successive years and to raise the overall government debt ceiling to accommodate more borrowing. Such an agreement, combined with ultra-low interest rates and cheaper energy thanks to the shale oil and gas boom, could lead to a pick-up in US consumer sentiment, sustain a recovery in housing demand and boost investment spending, especially in the second half of the year.

The world still faces considerable challenges in 2013, given fiscal tightening in the US, deep-rooted problems in the euro area, rebalancing and adjustment challenges in China, the ambitious reform agenda facing India and many other economies, plus a further possible energy shock from events in the Middle East. These downside risks need to be taken seriously. And, yet, there are enough positives – particularly in the emerging markets – which should enable the global economy to rebound after two subdued years. Indeed, the dynamism in the East has enabled the world economy to continue growing even through the financial crisis – from $32 trillion in 2000, the size of the global economy expanded to just under $62 trillion at the start of the financial crisis, and further to an estimated $72 trillion by the end of 2012. While some of this growth is a result of inflation, the bulk of it is 'real growth', led by the emerging economies.

The key area of weakness remains Europe, where recession is likely to continue into 2013 as a result of the austerity measures implemented by governments. However, actions taken by the European Central Bank (ECB) in 2012 have significantly curtailed downside risks and boosted investor sentiment, supporting the southern periphery by ending the 'acute' phase of the crisis, albeit that it has just moved into a 'chronic' phase. As a result, any recovery by the end of this year is likely to be weak at best. Only a true fiscal, banking and political union is likely to put the euro area back on a stable growth path, but such a far-reaching integration would require a European Union treaty change which is unlikely before 2014, at the earliest, given the parliamentary elections due in Germany later this year. Meanwhile, the ECB and Germany will need to continue with their support to the periphery.

Asia

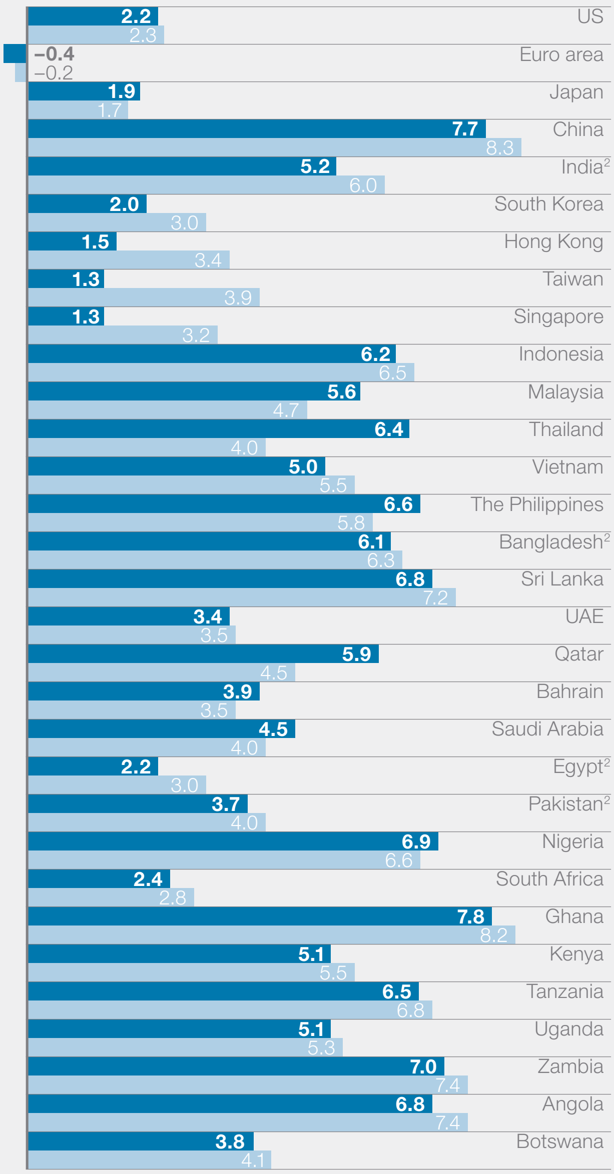
Given the weakness in the West, Asia will continue to be the biggest driver of global growth, cementing the shift in the balance of economic power from the West to the East. We expect Asian economies to expand around 6.7 per cent in 2013. As anticipated, China has avoided a hard landing and 2013 is likely to be the year when China settles into a steadier and more sustainable growth path, at around 8.0 per cent, after two years of slowdown. Greater stability in China and a steady but not spectacular US recovery is likely to steer the rest of Asia, particularly the north East Asian economies of South Korea, Taiwan and Hong Kong, to a faster pace of growth.

This section, 'Divided, disconnected, but growing', was written by Standard Chartered's Research team.

Economic growth in key markets

Real GDP growth rate in %

■ 2012e[1] ■ 2013f[1]



[1] Standard Chartered estimates for 2012 (2012e) and forecasts for 2013 (2013f) are based on Standard Chartered Economics Weekly, published on 28 February 2013

[2] India's financial year starts in April while the financial years of Bangladesh, Pakistan and Egypt start in July

Fundamentals across Asia remain strong, especially when compared with the West. Companies have stronger balance sheets and governments sound fiscal and external reserves. These strong underpinnings – the result of wide-ranging reforms in the 1990s and early 2000s – have helped the region remain resilient in the face of the slowdown in the West, having delivered spectacular performance over the past 10 to 15 years. Now there is a need to unleash a new wave of economic reforms that will usher in new investments into hard infrastructure such as roads, ports, power plants and help improve the soft infrastructure such as institutions, education, healthcare and social security networks. Urbanisation will likely pick up again in China. These reforms have the potential to lift the domestic-driven, middle and lower-income economies such as China, India and Indonesia up the value curve. Reforms will also enable the more developed – and typically more open – economies such as Hong Kong, Singapore, Taiwan and South Korea to find new sources of growth to replace the slowdown in Western consumption.

As in recent years, China will remain a key determinant for economic prospects in Standard Chartered's markets in Asia and elsewhere. China's economy is moving from strong, unbalanced growth to steadier, more sustainable growth. This takes considerable time and will not be without challenges, given domestic imbalances. We anticipate growth at around 8.3 per cent for 2013, after slowing from 10 per cent-plus levels in the 2000s to 7.7 per cent in 2012. The economies of Taiwan, Hong Kong and South Korea should benefit, with growth in the three north East Asian economies anticipated in the 3.0-4.0 per cent range in 2013. There may be more focus on both Greater China as an economic region and on the growth of the renminbi (RMB) market as the year progresses and the currency becomes increasingly internationalised. The private sector worldwide is looking increasingly to use the RMB for trade and investment purposes, despite its lack of convertibility, as our recent survey of international companies found.

Business environment continued

2012 GDP growth slowed in key markets

Market	2012	2011
China	7.7%	2011: 9.2%
South Korea	2.0%	2011: 3.6%
Indonesia	6.2%	2011: 6.5%
India[1]	5.2%	2011: 6.5%
Hong Kong	1.5%	2011: 5.0%
Singapore	1.3%	2011: 5.3%
UAE	3.4%	2011: 4.2%
Nigeria	6.9%	2011: 7.2%

[1]India's financial year starts in April

Elsewhere in Asia, South Asia and ASEAN (the Association of South East Asian Nations) are two regions to focus on, not just in 2013 but longer-term, given their large populations, strong economic growth and regional free-trade agreements. In South Asia, the two longer-term themes are growth in the domestic market across the region, given that one-fifth of the world's population lives there, and the potential for India to open up. We are positive on prospects for Bangladesh and India, despite near-term challenges, expecting growth in excess of 6.0 per cent in both in 2013, with India picking up pace after a sharp slowdown in the past couple of years. Economic reforms aimed at removing infrastructure bottlenecks and attracting overseas investments, together with institutional reforms to tackle corruption and improve public governance, remain at the top of the agenda across South Asia.

ASEAN is moving apace to become a common market as planned by 2015, when import tariffs in most countries will be eliminated and barriers to the flow of capital and professionals will be removed. This regional integration augurs well for both domestic and international businesses as companies get the benefits of scale of a larger market that rivals the size of India. In 2013, we are especially optimistic about Indonesia and the Philippines, where we see growth above 10-year averages, driven largely by domestic consumption and regional trade. New markets, such as Myanmar, also have potential.

Africa and the Middle East

Across sub-Saharan Africa, the picture is divided. The region's overall growth rate continues to be heavily influenced by its major economies, some of which are currently facing challenges, as seen in South Africa and Nigeria (which together account for over half the region's gross domestic product). Yet, growth in 2013 is estimated at a robust 5 per cent across the region, driven by a commodities boom that is fuelling strong domestic demand and infrastructure spending, although inflation remains a challenge in several economies. New oil and gas exploration will drive economic activity, especially off the coast of East Africa, while mining activity will continue to play an important role in other parts as China's recovery renews demand for resources. Given the nature of Africa's growing ties with China – whether through increased trade, investment or lending – Africa is likely to be an ideal candidate for more rapid adoption of the RMB in trade settlement in the years ahead.

A number of African economies are in what we call the '7 per cent club'. Economies that grow at 7 per cent per annum in real terms roughly double in size over the course of a decade. In 2013, we forecast growth above 7 per cent in Angola, Democratic Republic of Congo, Ethiopia, Gambia, Ghana, Mozambique, Sierra Leone and Zambia and in three Asian economies – China, Mongolia and Sri Lanka. A number of countries will just miss 7 per cent this year but have the potential to exceed it in the future given new reforms and a stronger global backdrop. These include India, Indonesia, Bangladesh, Nigeria and Tanzania, while other emerging countries, such as the Philippines, also look promising.

The Middle East, meanwhile, remains divided and disconnected, with the energy exporting countries in the Gulf Cooperation Council (GCC) faring better than the rest of region, bolstered by high oil prices. In 2013, economic growth is likely to pick up across the region to around 3.8 per cent, with most of the additional growth coming from non-GCC countries partly because these economies will be growing from a much lower base. They will also be helped by improvement in confidence as political transition gains traction, though challenges there remain.

Growth in the GCC is likely to stay strong, although slightly below 2012 levels, with oil prices staying comfortably above budget breakeven prices. High oil prices bode well for government savings and also for investment in key infrastructure projects, particularly in Saudi Arabia, Abu Dhabi and Qatar.

Policy challenges and other risks

A possible revival of the euro area uncertainties and political impasse over the US fiscal situation remain the world's biggest risks in the coming year. However, in many of Standard Chartered's markets, it may be inflation that turns out to be one of the biggest challenges. With interest rates set to stay low in the West for some time and central banks printing unprecedented amounts of money, investors are likely to continue to seek higher yield or returns, boosting capital flows into emerging economies. Since many of these economies do not have deep enough capital markets to absorb the inflows, this excessive liquidity could lead to higher inflation and/or asset bubbles, posing challenges to policymakers. As a result, 2013 will see divergent monetary policy across the region. Some countries will still be easing to support growth, while others are likely to tighten as the year progresses to curb future inflation.

Excessive and unco-ordinated financial regulation is another concern. Although new proposals for Basel III liquidity standards for banks seem a little less stringent – positively – a co-ordinated approach towards global financial regulation remains work in progress, leaving scope for regulatory arbitrage and fuelling the growth of the shadow banking industry. All these factors add to future challenges for emerging market policy-makers.

Political uncertainties in the Middle East as well as growing disputes surrounding the South China Sea could provide other potential flashpoints during the year. However, diplomatic solutions are likely to be preferred by the new sets of leadership recently assuming power in Beijing, Tokyo and Seoul as they pursue their mandates of achieving a sustainable economic growth for their populations.

Conclusion

The key message for 2013, therefore, is that although the world remains divided, with emerging economies in better shape, and disconnected, with rising disparities across regions and within countries, it is still likely to grow at a slightly faster pace than last year, led by Standard Chartered's markets across Asia, Africa and the Middle East. There could be further upsides towards the latter half of the year if the US gets its fiscal house in order early enough and European economies stabilise. More broadly, the seismic shift in the world economy that began more than a decade ago remains in full swing and the balance of power will continue to tilt towards the East.

Our performance in our markets

Diverse engines of growth

Our strategy

We are headquartered in London and have operated for over 150 years in some of the world's most dynamic markets. Our focus continues on the growth markets of Asia, Africa and the Middle East while also increasingly leveraging our presence in Europe and the Americas to facilitate cross-border business and trade intermediation between the West and the East.

Our performance

- Highly diversified income stream, with 26 markets generating income in excess of $100 million
- All geographies, with the exception of India, delivered headline income growth, with Africa crossing $1.5 billion for the first time
- Wholesale Banking continues to deepen client relationships, becoming the core bank to more clients
- Consumer Banking further developed and expanded its digital distribution capabilities in addition to expanding the branch network in China, Africa and India

Hong Kong

Hong Kong, which has a network of 79 branches and 236 ATMs, continues to be one of our largest geographies in terms of operating income and profit. However, reflecting the increasingly diverse nature of the Group, the proportion of the Group's income derived from Hong Kong has fallen from 29 per cent 10 years ago to 18 per cent in 2012. Operating profit rose by 7 per cent to over $1.6 billion in 2012 and the balance sheet continues to be highly liquid. In Consumer Banking, we gained market share across all major products and in Wholesale Banking, the increasing internationalisation of the renminbi (RMB) and our focus on Hong Kong as a hub into and out of China continue to be the cornerstone of growth.

Singapore

Our global Consumer Banking and Wholesale Banking operations are headquartered in Singapore and 9 per cent of our employees are based there. Operating profit at $0.9 billion was slightly lower than the strong performance seen in 2011, impacted in part by a vigorously competitive environment. In Consumer Banking, we continued to see good growth in unsecured lending and deposits and we invested in a number of innovative products, including a market-first security token debit card. In Wholesale Banking, Transaction Banking grew strongly despite a global slowdown in trade flows, as we continued to deepen and strengthen our customer relationships but this was offset by lower foreign exchange and corporate finance income.

Korea

In January 2012, we rebranded our operations in Korea from SC First Bank to Standard Chartered Bank Korea, rebranding one of the Group's largest distribution networks, with 391 branches and 2,605 ATMs (including alliance ATMs). Within Consumer Banking we continued to offer innovative solutions, launching online sales capabilities and smart phone banking for consumer products. We also originated $5 billion of fixed-rate mortgages, which were transferred under the Korea Housing Finance Corporation's Mortgage Purchase Programme. Wholesale Banking saw good growth in Transaction Banking and continued to direct income flows across the Group's network. However, the economic environment in Korea remains challenging. Operating profit improved in 2012 to $0.5 billion from $0.2 billion in 2011, which was impacted by costs relating to an Early Retirement Programme.

Other Asia Pacific

We have a strong presence in the growth markets of this region, which includes China, Indonesia, Malaysia and Taiwan, with income being well diversified across both businesses. Income grew in all major markets across the region, with China driving more than one-third of the income growth as we focus on high-value consumers and generating business from the trade and investment links across our footprint with China. We also continued to grow our distribution network in China, and opened our 100th outlet in 2012. Both Indonesia, through our branch and our joint venture with Permata Bank, and Malaysia also experienced good growth across both businesses. Taiwan continued to be impacted by regulatory constraints but has continued to reshape its balance sheet and liability mix.

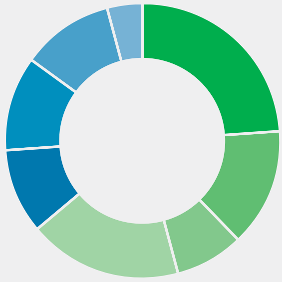
India

India houses SCOPE, our global shared service centre, and together with our banking operations accounts for over 18,000 of our employees globally. India's performance continued to be affected by a difficult macroeconomic environment. A 15 per cent depreciation in the rupee over 2012 and continued high interest rates impacted business sentiment and corporate activity remained subdued. This particularly impacted Corporate Finance income within Wholesale Banking, although this was largely offset by strong growth in Transaction Banking. India continues to be a significant driver of income generation across the Group's network. Within Consumer Banking, we built on our acquisition of two unsecured loan portfolios during the year and further expanded digital distribution channels.

Middle East and Other South Asia (MESA)

This region includes our markets in the UAE, Pakistan, Bangladesh and Bahrain, of which the UAE continues to be the largest. Income growth across the region remained subdued, with operating income up 1 per cent compared with 2011. In the UAE, a good performance in Consumer Banking was offset by lower Wholesale Banking income. Client income, however,

Our global Consumer Banking and Wholesale Banking operations are headquartered in Singapore and 9 per cent of our employees are based there



Percentage of total Group profit before taxation by region in 2012

Hong Kong	24%
Singapore	14%
Korea	8%
Other Asia Pacific	18%
India	10%
Middle East and Other South Asia	11%
Africa	11%
Americas, UK & Europe	4%

remained resilient, driven by higher Trade Finance income as growth rates and sentiment improved in the region. We also continue to build our Islamic Banking franchise under the 'Saadiq' brand, growing income across both businesses by enhancing product capabilities in Consumer Banking and delivering a number of corporate finance sukuk, or Islamic bond transactions in Wholesale Banking.

Africa

The Group is present in 14 sub-Saharan markets and income growth within this region is highly diversified, with seven markets delivering over $100 million of income and two of those over $200 million. Nigeria, Kenya, Ghana and Zambia continued to be our largest markets and we saw good growth in South Africa. Operating income was up 15 per cent while operating profits grew 23 per cent with both businesses growing strongly. Consumer Banking saw good growth in SME and payroll-linked lending, coupled with good levels of deposit growth, and Wholesale Banking income exceeded $1 billion for the first time as we continue to diversify our revenue engines across products and clients. We continued to expand our distribution network, adding 27 branches to support our 'Africa 100' strategy.

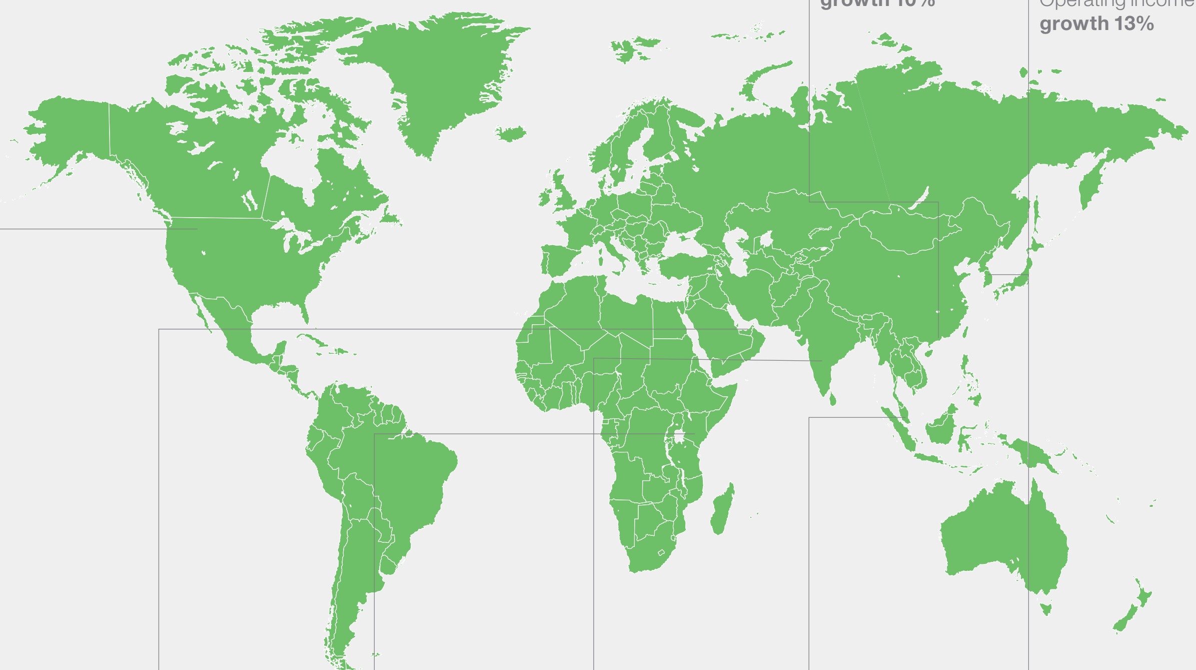
Americas, UK & Europe

The Group is headquartered in London and this region continues to be strategically important to us. We are increasingly leveraging capabilities developed and built within this region to support our global client base – for example, supporting Asian client investments in Europe or European client trade flows with Asia. Wholesale Banking dominates this region, comprising over 90 per cent of income generated and we have seen double-digit growth across Wholesale Banking products compared with 2011 as we offer a global execution platform. Within Consumer Banking, we continue to build our Private Bank offering. Operating profits were, however, impacted by a charge of $667 million relating to the settlements with the US authorities.

Total operating income **$19,071 million**
Total operating income **growth 8%**

Hong Kong
Operating income
$3,348 million
Operating income
growth 10%

Other Asia Pacific
Operating income
$3,960 million
Operating income
growth 13%



Americas, UK & Europe
Operating income
$2,296 million
Operating income
growth 30%

Middle East and Other South Asia
Operating income
$2,234 million
Operating income
growth 1%

Africa
Operating income
$1,593 million
Operating income
growth 15%

India
Operating income
$1,585 million
Operating income
decline 12%

Singapore
Operating income
$2,203 million
Operating income
growth 1%

Korea
Operating income
$1,852 million
Operating income
growth 8%

People
Bringing our culture and values to life

Our highlights in 2012

- Strengthened the link between our values and our brand promise, recognising how employees bring them to life through the introduction of the Chairman's Here for good Awards
- Increased our already high global employee engagement score to 4.26 on a scale of 1 to 5, showing the strong levels of engagement and commitment across the organisation
- Grew our global headcount by more than 2,000 and further expanded our graduate population as we continue to strengthen our cultural and generational diversity
- Reinforced the importance of how objectives are achieved, in terms of values, conduct and behaviour

Our priorities in 2013

- Reinforce Here for good as the Group's core purpose helping our people to use the brand promise as the standard by which they behave and make decisions
- Grow our future leaders by increasing their understanding of generational differences and targeted development opportunities
- Refresh the capabilities needed to sustain success across the Group and develop innovative ways to identify, manage and develop these capabilities
- Strengthen the pivotal role of people managers in delivering a differentiated employee experience, and equip them with the skills they need to work in an increasingly complex and regulated environment

Employees

89,058
people

127
nationalities

68
markets

With over 89,000 employees representing 127 nationalities, the diversity of our workforce is a core strength and important part of what makes our culture distinctive. A belief in, and commitment to, our brand promise, Here for good, motivates our people to deliver consistently exceptional performance while maintaining the highest standards of fairness and integrity.

We remain committed to providing a compelling employee experience that meets the same high standards we aspire to deliver to our clients and customers. We recognise that different views create innovation and we work hard to sustain an open and collaborative working environment. We value our employees for who they are and what they bring to the Group, encouraging them to make the most of their natural strengths as they pursue their career aspirations. Providing relevant and meaningful learning opportunities is central to that experience and ensures our people have the capabilities needed now and in the future.

Assessing people's performance both on what and on how objectives are achieved has been central to our remuneration approach for the past 10 years. It is an important part of how we translate our distinctive values and culture into everyday actions and decisions, and so conversations about our values are a key part of our twice-yearly performance reviews.

Attracting and retaining talent

We continue to hire to support our growth in Asia, Africa and the Middle East and have increased our net headcount by more than 2,000 Group-wide in 2012. We continue to seek people from diverse backgrounds to support the needs of clients and customers locally, and who can collaborate and innovate globally. We also look to hire people who share our vision, our commitment to performance and our deeply-felt values.

Continuing to build and enhance our dedicated specialist recruitment team in support of our business requirements is a top priority. In 2012, we expanded our capability in Africa in line with anticipated growth, with a particular emphasis on key hubs in Kenya, Nigeria, Botswana and South Africa, to support our 'Africa 100' strategy in Consumer Banking and continued growth in Wholesale Banking.

Customer-facing roles and relationship managers remain a high priority for us as our business becomes increasingly aligned to the needs of our clients and customers. To ensure we not only attract but also retain the best talent, we aim to nurture people's careers by making relevant opportunities accessible and help them to develop skills, knowledge and experience in different functions or geographies, or develop a world-class specialism. In Consumer Banking, we have tailored our messaging and communications to give candidates better insights into careers in relationship management.

1 A customer and employee at our Gulshan branch in Dhaka. We are the oldest foreign bank in Bangladesh and have operated there for over 100 years

2 We have extended flexible working arrangements for employees to a further seven markets including Dubai

Graduates are an important source of talent and in 2012, we hired more than 450 on to our two flagship programmes: the International Graduate Programme and Consumer Bank Fast Track Programme. We aim to have a positive impact on graduates' career choices and direction by having conversations with them focused on their strengths and what is important to them.

We are also expanding the ways in which we engage with candidates world-wide through launching our careers presence on Facebook and Twitter. By doing so, we have increased awareness of available career opportunities and deepened understanding of what it means to work for Standard Chartered.

We have also strengthened our presence on LinkedIn, almost doubling our followers. We scored 22 per cent on the Talent Brand Index, LinkedIn's measure of the strength of an organisation's brand as an employer. This was more than double that of our closest peers. As a result of our strong employer brand, we were ranked as the 11th 'most in demand employer' by Finance & Accounting professionals across the globe, in LinkedIn's inaugural Most InDemand Employers index.

Developing our leadership capabilities

We base the development of our people on their individual strengths. We encourage our people to identify and agree with their managers, ways to grow their distinctive talents.

Strengthening our leadership capability remains a key business priority to ensure we have strong leaders today and in the future. Each year, our top 200 leaders and the top 100 senior teams have access to internal leadership coaches to support them through major changes. We also provide opportunities for groups of existing and future senior leaders to work together on executive leadership taskforces to collaborate in finding ways to make a positive difference to a global corporate issue.

We recognise the need to understand and make the most of generational differences. A number of pilot initiatives have begun, including a 'reverse mentoring' development programme in China for 20 'Generation X' mentees working and socialising with their 'Generation Y' mentors.

In 2012, we increased the number of leadership development opportunities provided to our global management by 26 per cent. We also increased the inclusivity of our leadership development activity, particularly for women in middle management roles. We launched a unique 'immersion' programme for our top 70 leaders to create a shared understanding of our most important future markets: China, India and Africa.

We continue to promote skills-based volunteering as part of our global volunteering programme. This encourages employees to use their skills to support their local communities, whether through career guidance or interview training for women who want to return to the workplace.

Our Great Manager Programme remains the core development programme for our 16,300 managers. In addition, we have delivered a number of bespoke initiatives, including a pilot coaching framework for branch managers in Taiwan, Singapore and China, encouraging the use of their strengths to create an environment in which their teams can perform better.

Our development programmes are supported by a number of tools and processes including Learning@SCB – a dedicated intranet site promoting self-driven learning. The site houses a wide range of learning tools and shares success stories from around our network.

Business growth through Diversity and Inclusion

Diversity and Inclusion (D&I) is an intrinsic part of our Here for good brand promise. Our philosophy goes beyond simply recognising and accepting the differences in others; we continually work to ensure that those differences are valued and respected. Through inclusive leadership we aim to enable our people to have a voice and to contribute fully to our business growth. We pursue the goal of balanced leadership, reflecting the diversity of our client and customer base. We are committed to supporting financial education and empowerment in the markets where we operate. To this end, we provide financial literacy training for those from disadvantaged communities.

We place particular focus on gender, culture, nationality and inclusion and we look at diversity in all of its facets. This approach helps us attract, retain and develop the best talent, getting the best out of the broadest spectrum of people in order to sustain strong business performance.

In 2012, we helped create employment opportunities for people with disabilities, through initiatives such as targeted recruitment career fairs in Ghana and Sri Lanka and recruitment drives in Uganda and Qatar. Our Visually Impaired Telesales New Business Initiative has also grown strongly, and we now have nine teams of visually impaired employees working alongside their sighted peers in eight markets, creating a positive impact on the lives of the people around them and contributing to enhanced sales growth.

People continued

Within the workplace, we continued to strengthen the reach of our employee networks with the launch of Lesbian, Gay, Bisexual and Transgender (LGBT) networks in Singapore, Hong Kong and the UK, ensuring a more inclusive environment for our people.

This year, we extended our flexible working arrangements to a further seven markets including China, India, Singapore and the UAE. We now provide consistent flexible working and sabbatical opportunities in 10 markets.

As part of our approach, we have increased the reach and scope of our career development programmes for women in middle management roles, benefiting almost 450 of our female employees.

Through our people, we have ensured that disadvantaged members of the communities where we work have access to relevant financial training and resources that enable them to make a difference. This has included war widows in Sri Lanka, visually impaired students in Uganda, women entrepreneurs in Nigeria, as well as many others in Cameroon, Kenya, Nepal, Turkey and Zambia, and across our footprint.

Building our employee engagement

The pride, passion and commitment that our people contribute to the Group are essential to our success. We focus on delivering an employee experience where our people feel strongly connected to the Group and are able to do what they do best each day.

One way in which we enhance our employees' experience is by conducting The Gallup Organisation's Q^{12} employee engagement survey. In 2012, 95 per cent of employees took the opportunity to have their say about what it feels like to work in the Group.

This year we continued our progress towards world-class engagement, increasing our Q^{12} Grand Mean score to 4.26 out of a possible 5. Some of our key markets, such as Ghana, Uganda and Indonesia, made significant improvements in engagement. Hong Kong has remained at a world-class engagement level for a fifth consecutive year. Ghana's and Uganda's significant improvement now place these markets at a world-class level of engagement, along with China, Kenya, Korea, Taiwan and Thailand.

A sustained focus on the role of the manager and developing team effectiveness has contributed to the Group's success in building engagement for our people on a global scale. Our external environment has posed a number of challenges and uncertainties, but these strong survey results show the Group remains a great place to work.

Our sustained high performance was recognised by Gallup, which awarded us the 2012 Great Workplace Award for the second year running.

Our culture and values

Our brand promise, Here for good, describes who we are, what we stand for and is what makes our culture so distinctive. That, and our commitment to live our values – courageous, responsive, international, creative and trustworthy – underpins our thinking, decisions and all our activities.

In 2012, we provided support to our 16,300 managers to enable them to have more effective, values-led performance conversations, reasserting our emphasis on 'how' we achieve results, as well as 'what' is achieved. In Consumer Banking we have enhanced the descriptive behaviours of our values to help illustrate how our employees can bring them to life and how best to continue doing even more in the future.

We strive to create a culture where people have a strong sense of personal accountability and are able to make good personal judgments, based on our values. During 2012, we strengthened this emphasis in the definitions of our values and will reflect them in our refreshed Group Code of Conduct in 2013.

We continued to embed Here for good in 2012 by improving employees' practical understanding of our brand promise and how to bring it to life every day, as well as embedding it within our leadership agenda. The launch of an internal website on our brand story and the Chairman's Here for good Awards have been key elements of this. The Awards recognise exceptional employees who role model the Group's values and demonstrate senior leaders' commitment to embedding the brand promise.

We value our employees for who they are and what they bring to the Group and recognise that different views create innovation. We encourage our people to pursue their careers and personal aspirations and strive to create an open and collaborative working environment in which they can maximise their talents. We maintain an open and collaborative dialogue with our employees, through staff representatives, regular townhall forums and open question sessions with senior leaders as well as our annual employee engagement survey, in which participation has remained above 95 per cent for more than a decade. In addition, providing world-class training and development opportunities remains central to our long-term commitment to invest in our people.

Employee relations

We strive to ensure that our employment policies meet relevant social, statutory and regulatory conditions and practices across all our markets, and remain committed to building and maintaining strong collective relationships and agreements. We have an employee relations presence providing regulatory support in all our key markets, ensuring greater alignment of our people-governance policies while also promoting flexible employment practices. Creating a workplace that endorses diversity and recognises the generational differences of our growing multi-generational workforce remains a key priority for us. Almost 37 per cent of our workforce is under 30.

1 Supporting a customer at a branch in Lagos. Nigeria remains one of our largest markets in Africa

2 An employee in the dealing room of our Taipei office in Taiwan

In 2012, we developed a more consistent global approach to the management of misconduct cases and improved employee risk management through the launch of new 'consequence management' and 'case management' systems. In addition, we have strengthened communications across our employee relations community, improving collaboration and good practice. We have also continued to improve employee awareness and understanding of our Speaking Up policy, which enables staff to confidentially report concerns about misconduct, as part of our focus on ensuring fair and sustainable employee relations.

Performance and reward

Our One Bank approach to performance and reward ensures remuneration structures are balanced and reflect the risk profile of particular businesses, by making use of all aspects of people management, rather than just remuneration. The Group's performance and reward approach is designed to drive sustainable performance, by ensuring that reward programmes support our business strategy and are both supportive of, and aligned to, the Financial Stability Board's principles on sound remuneration practices. This is reinforced by our distinctive culture, and the importance we place on our values as part of compensation decision-making.

Our success depends upon the performance, behaviours and commitment of our employees. Through our ePerformance system we have a disciplined and transparent approach to managing employee performance. Every employee has a clear set of objectives, which include non-financial performance measures based on our five values.

Performance reviews and subsequent reward decisions are based not only on what employees have achieved, but also on how they have achieved it. In addition to a performance rating, employees are awarded a rating (on a scale of A to E) based on how they have demonstrated the Group's values in their everyday working life. The rating has an impact on the level of reward an employee receives. In 2012 those given an E values rating received no discretionary performance award.

Training to support managers in agreeing and reviewing values objectives and behaviours is provided ahead of the interim and year-end reviews. The values are also embedded in a number of key processes and policies such as the Group Code of Conduct. In addition, to reinforce the extent to which our leaders demonstrate the values and culture, the Group has a '360 degree' feedback process.

Individual reward and incentives are linked directly to the performance and behaviour of the employee, the performance of the business and the interests of shareholders. Our deferral levels are meaningful and are designed to increase with seniority and the amount of variable compensation.

In 2012, we strengthened our focus on 'fair accountability', ensuring that behavioural and other relevant performance factors are taken into account when making individual remuneration decisions, and through senior management demonstrating and reinforcing exemplary governance and ethics across the Group. We also continued to review our approach to sales incentives in line with Consumer Banking's customer-centric approach.

For further information on our performance and reward policies, please refer to page 171 of our Directors' remuneration report.

Summary

In 2012, our people strategy remained consistent and focused on enabling sustained performance through a compelling employee experience. We have maintained employee engagement, considerably strengthened our leadership capability and agility through our world-class leadership development programmes, and further embedded our values and Here for good through the introduction of the Chairman's Awards.

Focused intervention has enabled us to achieve real progress in tackling attrition in key markets, making a tangible difference to our employees' experience. More broadly, our focus on improving our key people processes and systems continues with the roll out of our one-stop people advice and guidance portal in Africa, a comprehensive review of the front line incentive programmes in Consumer Banking and the continued simplification of our biannual performance review.

We believe that our focus on leadership and the agility of our organisation, the creation of a strengths-based organisation and the employee experience remain highly relevant given the turbulent external climate. We recognise the critical role our people managers play in creating a compelling and differentiated employee experience and in building strong client and customer relationships. We will continue to strengthen this pivotal role in the coming year whilst developing our understanding of generational differences within our growing multi-generational workforce, many of whom may become our leaders of the future.

We do not take our distinctive culture for granted and in 2013 we will continue to reinforce the brand promise as the Group's core purpose by helping our employees prove through their actions and decisions that we are Here for good.

Sustainability
Our social purpose

Our highlights in 2012

- $21.1 billion of financing provided to small and medium-sized enterprises, an increase of 9.8 per cent
- 6.4 million people estimated to have been impacted by our lending to microfinance institutions since 2005
- $3 billion growth in our global agribusiness portfolio
- $17 billion of Islamic financing arranged for our clients
- $9.4 billion provided and supported to the renewable energy and clean technology sector since 2007
- 84,548 staff completed financial crime risk training
- 9 per cent reduction in customer complaints in Consumer Banking
- 5 per cent reduction in paper consumption per full time employee
- 22,000 suppliers provided with guidelines on our environmental and social standards through our Supplier Charter
- Exceeded 86,300 days volunteered by our staff, an increase of 31 per cent
- Raised $8 million for Seeing is Believing, reaching a cumulative total of more than $55 million raised since 2003
- Over 47,000 girls empowered through Goal since 2006

Our priorities in 2013

- Roll out our revised Code of Conduct
- Strengthen our financial crime intelligence capabilities and training resources
- Roll out and adopt our updated position statements
- Continue to improve our value proposition for our SME customers, offering additional products and services
- Improve access to finance by expanding our Islamic Banking products to Africa
- Develop our future leaders by providing additional learning opportunities
- Promote our target to reduce paper usage to 10kg per full-time employee by 2020
- Increase our employee volunteering to 90,000 days
- Introduce the Seeing is Believing innovation fund, supporting the development of new solutions to tackle avoidable blindness
- Revise and align our financial education curriculum globally

Sustainability and our business

Banks have an essential role in a prosperous and healthy society. We believe that by running our operations well, standing by our clients and customers and investing in the communities where we operate, we can be a powerful force for good.

Our approach focuses on getting the basics of banking right, making sure that we are financially stable with strong governance and good sources of capital and liquidity, so that we can create value for our shareholders and society over the long run.

Over the past decade, we have continuously delivered for our clients and customers, shareholders and communities. From 2002 to 2012, we increased lending from $57 billion to $289 billion, increased our corporate tax contribution almost five-fold and tripled our staff to over 89,000.

We have three key sustainability priorities: contributing to sustainable economic growth, being a responsible company and investing in communities.

Contributing to sustainable economic growth

By providing finance efficiently and responsibly, we contribute to sustainable economic growth and job creation. We are committed to supporting our clients and customers – helping businesses to set up, expand and trade across borders, helping people to buy homes and grow their wealth for the future. Widening access to finance is a core part of our sustainability strategy, as is our commitment to providing finance that supports sustainable development in our communities.

Sustainable finance

Our main impact on people and the environment is through the business activities we finance. We work closely with our clients and customers to manage potential environmental and social risks associated with our financing decisions and to identify opportunities to finance clean technologies.

Our position statements underpin our approach to environmental and social (E&S) risk management. In 2012, we continued to review our position statements, aligning with the most recent international standards, including the International Finance Corporation (IFC) Performance Standards. In addition, we extended the application of the position statements to small and medium-sized enterprises (SMEs) with the introduction of our SME Sustainable Finance Framework, which ensures that all discretionary SME lending across our markets is subject to rigorous E&S due diligence.

1 A Standard Chartered volunteer teaches financial literacy to a child in Singapore

2 Standard Chartered supports businesses, economies and communities by financing global trade

We are committed to promoting the development of renewable energy and clean technology. In 2012, we provided and supported financing of $984 million across the sector including wind, solar, geothermal and biofuels. Since 2007, we have provided and supported more than $9.4 billion, meeting our Clinton Global Initiative (CGI) pledge to provide $8 billion to $10 billion for the sector by 2012.

Access to finance

We use our balance sheet to stand by our clients and customers through good times and bad. The lending we provide to people and businesses helps to support job creation and economic development across our markets. Enabling international trade to flourish is a key sustainable business priority for Standard Chartered. We are also committed to extending access to finance for individuals and small businesses that have traditionally been underserved by financial institutions.

As one of the world's leading trade banks, we have continuously supported trade over the past decade, staying open for business throughout the financial crisis. We are present in some of the world's fastest-growing markets, and ideally placed to support new trade corridors as they emerge. In 2012, we maintained our position as the second-largest trade finance bank globally.

SMEs are key drivers of job creation and growth across our markets. In 2012, we increased lending to SMEs by 9.8 per cent to $21.1 billion, hired 7 per cent more relationship managers to support our customers and continued to expand our product offering and service guarantees.

We remain committed to microfinance as a means of lifting people out of poverty. Since 2005, we have provided more than $970 million to Microfinance Institutions (MFIs) across our footprint, with lending of $120 million to 19 MFIs in 2012. Through this financing, our MFI partners have reached approximately 6.4 million individuals.

With appropriate access to finance, the agricultural sector in emerging economies can make a significant contribution to global food security and local economic development. In 2012, we grew our agribusiness portfolio by $3 billion, supporting the sector's development across our footprint.

We continue to deepen our product offering for clients and customers seeking financing consistent with Islamic principles. Through our dedicated Islamic Banking brand, Standard Chartered Saadiq, we have arranged in excess of $73 billion in Islamic financing since 2004. In 2012, we provided financing of $17 billion, expanded Islamic financing solutions for SMEs and launched a comprehensive suite of Islamic financial products for our Private Bank clients.

Being a responsible company

We want to deliver long-term value for our shareholders and society. This means having the right culture, structures and processes in place to ensure that we practise strong governance, serve our clients and customers well and provide a great workplace for our people. Doing what we can to combat financial crime and protect the environment is also crucial to this commitment.

Governance

Good governance contributes to the long-term success of a company, creating trust and engagement between the company and its stakeholders. The right culture, behaviour and values need to be adopted by the Board and actively lived and promoted by the Group Chief Executive and all levels of management. However, it cannot end there. It needs to permeate the organisation at every level. We continue to embed E&S governance within our business.

Financial crime

We continually work to prevent our products and services from being used for criminal financing activity. In 2012, we completed a Group-wide financial crime risk transformation programme launched in 2011. We introduced regional hubs to enhance regional and country monitoring, revised customer due diligence requirements in Wholesale Banking and Consumer Banking and strengthened oversight by changing the Group Financial Crime Risk Committee's reporting line from the Group Operational Risk Committee to the Group Risk Committee, a more senior forum.

Sustainability continued

Our social and economic impact in Bangladesh

In 2012, we commissioned our third independent study to measure our socio-economic impact – this time in Bangladesh. Bangladesh has grown rapidly in the last decade and as the oldest foreign bank in the country, we have been operating there for more than 100 years.

The study illustrates that the banking sector plays a key role in the development and growth of national economies. For example, through direct, indirect and induced impact, for every one job at Standard Chartered Bangladesh, 545 jobs are supported in the local economy.

The study, conducted by Professor Ethan Kapstein of Georgetown University, also shows that through direct, indirect and induced impact, we support 1.5 per cent of Bangladesh's GDP and are one of the country's most important tax payers. We contribute to 13.2 per cent of total Bangladesh international trade through trade finance, loans in US dollars and mobilising offshore finance for our clients.

There will always be things that we can do better. This study has helped us to understand how we can further enhance our social and economic contribution in Bangladesh. For example, the report reveals that our largest single value added impact comes from our lending to SMEs. Today, nearly 80 per cent of all industrial entities in Bangladesh are SMEs. They are also responsible for one-quarter of the nation's workers. With this in mind, one of our priorities in Bangladesh will be to further increase our engagement in this sector.

Our other independent studies conducted in 2010 look at our social and economic impact in Ghana and Indonesia.

Responsible selling and marketing

Responsible selling and marketing is integral to how we do business. In Consumer Banking, our Customer Charter outlines our commitment to treat customers fairly at all times. In 2012, we continued to embed training on responsible selling to staff across Consumer Banking and conducted compliance reviews of our investment product approvals, marketing materials and complaints handling. Our rate of customer complaints decreased by 9 per cent from 2011 to 2012.

In Wholesale Banking, treating customers fairly is a requirement of our Code of Conduct and our Financial Markets Dealers Code of Conduct. In 2012, we regularly assessed our policies, procedures and controls against applicable regulatory guidelines and industry best practice.

People and values

Our distinctive culture and values guide the way we do business, allowing us to deliver on our Here for good brand promise. We encourage a collaborative leadership culture that values diversity and promotes inclusion. We focus on providing our people with learning and development opportunities so that they can grow personally and professionally. In 2012, 92 per cent of our staff received training including online and face-to-face training.

Environment

We consider the environmental challenges across the countries where we operate and proactively manage the direct impact of our operations. In 2012, we improved the energy efficiency of our offices and branches by 7 per cent and decreased our paper consumption by 5 per cent per full time employee (FTE). We continue to stretch our commitments, and set a new target to reduce paper consumption to 10 kg per FTE by 2020.

Suppliers

Through our sourcing and procurement policies, we aim to support local business in our markets. In 2012, we introduced the Standard Chartered Supplier Charter, which sets out the environmental and social standards we expect of our 26,000 suppliers. We shared the Charter with almost 90 per cent of our suppliers in 2012, reinforcing the consistent standards and values we expect across all of our markets.

1


2


1 Employees at Soul Mate, a hair care manufacturer in Lagos and an SME client of Standard Chartered

2 Standard Chartered partnered with Liverpool Football Club to create The Perfect Match, raising funds to tackle avoidable blindness through Seeing is Believing

Investing in communities

Our sustainability as a business is closely intertwined with the health and prosperity of the communities where we operate. Through employee volunteering and community programmes, we work with partners to deliver initiatives that promote positive social and economic outcomes for people in our markets.

Employee volunteering

We actively encourage our staff to volunteer their time and core skills to benefit their local communities. Each employee is entitled to three days of paid volunteering leave per year. In 2012, we set a record with employee volunteering reaching 86,300 days, an increase of 31 per cent from 2011 and exceeding our target of 70,000 days.

Community programmes

Seeing is Believing is our global campaign to tackle avoidable blindness. From 2003 to 2012, we impacted over 31 million people. In 2012, we reached a new fundraising milestone, at over $55 million, passing the half-way mark towards our goal of raising $100 million by 2020. We also launched six new comprehensive eye-care projects across eight countries.

HIV and AIDS remain a serious challenge in many of the markets where we operate, impacting our staff, their families and the broader community. In 2012, we furthered our commitment to support awareness of HIV and AIDS through our workplace education programme, Living with HIV. We revised our comprehensive training toolkit to provide up-to-date information and resources to our employee and community partners.

In many countries across our footprint, opportunities for young people are constrained by persistent unemployment, continued gender inequality and limited access to education. Goal, our global youth development programme, combines sports with life skills and financial literacy training to empower adolescent girls. From 2006 to 2012, Goal reached more than 47,000 girls in six countries. In 2012, we piloted the inclusion of boys to promote engagement on gender equality.

Our performance

We have ongoing dialogue with our stakeholders including non-governmental organisations, industry bodies, governments, regulators and socially responsible investors.

Our sustainability performance is also evaluated by trade publications, ratings agencies and indices specialised in the socially responsible investment market.

PEOPLE
PLANET
PROFIT

In 2012, we were proud to be named Sustainable Global Bank of the Year by the Financial Times and the International Finance Corporation recognising our commitment to embedding sustainability across our business.

Dow Jones Sustainability Indexes
Member 2011/12

For the third year running, we were included in the Dow Jones Sustainability Index (DJSI) World Index and European Index. The DJSI evaluators noted our strong performance in stakeholder engagement, brand management, financial inclusion and climate change strategy.

FTSE4Good

We are listed in the FTSE4Good index, which has been designed to measure the performance of companies that meet globally recognised corporate responsibility standards.

CARBON DISCLOSURE PROJECT

We are a member of the Carbon Disclosure Project (CDP), which has recognised our achievements in managing our environmental impact. In 2012, we received a score in the top 10 per cent of FTSE 350 companies.

Operating and financial review

India

Standard Chartered is India's largest international bank with 99 branches across 42 cities

The Group in 2012

Consistent delivery and diversified growth

Richard Meddings
Group Finance Director

"The Group has delivered 10 consecutive years of income and profit growth. This resilient performance reflects our diversification and our consistent investment in growth across our geographic footprint. We remain disciplined in the execution of our strategy, maintaining a strong client and customer focus."

Key performance

Operating income

$19,071m

2011: $17,637m

Profit before taxation

$6,876m

2011: $6,775m

Our highlights and achievements in 2012

- Consistent performance, delivering 10 consecutive years of income and profit growth
- Diversified income streams across customers and clients, products and geographies
- Disciplined management of costs, creating investment capacity in both businesses
- A robust risk management process has delivered portfolios with good credit quality in both businesses
- Very strong, conservatively positioned balance sheet, and strong capital ratios, with a Core Tier 1 ratio of 11.7 per cent
- A highly liquid and stable mix of deposits and an advances-to-deposits ratio of 74.1 per cent
- The Group's funding structure remains conservative with limited refinancing required over the next few years

Our priorities in 2013

- We will continue to be disciplined in the execution of our strategy, focusing on the basics of banking, funding before lending, and delivering superior financial performance
- Both businesses will continue building strong relationships with our clients and customers
- We remain committed to capital and liquidity strength and will continue to proactively manage the balance sheet
- We will be disciplined in the deployment of the scarce resources of capital, liquidity and investment to higher returning businesses and geographies

Group summary

The Group has delivered a tenth consecutive year of income and profit growth, as we remain disciplined in the execution of our strategy, with growth underpinned by the diversity of our business across clients and customers, products and geographies.

Operating income increased by $1,434 million, or 8 per cent, to $19,071 million. Profit before tax rose 1 per cent to $6,876 million, or up 11 per cent excluding the $667 million impact of the settlements with the US authorities. On a constant currency basis, operating income rose 10 per cent and profit before tax rose 4 per cent reflecting the continued weakness of certain Asian currencies against the US dollar, in particular the Indian rupee.

Consumer Banking (CB) income increased 6 per cent to $7,202 million and operating profit grew 8 per cent to $1,778 million. Both 2012 and 2011 were impacted by a number of non-recurring items in income and expenditure which are explained further on page 35. Adjusting for these items, CB income increased 5 per cent, in line with the growth in expenses as we accelerated investment in the franchise, while CB operating profit fell 1 per cent.

Wholesale Banking (WB) income increased 9 per cent to $11,779 million and operating profit fell 2 per cent to $5,136 million. Excluding the impact of the settlements with the US authorities, WB operating profit rose 11 per cent.

Corporate items, which are not allocated to the businesses and include the UK bank levy, generated a loss of $38 million in the current year. These items are explained further in note 2 on page 213.

The normalised cost to income ratio, which excludes, among others, the impact of the settlements with the US authorities, decreased to 53.8 per cent from 56.5 per cent in 2011. We continue to manage expenses tightly and have delivered cost growth below the level of income growth, creating capacity to invest in both businesses.

Normalised earnings per share (EPS) grew 14 per cent to 225.2 cents and we continue to improve shareholder returns. Normalised return on equity increased to 12.8 per cent from 12.2 per cent in 2011. Further details of basic and diluted earnings per share together with a reconciliation of normalised earnings are provided in note 14 on page 223.

The quality of the Group's asset book remains good. 72 per cent of the CB book is fully secured and we have continued to selectively grow the unsecured portfolio. Consequently, this has led to an increase in impairment in CB with some pockets of localised pressure. WB loans remain well diversified and largely short tenor, with 62 per cent having a residual maturity of less than one year. WB loan impairment increased although this was due to a very small number of problem accounts. Overall, we continue to have a proactive approach to risk management and remain watchful.

The Group's balance sheet remains resilient, well diversified and conservatively positioned, with limited exposure to problem asset classes. The Group's direct sovereign exposure to the eurozone remains immaterial (see page 95 for further details).

The Group remains highly liquid and we experienced strong deposit growth across both businesses, in particular in Hong Kong, and the Americas, UK & Europe region. This further reduced the advances-to-deposits ratio to 74.1 per cent from 76.6 per cent in 2011. Our funding profile remains conservative and we continue to be a net lender into the interbank market. We saw continued good appetite for our paper, successfully issuing EUR2 billion in the last quarter of 2012, and have limited refinancing requirements over the next few years. We have substantially pre-funded our repayment obligations for 2013.

We remain well capitalised and continue to generate good levels of organic equity. The Core Tier 1 ratio fell slightly to 11.7 per cent from 11.8 per cent in 2011 primarily due to the impact of the settlements with the US authorities.

We remain focused on the basics of banking, funding before lending, and on the disciplined execution of our strategy. We continue to be well positioned not only for the significant opportunities that we see across our footprint in Asia, Africa and the Middle East but also for our ability to act as a bridge connecting these markets with the West.

The Group in 2012 continued

Operating income and profit

	2012 $million	2011 $million	%
Net interest income	**11,010**	10,153	8
Fees and commissions income, net	**4,121**	4,046	2
Net trading income	**2,748**	2,645	4
Other operating income	**1,192**	793	50
Non-interest income	**8,061**	7,484	8
Operating income	**19,071**	17,637	8
Operating expenses	**(10,896)**	(9,917)	10
Operating profit before impairment losses and taxation	**8,175**	7,720	6
Impairment losses on loans and advances and other credit risk provisions	**(1,221)**	(908)	34
Other impairment	**(194)**	(111)	75
Profit from associates	**116**	74	57
Profit before taxation	**6,876**	6,775	1

Group performance

Operating income grew by $1,434 million, or 8 per cent, to $19,071 million. On a constant currency basis, income grew 10 per cent. The Group's income streams continue to be well diversified and all geographic segments delivered positive income growth, except India which was impacted by depreciation of the Indian rupee against the US dollar.

CB income was 6 per cent higher at $7,202 million, with double-digit growth in Other Asia Pacific, Africa and Americas, UK & Europe. Strong growth in Cards, Personal Loans and Unsecured Lending (CCPL), which increased 12 per cent, and Deposits income, up 11 per cent, offset lower Mortgages and Auto Finance (Mortgages) income, which fell 6 per cent as volume growth and margins remained under pressure. Although Wealth Management income was flat, we continued to grow our income mix in products that have a lower correlation to equity markets, such as bancassurance and fixed income.

WB income was 9 per cent higher, at $11,779 million, reflecting well diversified income streams, with client income up by 8 per cent and own account income growing by 12 per cent. This was underpinned by good growth in Trade Finance, up 22 per cent, and Corporate Finance, growing 19 per cent, which offset lower Foreign Exchange (FX) and Commodities income. Principal Finance also benefited from an improvement in equity market conditions.

Net interest income increased by $857 million, or 8 per cent. The Group net interest margin of 2.3 per cent was flat compared with 2011, as asset margin pressure was offset by widening liability margins. In CB, net interest income grew $323 million, or 7 per cent, to $4,907 million. We continue to experience regulatory headwinds in a number of markets and increasing competitive pressures driving asset margin compression and impacting volumes, particularly in Mortgages. This has been offset by good volume growth in CCPL and higher Current Accounts and Savings Accounts (CASA) balances coupled with widening liability margins. WB net interest income increased $534 million, or 10 per cent, benefiting from higher Trade and Cash average balances and improved Trade margins, which offset slightly lower Lending margins.

Non-interest income, which comprises net fees and commissions, trading and other operating income, increased by $577 million to $8,061 million.

Net fees and commissions income increased by $75 million, or 2 per cent, to $4,121 million. Fee income in CB grew as we increased our participation in the Mortgage Purchase Programme (MPP) in Korea (details of which are set out on page 44) and from higher sales of bancassurance products. WB fees were flat primarily due to a lower number of large value transactions within Corporate Finance.

Net trading income increased $103 million, or 4 per cent, to $2,748 million, as growth in Rates offset lower flow foreign FX and Commodities income.

Other operating income, which primarily comprises gains arising on sale from the investment securities portfolio, aircraft and shipping lease income, fixed asset realisations and dividend income, increased $399 million, or 50 per cent, to $1,192 million. Higher operating lease rental income, increased realisations out of the available-for-sale securities portfolio, a gain on the repurchase of subordinated debt of $90 million, and a $74 million gain on a property sale in Korea contributed to the increase.

Operating expenses increased $979 million, or 10 per cent, to $10,896 million. Operating expenses in 2012 were impacted by $667 million relating to the settlements with the US authorities and $86 million relating to a legacy commercial legal provision, while 2011 expenses included recoveries of $96 million on structured notes in the Other Asia Pacific region and a $206 million charge in staff costs relating to the Early Retirement Programme (ERP) in Korea. Excluding these items for both 2011 and 2012, operating expenses increased by 3 per cent year-on-year. Although we continue to manage expenses tightly, we have sustained investment in both businesses with spending on branches, including renovations and relocations, and increased investment in mobile and online technology in CB and investment in Transaction Banking in WB. Staff costs (excluding the impact of the ERP charge in 2011) increased by 2 per cent as an increase in employee numbers across both businesses was partly offset by lower variable compensation and ongoing efficiency initiatives.

Pre-provision profit was higher by $455 million, or 6 per cent, at $8,175 million.

Loan impairment increased by $313 million, or 34 per cent, to $1,221 million. Impairment in CB, which has a largely secured loan book, increased by $173 million, driven primarily by the expected seasoning impact of the growth in the unsecured loan book coupled with pockets of localised stress. WB impairment increased by $140 million and related to a small number of large exposures in India and the UAE. Asset quality across both businesses remains good, although we have prudently increased the number of WB clients we are monitoring more closely, reflecting continuing economic uncertainties.

Other impairment charges were higher at $194 million, up from $111 million in 2011 reflecting write-downs of certain private equity and associate investments. Profits from associate investments grew 57 per cent, reflecting a strong performance from China Bohai Bank.

Operating profit was up $101 million, or 1 per cent, to $6,876 million. Hong Kong remained our largest profit generator, growing operating profit by 7 per cent, and profit in Africa grew strongly, up 23 per cent. This helped offset lower profits across a number of other geographies, with the Americas, UK & Europe in particular impacted by the settlements with the US authorities.

The Group's effective tax rate (ETR) was 27.5 per cent, slightly up from 27.2 per cent in 2011, primarily due to change in profit mix offset by an increase in non-deductible expenses.

The Group in 2012 continued

Group Summary Consolidated Balance Sheet

	2012 $million	2011 $million	Increase/ (Decrease) $million	Increase/ (Decrease) %
Assets				
Advances and investments				
Cash and balances at central banks	**61,043**	47,364	13,679	29
Loans and advances to banks	**68,381**	65,981	2,400	4
Loans and advances to customers	**283,885**	266,790	17,095	6
Investment securities held at amortised cost	**3,851**	5,493	(1,642)	(30)
	417,160	385,628	31,532	8
Assets held at fair value				
Investment securities held available-for-sale	**95,562**	79,790	15,772	20
Financial assets held at fair value through profit or loss	**27,084**	24,828	2,256	9
Derivative financial instruments	**49,496**	58,524	(9,028)	(15)
	172,142	163,142	9,000	6
Other assets	**47,216**	43,916	3,300	8
Total assets	**636,518**	592,686	43,832	7
Liabilities				
Deposits and debt securities in issue				
Deposits by banks	**36,477**	35,296	1,181	3
Customer accounts	**377,639**	345,726	31,913	9
Debt securities in issue	**55,979**	47,140	8,839	19
	470,095	428,162	41,933	10
Liabilities held at fair value				
Financial liabilities held at fair value through profit or loss	**23,064**	19,599	3,465	18
Derivative financial instruments	**47,192**	56,517	(9,325)	(16)
	70,256	76,116	(5,860)	(8)
Subordinated liabilities and other borrowed funds	**18,799**	16,717	2,082	12
Other liabilities	**31,313**	30,316	997	3
Total liabilities	**590,463**	551,311	39,152	7
Equity	**46,055**	41,375	4,680	11
Total liabilities and shareholders' funds	**636,518**	592,686	43,832	7

Balance sheet

The Group continued to be disciplined in its focus on sustaining a strong balance sheet, which remains highly liquid, diversified and conservatively positioned. Growth across both businesses has been robust on both sides of the balance sheet and we continued to focus on the principle of 'funding before lending'. The Group is predominantly deposit funded and our advances to deposits ratio continues to be low at 74.1 per cent, reducing from 76.6 per cent in 2011. We continue to be a net lender into the interbank market, particularly in Hong Kong, Singapore, Other Asia Pacific and Americas, UK & Europe. We continue to see good demand for our paper and our funding structure remains conservative, with limited levels of refinancing required over the next few years.

The Group remains well capitalised, and generated good levels of organic equity during the year, although our Core Tier 1 ratio of 11.7 per cent was slightly lower than 2011, primarily due to the impact of the settlements with the US authorities.

The profile of our balance sheet remains stable, with 71 per cent of our financial assets held on amortised cost basis, which reduces the risk of short-term distress shocks, and 56 per cent of total assets have a residual maturity of less than one year. The Group has low exposure to problem asset classes, no direct sovereign exposure (as defined by the European Banking Authority (EBA)) to Greece, Ireland, Italy, Portugal and Spain and immaterial direct exposure to the remainder of the eurozone. Further details of our exposures to the eurozone are set out on page 95.

Total assets/liabilities grew by $43.8 billion, or 7 per cent, during the year. On a constant currency basis, growth was 6 per cent as some of the Asian currencies appreciated towards the end of 2012 against the US dollar, particularly the Korean won and the Singapore dollar. Balance sheet growth was largely driven by an increase in customer lending on the back of significant growth in customer deposits. Surplus liquidity was held with central banks or in liquid investment securities that meet the more stringent regulatory liquidity requirements. Derivative mark-to-market decreased, largely reflecting lower levels of market volatility.

Cash and balances at central banks

Cash balances increased by $13.7 billion, or 29 per cent, compared with 2011. In addition to higher surplus liquidity, balances at central banks have also grown as a result of higher clearing balances together with increased requirements 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, which include those held at fair value, grew by $19.7 billion, or 6 per cent, to $358 billion.

Consumer Banking portfolios, which represents 46 per cent of the Group's customer advances at 31 December 2012, grew by $7.6 billion to $132.9 billion. Growth was driven by higher unsecured lending (CCPL) which rose $4.0 billion, generating increases in market share in a number of markets as we continued to selectively grow this portfolio. Mortgages were broadly flat, as regulatory restrictions continue to restrain growth in several markets. While Mortgages grew in the key mortgage markets of Hong Kong and Singapore, this was largely offset by a fall in mortgage balances in Korea. In the Korea market, however, we originated $5 billion of fixed-rate mortgages, which were sold to the Korea Housing Finance Corporation under a Mortgage Purchase Programme. We continued to see good growth in SME lending, which increased $1.9 billion with much of the growth in the Other Asia Pacific region.

The Wholesale Banking portfolio remains well diversified by geography and client segment and the business continues to strengthen and deepen relationships across a broader base. Customer advances grew by $9.4 billion, or 6 per cent, to $156.7 billion. Lending increased strongly in Singapore, up 14 per cent, and Americas, UK & Europe, up 12 per cent, driven by the continued ability of these geographies to support cross-border business originating across the network. Growth was seen across a broad range of industry sectors, reflecting increased trade activity and continued focus on commerce, manufacturing and mining sectors which make up 57 per cent of the Wholesale Banking customer lending. Loans to banks increased by 4 per cent mainly as a result of growth within China and in Americas, UK & Europe.

Treasury bills, debt and equity securities

Treasury bills, debt and equity securities, including those held at fair value, grew by $16.2 billion to $120.7 billion, largely due to more stringent liquidity requirements, especially in the UK, which have necessitated higher holdings. The maturity profile of our investment book is largely consistent with 2011, with around 49 per cent (2011: 51 per cent) of the book having a residual maturity of less than 12 months.

Derivatives

Unrealised mark to market positions are $9 billion lower compared with 2011, reflecting a mixture of lower volatility across interest rate, commodity and foreign exchange contracts. Our risk position continues to be balanced, resulting in a corresponding decrease in negative mark-to-market positions. Of the $49 billion mark-to-market positions, $35 billion is available to offset through 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 $36.1 billion, of which the increase in customer accounts was $35 billion. Customer deposit growth was seen across a number of markets with significant increases in deposits seen in Hong Kong, Singapore and within the Americas, UK & Europe region. CASA continues to be the core of the customer deposit base, constituting around 50 per cent of customer deposits. Deposits by banks increased by $1 billion largely due to higher clearing balances, particularly those held within the Americas.

Debt securities in issue, subordinated liabilities and other borrowed funds

Debt securities in issue, including those held at fair value, grew 19 per cent to $61.2 billion as we continued see strong demand for our paper. Subordinated debt increased by $2.1 billion, or 12 per cent, on the back of US dollar denominated issues in the second half of 2012.

Equity

Total shareholders' equity increased by $4.7 billion to $46.0 billion due to profit accretion, foreign exchange translation gains and gains on available-for-sale securities, partly offset by dividends paid to shareholders.

Consumer Banking

Meeting customer needs to build deeper relationships

Steve Bertamini
Group Executive Director and
Chief Executive Consumer Banking

"Our commitment to customers and our unwavering focus on executing our strategy has enabled our business to continue to grow."

Key highlights

Operating income

$7,202m

2011: $6,791m

Secured lending as a percentage of the total book

72%

2011: 74%

Our strategy

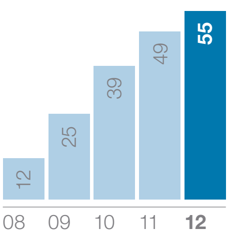
Our strategy is based on three pillars:

- Differentiated country business models with a focus on high value segments
- Driving deeper customer relationships through service and solutions to meet customer needs
- Back-to-basics focus on cost, productivity, risk management and liquidity

Our priorities in 2013

- Remain committed to our strategy to drive sustainable growth
- Accelerate rollout of digital and online/mobile capabilities
- Deepen client and customer relationships and maintain our focus on high value segments
- Continue to grow our balance sheet
- Drive standardisation with continued focus on productivity

Net Promoter Score (NPS) Index



'Net Promoter Score' and 'NPS' are trademarks of Satmetrix Systems Inc., Bain & Company, and Fred Reichheld. Standard Chartered uses Bain methodology recalibrated for financial services to calculate NPS.

Spotlight on 2012

Further diversified our Wealth Management business across products, segments and geographies

Leveraged technology to introduce a number of first-to-market solutions

Developed alliances and partnerships to create scale and enhance customer benefits

Integrated distribution channels to improve customer experience

Business transformation remains on track

Consumer Banking (CB) achieved a good performance and delivered income growth of 6 per cent to $7.2 billion and operating profit on a headline basis increased 8 per cent to $1.8 billion. On a constant currency basis, income is up 8 per cent and headline operating profit up 9 per cent.

We have a strong balance sheet and our income is well diversified across customer segments, products and geographies. We remained focused on high value segments and on deepening our client and customer relationships. Personal, Islamic and Consumer Finance segments also grew in 2012.

We continued to manage risk tightly and maintained a strong control on costs to create room for further investment in the business. In 2012, our key areas of investment included marketing, expanding branch distribution in growth markets, mobile and internet banking capabilities, productivity and system enhancements.

Our non-financial customer metrics also continued to improve as we continued to re-engineer our processes to improve the customer experience. As consumer behaviours shift, we will seek to better serve our customers according to their needs and preferences in order to provide a more seamless experience across all our channels.

We ended 2012 in a strong position and are well placed to capture the opportunities within our markets and our customer base.

Deepening client and customer relationships

Our Customer Charter, launched in 2010, sets out our commitment to provide fast, friendly and accurate service, to deliver appropriate solutions to our customers' financial needs and to reward their total banking relationship with us. It is underpinned by a standardised sales, service and relationship management model, the Standard Chartered Bank Way. This enables our teams to deepen customer relationships centred on needs-based conversations.

2012 marked a significant milestone in the transformation of our business. While our strategy remained unchanged, our customer value propositions were largely installed for our key customer segments and we progressed to focus on delivery and to ensure alignment to the needs of our customers.

- Private Bank income grew by 12 per cent and continues to be ranked in the top 10 private banks in Asia. We won a number of accolades including being named Outstanding Private Bank, Asia by Private Banker International
- SME Banking income grew 5 per cent and loans were up 10 per cent. Building the SME business is a strategic priority across our core markets. It has strong growth potential and is an area where we can demonstrate our distinctive contribution to the broader economy

Singapore Security Token Card
Delivering a safe and secure industry first

"We turned a regulatory challenge into an opportunity to bring greater convenience for our customers."

In November, we became the first bank to offer our customers the chance to combine a security token with any of our credit, debit or ATM cards. This new solution was in response to an industry-wide initiative in Singapore to enhance online security through a more sophisticated authentication process with transaction signing.

In the past, banks had issued bulky token keys to customers for online authentication. The new regulation for enhanced online security authentication presented an opportunity for us to find an innovative solution.

Working with our partners, Standard Chartered developed a token card with the same dimensions as a normal credit card and eliminated the need to carry an extra device required for online banking.

Customers generate a six-digit numeric code using the touch-sensitive keypad on the card. This enables them to login either to online banking or Breeze, our mobile banking application, to validate their online transactions.

Through this innovation, we have turned a regulatory challenge into an opportunity by enhancing security for online and mobile banking with a safe, secure and convenient solution for our customers.

Consumer Banking continued

- Priority & International Banking income grew by 9 per cent. Our model, where dedicated relationship managers are supported by technical specialists, enables us to adopt a holistic approach to their wealth and banking needs across multiple geographies
- Personal Banking income grew by 3 per cent. It is our largest segment and we continued to invest in our distribution channels and to improve productivity to better serve the diverse banking preferences of this segment. Our Consumer Finance business also continued to perform well, delivering 12 per cent income growth
- Our Islamic Banking proposition – Saadiq – offers a comprehensive range of Shariah-compliant financial solutions across six markets, through dedicated Saadiq branches in addition to leveraging traditional distribution infrastructure. In 2012, Standard Chartered Private Bank launched a comprehensive suite of Islamic financial solutions, which is now available across key advisory centres in London, Geneva, Jersey and Dubai

Innovating to meet customer needs

Our products uphold our commitment to offer differentiated service and solutions as we continue to innovate to deliver on our promise to be Here for our customers.

As a result of the progress we have made around digitising, simplifying and standardising our business, we have been able to further improve our turnaround times. This year, we launched 31 new service guarantees, with Korea, Brunei, Bangladesh, Nepal and Zambia introducing their first service guarantees, and other countries extending coverage to more products and services. We now have a total of 61 service guarantees offered in 21 markets across various products and services.

In Hong Kong we launched Breeze Trade, our mobile application for real-time stock trading, and have seen excellent growth and response in the market.

In Korea, we launched a mobile banking application that lets customers open current and savings accounts and apply for credit cards and personal loans using their mobile devices. We leveraged KT's (formerly Korea Telecom) mobile payment alliance to enable our customers to make payments from their Standard Chartered credit card or current/savings account using their mobile phones.

In the UAE, iTill, a solution we introduced to provide a paperless branch experience for cash deposit and withdrawal transactions, has improved turnaround times by 50 per cent. In Pakistan, our Employee Banking team set up a paperless centre of operational excellence to process Employee Banking applications and reduced turnaround times by almost 80 per cent.

Our 360° rewards programme was the first in the market to award reward points based on an overall banking relationship. In December we upgraded this offering by launching a revamped rewards site with improved redemption offers in India. This programme will be rolled out to more markets in 2013.

Over the past two years, we have invested significantly in Wealth Management to develop a robust business model and upgraded our technology platforms to provide investment solutions across asset classes for the different needs of our client segments. Through our Customer Investment Profiling and Product Risk Ratings we have a standardised approach in over 30 markets to ensure our products match each customer's investment profile.

Building scale

Our franchise footprint provides us with many opportunities for growth. We will continue to build scale through productivity gains, targeted investments and building alliances with partners.

The rollout of our next generation branch design is well under way and we now have 100 branches in China and added 27 new branches across Africa in 2012.

We continue to make strong progress in the rollout of our online and mobile capabilities. As a result, we were awarded Best Consumer Internet Bank by Global Finance in 2012 for the second consecutive year. In 2012, we achieved over 1 million unique downloads for Breeze and exceeded 2.6 million active online banking users.

We also established a number of alliances to drive scale and introduce new benefits for our customers. A number of our markets have launched co-branded cards to enable our customers to earn air miles. Airline alliances include Singapore Airlines, Emirates, Gulf Air, Tiger Airways, Garuda, Pakistan International Airlines and Sri Lankan Airways. Retail alliances include Lifestyle and Bajaj in India as well as many others across our network.

Well placed to capture opportunities

In 2013, we will continue to focus on delivering our strategy and our Customer Charter to become the bank that our customers recommend to friends, family and colleagues.

The transformation of our business is on track. Our clear strategy and focus on strong execution is delivering both financial and customer-focused results across a wide range of metrics. We are well positioned to navigate the uncertain external environment and will continue to invest in growing the franchise. We will fully leverage the exciting opportunities provided by the accelerated adoption of mobile technology while delivering on our brand promise to be Here for good.

Consumer Banking

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

	2012								
	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**	**Consumer Banking Total $million**
Operating income	**1,410**	**974**	**1,183**	**1,777**	**440**	**753**	**482**	**183**	**7,202**
Operating expenses	**(771)**	**(553)**	**(795)**	**(1,336)**	**(318)**	**(493)**	**(306)**	**(151)**	**(4,723)**
Loan impairment	**(95)**	**(62)**	**(223)**	**(209)**	**(27)**	**(51)**	**(20)**	**(10)**	**(697)**
Other impairment	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**	**(3)**	**(4)**
Operating profit	**544**	**359**	**164**	**232**	**95**	**209**	**156**	**19**	**1,778**

	2011								
	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	Consumer Banking Total $million
Operating income	1,326	924	1,153	1,613	482	723	422	148	6,791
Operating expenses	(702)	(503)	(1,023)	(1,104)	(352)	(487)	(268)	(166)	(4,605)
Loan impairment	(71)	(29)	(166)	(117)	(32)	(89)	(17)	(3)	(524)
Other impairment	–	–	(5)	–	–	(1)	(6)	–	(12)
Operating profit/(loss)	553	392	(41)	392	98	146	131	(21)	1,650

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

Operating income by product	**2012 $million**	2011 $million	Better/(Worse) %
Cards, Personal Loans and Unsecured Lending (CCPL)	**2,707**	2,422	12
Wealth Management	**1,275**	1,272	–
Deposits	**1,566**	1,409	11
Mortgages and Auto Finance	**1,390**	1,478	(6)
Other	**264**	210	26
Total operating income	**7,202**	6,791	6

Consumer Banking continued

Performance in 2012

Operating income in CB increased $411 million, or 6 per cent, to $7,202 million. On a constant currency basis, income grew 8 per cent. Income in the current year includes a property gain of $39 million and a gain of $13 million on disposal of our Private Banking business in Miami. Excluding these items income increased 5 per cent.

Income in CB remains diverse, with all geographic segments growing income except India, which was impacted by continuing weakness of the Indian rupee against the US dollar.

Net interest income increased by $323 million, or 7 per cent, to $4,907 million, largely driven by increased volumes. Asset margins continue to be under pressure, particularly across mortgages and credit cards and personal loans (CCPL), where margins for both fell by 12 basis points (bps) although this was offset by strong volume growth in CCPL as we continue to selectively grow our unsecured business. Mortgage volumes continue to be impacted by increased regulatory pressures in a number of markets and margins have been impacted by high levels of liquidity across our markets, although margins increased in the second half of the year compared with the first half. On the liability side, both current account/savings account (CASA) and Time Deposits volumes increased with good CASA growth seen in Hong Kong and Korea. The proportion of customer deposits held as CASA remained broadly stable at 58 per cent.

Non-interest income at $2,295 million was $88 million, or 4 per cent, higher compared with 2011 and includes the gains relating to a property sale in Korea and the disposal of our Private Banking operations in Miami. Excluding these gains, non-interest income was 2 per cent higher. Wealth Management income from equity-related products continued to be impacted by market uncertainty in light of weaker equity markets, although this was offset by growth in bancassurance and fixed income products.

Expenses were up $118 million, or 3 per cent, to $4,723 million. Expenses in 2011 included a charge of $189 million relating to the Executive Retirement Programme (ERP) in Korea, which was partly offset by $96 million of recoveries on certain structured note payouts made in prior periods. Excluding these items, expenses increased by 5 per cent, reflecting the flow-through from investments in staff in 2011 and continuing improvements to branch infrastructure and technology to enhance frontline systems, mobile, remote and internet banking capabilities, including our Breeze mobile platform.

Loan impairment increased by $173 million, or 33 per cent, to $697 million. The increase is in line with expectations in light of the portfolio growth and seasoning impact of our unsecured portfolio. It has also been impacted by some localised pockets of stress. The loan charge benefited by $78 million (2011: $84 million) from the sale of loan portfolios during the year.

Operating profit increased by $128 million, or 8 per cent, to $1,778 million. Excluding the impact of non-recurring income and expense items, operating profit fell 1 per cent. On a constant currency basis, the increase in unadjusted profit was 9 per cent. Although regulatory and competitive headwinds have impacted profit growth in a number of our larger markets, there have been strong increases in a number of our smaller markets, including Indonesia and across the Africa, MESA and Americas, UK & Europe regions.

Product performance

Income from CCPL grew $285 million, or 12 per cent, to $2,707 million, with increased volumes more than offsetting continued pressure on margins, which have been impacted by competition across a number of our markets. We continued selectively to grow our unsecured portfolio, particularly in markets with positive credit bureaus, and we have increased market share. Volume growth was also supported by increased levels of bundling with existing products.

Wealth Management income was flat at $1,275 million. While income from equity-related products was impacted by subdued market volumes due to continuing market uncertainty, this was compensated by stronger performance in bancassurance and fixed income products as we focused on building a more diversified product mix.

Deposits income increased by 11 per cent to $1,566 million. CASA balances grew strongly and margins improved across a number of markets. While Time Deposit balances also saw good volume growth, margins were lower compared with 2011 as competition for liquidity intensified.

Mortgages and Auto Finance income fell by $88 million, or 6 per cent, to $1,390 million, as regulatory constraints in a number of markets continued to impact mortgage volumes. Mortgage margins also continue to be compressed due to competitive pressures, although we did, however, see some recovery of margins in the second half of 2012, particularly in Hong Kong. The loss of interest income was partly offset by an increase in fees as a result of increased levels of participation in the Korea Mortgage Purchase Programme (MPP).

Other income primarily includes SME-related trade and other transactional income. It also includes the property and business disposal gains of $52 million.

Geographic performance

Hong Kong

Income was up $84 million, or 6 per cent, to $1,410 million. We saw good volume growth as we gained market share across all major asset and liability products together with an improvement in liability margins, and these more than offset continuing pressure on asset margins. Income from CCPL grew strongly as volume growth cushioned continuing margin compression. While mortgage volumes increased, income was lower than 2011 due to narrower margins, although margins saw an improvement in the latter part of 2012 with a focus on writing new business in higher margin prime rate-based products. Wealth Management income fell as growth in bancassurance and unit trusts was largely offset by lower income from premium currency investment and structured products. SME income increased as we continued to drive growth in the trade book. Deposits income increased as margins improved together with strong volume growth in CASA.

Operating expenses were higher by $69 million, or 10 per cent, primarily due to the flow-through impact from increased front line staff, investments in infrastructure and increased marketing spend.

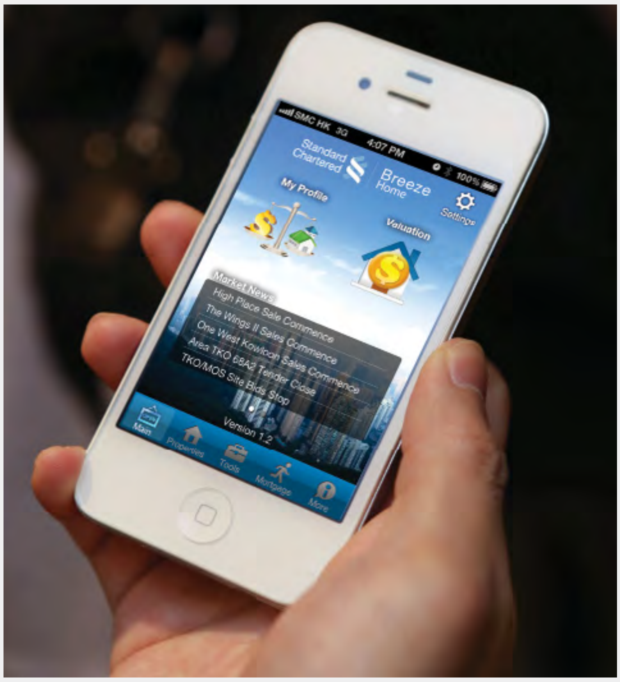
Pre-provision profit was up $15 million, or 2 per cent, to $639 million. Loan impairment was $24 million higher at $95 million, reflecting growth in unsecured lending together with a small increase in bankruptcy filings. Operating profit fell $9 million, or 2 per cent, to $544 million.

Singapore

Income was up $50 million, or 5 per cent, to $974 million. Income growth was led by higher Wealth Management and CCPL income, although there has been further compression in asset margins. Wealth Management income rose as we continued to optimise the product mix, with increased income from unit trusts, fixed income and bancassurance products offsetting lower income from equity-linked structured products. CCPL income grew with strong balance sheet momentum, supported by innovative products such as the Security Token Card, offsetting lower margins. Retail mortgages income fell as an increase in mortgage balances was offset by margin compression as competition intensified. On the liability side, income growth was flat as volume growth was offset by lower Term or Time Deposit (TD) margins as the competition for liquidity increased.

Breeze Home

Enhancing the home buying experience for our customers



"We developed an app to help our customers and ease complexity in the home buying process."

To provide our customers in Hong Kong with up-to-date critical information on local properties, we created Breeze Home, the first all-in-one application for home buyers in Asia.

Breeze Home features a number of tools, including comprehensive property listings, property valuation, mortgage calculator and home buying tips to help customers make an informed decision before making a home purchase.

The intuitive app can match properties with a customer's preferred criteria and financial standing. With the built-in GPS functionality, customers can review nearby properties by list, map or reality view. It can perform 'what if' analysis on a customer's debt situation so that they can see an accurate picture of their finances before they buy.

Breeze Home is the perfect partner to Mortgage Master, our award winning personalised service for customers that includes seven days a week extended business service, 15 minute approval in principle and one-day mortgage approval service guarantees.

By removing some of the stress and complexity involved with the purchase of a home, we have helped our customers through a major milestone in their lives and delivered on our commitment to be Here for our customers.

Consumer Banking continued

Operating expenses increased $50 million, or 10 per cent, to $553 million from investment in technology, higher staff costs and increased levels of marketing.

Pre-provision profit was flat at $421 million. Loan impairment more than doubled to $62 million, due to higher unsecured volumes and the seasoning of the unsecured portfolio. Operating profit fell by $33 million, or 8 per cent, to $359 million.

Korea

Income was up $30 million, or 3 per cent, to $1,183 million and included a $39 million gain on sale of property. Excluding this gain, income was down $9 million, or 1 per cent. Regulatory headwinds continued to impact mortgage income as margins narrowed and balances reduced further during the year as we continued to reshape the balance sheet. This was partly mitigated by fees earned from the Mortgage Purchase Programme (MPP). Under this programme, we sold KRW6 trillion ($5 billion) of fixed-rate mortgages, largely during the second half of the year, to the Korea Housing Finance Corporation. Lower Mortgages income was offset by higher CCPL income, driven by growth in personal lending volumes as we increased market share together with improved margins, although the pace of growth moderated in the latter part of 2012 as we tightened underwriting standards. Wealth Management income increased reflecting strong bancassurance income. Deposits income fell as strong growth in CASA balances was offset by lower margins, which were impacted by a falling interest rate environment.

Operating expenses fell $228 million, or 22 per cent, to $795 million. Excluding the $189 million charge for the ERP in 2011, expenses were 5 per cent lower as flow-through savings from ERP were partially offset by investments in technology and inflation-related increases in staff costs.

Pre-provision profit was higher by $258 million at $388 million. Loan impairment was up $57 million, or 34 per cent, to $223 million due to growth in unsecured products and a market-wide increase in filings under the Personal Debt Rehabilitation Scheme in the face of a weakening credit environment. As a result of the above factors, the operating loss of $41 million improved to a profit of $164 million in the current year.

Other Asia Pacific (Other APR)

Income was up $164 million, or 10 per cent, to $1,777 million. All major markets saw positive income momentum. Income in China was up 30 per cent to $296 million, reflecting strong growth in deposit and personal loan volumes, improved mortgage margins and continued growth in SME. This was partially offset by lower Wealth Management income as weaker investor sentiment resulted in lower volumes of structured products. Income in Taiwan increased marginally to $424 million. Personal loan income grew as a result of widening margins although this was offset by lower income from Mortgages, as balances reduced due to continuing regulatory constraints. Wealth Management income also fell due to lower unit trust volumes but Deposits income increased strongly as CASA margins improved in the second half of 2012. Income in Malaysia rose 10 per cent due to increased income from Personal Loans. Indonesia grew 12 per cent with good growth in Mortgages volumes, secured lending and higher income from CCPL.

Operating expenses were up $232 million, or 21 per cent, to $1,336 million. Excluding the benefit of recoveries on payouts made in respect of structured notes in prior years, current year expenses were up $136 million, or 11 per cent. Expenses in China were up by 20 per cent to $384 million as we continued to invest in new branch outlets, opening 19 in 2012 to end the year at 100 branches.

Pre-provision profit was down $68 million, or 13 per cent, to $441 million. Loan impairment was up by $92 million, or 79 per cent, to $209 million, reflecting a lower level of loan portfolio sales in Taiwan and Malaysia and increased levels of provisioning in line with portfolio growth and mix change. Other APR delivered an operating profit of $232 million, down 41 per cent from 2011, with Taiwan and Malaysia being the most significant contributors to the decline. The operating loss in China increased to $114 million from $108 million in 2011 as we continued to invest in the franchise.

India

Income was down $42 million, or 9 per cent, to $440 million. However, on a constant currency basis, income increased by 4 per cent. During the year, we acquired two portfolios from Barclays in India, the first of which was in February 2012 and the second in December 2012. These portfolios contributed $10 million to income in the current year. Deposits income increased as a result of higher TD volumes and improved CASA margins. SME income benefited from higher volumes and improved liability margins.

Operating expenses were $34 million, or 10 per cent, lower at $318 million. On a constant currency basis, expenses were higher by 4 per cent, reflecting higher staff costs and increased investment in technology.

Pre-provision profit was down $8 million, or 6 per cent, to $122 million. Loan impairment was lower by $5 million, or 16 per cent, at $27 million as a result of the continued focus on secured lending and an improved portfolio quality. On a constant currency basis, loan impairment was 3 per cent lower. Operating profit was lower by $3 million, or 3 per cent, at $95 million. On a constant currency basis, operating profit was 8 per cent higher.

Middle East and Other South Asia (MESA)

Income was up $30 million, or 4 per cent, to $753 million. Income in the UAE increased by 8 per cent with strong growth in CCPL, driven by higher payroll-led lending, which offset slightly lower margins. Mortgages income grew in line with portfolio growth and SME revenues increased due to improved trade flows and focused penetration strategies. This was offset by lower Deposits income with muted liability growth and margin compression. Income from Islamic Banking grew 30 per cent in the UAE. Income in Pakistan fell 2 per cent reflecting some margin compression following interest rate cuts. Bahrain grew 10 per cent as sentiment improved following the uncertainty caused by the Arab Spring in 2011.

Operating expenses in MESA were higher by $6 million, or 1 per cent, at $493 million. While UAE expenses were up 6 per cent, reflecting investments in frontline sales capacity, expenses in most other markets were lower, reflecting tight cost discipline across the region.

Pre-provision profit for MESA was up $24 million, or 10 per cent, to $260 million. Loan impairment continued to fall and was considerably lower at $51 million, down 43 per cent compared with 2011. Most of the reduction arose in the UAE and Bahrain due to adherence to tighter underwriting criteria in addition to an improvement in a number of market factors, including job market stability. MESA operating profit increased 43 per cent, up $63 million to $209 million.

Africa

Income was up $60 million, or 14 per cent, at $482 million. On a constant currency basis, income was up 19 per cent. Income from unsecured lending, which is predominantly payroll-linked, rose as a result of increased volumes as we grew market share, although asset margins remain compressed. Deposits income grew strongly as a result of higher balances and improved CASA margins.

Income grew in each of our four largest markets of Kenya, Ghana, Nigeria and Zambia. Kenya continues to be the largest CB income generator in the region and increased income by 27 per cent as volume growth and wider liability margins offset asset margin compression. Income growth in Nigeria, Ghana and Zambia was primarily led by higher liability margins as benchmark rates increased.

Operating expenses were $38 million, or 14 per cent, higher at $306 million. On a constant currency basis, expenses were 18 per cent higher, as we continued to build out the distribution network, adding 27 new branches, increasing frontline staff and expanding digital distribution channels such as mobile banking.

Pre-provision profit in Africa was higher by $22 million or 14 per cent, at $176 million. Loan impairment was up $3 million to $20 million. Operating profit was up $25 million, or 19 per cent, to $156 million. On a constant currency basis, operating profit increased 24 per cent.

Americas, UK & Europe

Income rose $35 million, or 24 per cent, to $183 million. The business in this region is primarily Private Banking in nature and focuses on delivering our product suite to international customers from across our network. Income growth was driven by higher Mortgages income as volumes increased and margins improved. Unsecured lending was slightly lower due to margin compression. Wealth Management income was impacted by continued market uncertainty across the eurozone. The current year also benefited from proceeds of $13 million from the sale of our Private Banking operations in Miami.

Operating expenses fell $15 million, or 9 per cent, to $151 million as we continued to tightly manage costs. Impairment was higher by $7 million to $10 million. Operating profit increased to $19 million from a loss of $21 million in 2011.

Wholesale Banking
Leveraging our expertise to build deep and long-term client relationships

Mike Rees
Group Executive Director and Chief Executive Wholesale Banking

"Our deep and long-standing client relationships are the foundation of our strategy and underpin the success of our business."

Our strategy
- Become the core bank to more of our clients
- Leverage our international network and cross-border capabilities, and build scale in local markets to better support our clients
- Maintain our strong balance sheet to support our existing clients

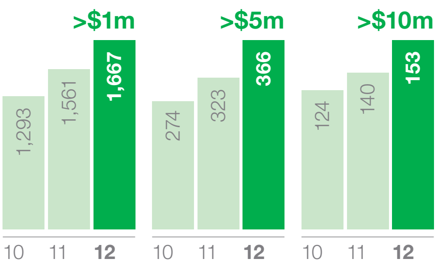
Our priorities in 2013
- Continue to build deep and long-term client relationships by leveraging our expertise and experience
- Maximise the strength of our franchise to support our clients to grow across our footprint
- Continue to manage cost, capital, risk and the balance sheet tightly to create capacity for further investment
- Stay true to our principles in delivering sustainable value for all our stakeholders
- Strengthen our brand and culture to be Here for good

Key highlights

Operating income
$11,779m
2011: $10,846m

Client income as a percentage of total income
81%
2011: 82%

Core bank – number of client relationships



The metric charts our progress towards becoming the core bank to more clients by measuring the number of client relationships where total global income exceeds the threshold amount. The bar chart displays solid growth and the deepening of client relationships year after year

Spotlight on 2012

Refined our client coverage model to better support our clients' needs and further deepen relationships

Increased investment to support future growth with strong expense discipline

Scaled up our network in Africa and China, with Africa income generating more than $1 billion for the first time

Strengthened our relationships with regulators to support the use of the renminbi globally

Delivering our strategy sustains growth

The global economy and the banking industry continued to experience uncertainty in 2012. Many emerging markets in our footprint experienced a slowdown in economic growth impacting trade and weakening foreign exchange rates.

Despite the difficulties in the external environment, Wholesale Banking (WB) demonstrated the consistency, diversity and strength of its business. We continued to outperform the industry and deliver for our shareholders by focusing on executing our strategy.

Our strategy is clear and consistent. We want to lead the way with our clients, for and in, Asia, Africa and the Middle East. Our focus on being a trusted adviser to our clients and staying true to the basics of banking has enabled us to deliver consecutive income growth every year since 2002.

WB achieved this growth in our business through further strengthening our client relationships. Total WB income grew 9 per cent to $11.8 billion with client income constituting over 80 per cent of total income.

We continued to invest significantly in our business to support future business growth, funded by strong expense discipline. Operating profit fell 2 per cent, to $5.1 billion. Excluding the impact of the US settlements, operating profit increased 11 per cent.

Building a business to support our clients

Since launching our client-focused strategy in 2002, we have made significant progress in strengthening our client relationships. We carefully understand our clients' immediate and future financing needs and match our coverage and support accordingly.

In 2012, we refined our client coverage model by better aligning our sales teams across Transaction Banking, Financial Markets and Origination and Client Coverage for an enhanced client experience. This is matched with further investments in upgrading systems and standardising processes, enabling our frontline staff to focus more on client-facing activities.

Supporting the internationalisation of the renminbi

"Our role as a leading adviser on RMB to regulators has strengthened our status as a trusted bank by not only offering a full suite of RMB services to clients but having the expertise to help them respond quickly to liberalisation."

The internationalisation of the renminbi (RMB) continues on an irreversible trend. The RMB is expected to be an important global transaction currency in the coming years, fuelled by China's growth in trade and investment across major corridors around the world.

This development is accelerating changes to the global financial system with new opportunities for businesses, banks and financial centres alike.

In June, we worked with China's Ministry of Finance and the Hong Kong Monetary Authority's (HKMA) CMU Central Bank Placement Coordinating Window to promote the Chinese government's RMB sovereign bond issuance in Hong Kong. This offering was very well received.

We are the first foreign bank to successfully support a client in approvals for RMB cross-border lending quotas. We worked with the People's Bank of China (PBoC) to enable the client to channel surplus RMB funds in the mainland to support RMB-denominated activities overseas. In recognition of the Group's role in supporting the use of RMB for trade, PBoC awarded Standard Chartered the Best Contribution Bank for RMB Cross-border Business.

The Group is also partnering with regulators to promote offshore RMB financial centres. The UK's HM Treasury and the HKMA appointed the Group to be part of the RMB Expert Advisory Group to promote the City of London.

To help benchmark the progress of RMB-based business activity worldwide, we launched the Standard Chartered Renminbi Globalisation Index. The Index measures the offshore RMB business in three key RMB hubs – Hong Kong, London and Singapore – by tracking the growth in RMB in deposits, capital raising, foreign exchange and trade settlement and payments.

In May, we became the largest issuer of RMB euro Commercial Paper, passing RMB1 billion in issuance out of London. The continued deepening of euro Commercial Paper denominated in RMB helps to increase liquidity and allows investors to access short-term RMB securities at attractive yields by leveraging London's capabilities and infrastructure.

In 2012, the Group maintained its position as the largest non-Chinese RMB clearing bank, and the second largest bank in Hong Kong for RMB bond issuance. Flmetrix's 2012 reports showed Standard Chartered closed the year as the top non-Chinese bank provider of RMB services in the Asia Pacific region as well as ranked second in Western Europe and North America, amongst all banks.

Wholesale Banking continued

The success of this strategy is reflected in the growth in our client income. In 2012, we continued to make progress in becoming core bank, or top three bank, to more of our clients. The number of clients contributing more than $1 million, $5 million and $10 million in income grew substantially. We now have 153 clients with income of more than $10 million, compared with 140 in 2011 and 124 in 2010.

We have achieved good income growth across all client segments with double-digit growth in Local Corporates, Financial Institutions Group and Commodity Traders and Agribusiness at 14 per cent, 13 per cent and 16 per cent respectively. Global Corporates grew 4 per cent. Growth in our client segments was underpinned by demand for our Commercial Banking solutions.

Local Corporates is now our largest segment with almost one-third of client income, driven by the strength of our client franchise, international network and customised product solutions. About one-third of our income from this segment is made up of network income, which comprises income generated by clients outside their domestic markets.

Our Commodity Traders and Agribusiness clients achieved strong growth, particularly in Africa, where we were able to provide our clients with a broad range of Transaction Banking and Corporate Finance services as we further deepened our relationships.

Diversified business with our core in Commercial Banking

Our continued strong performance is sustained by the diversity of our growth engines across client segments, products and geographies.

Commercial Banking, which includes Transaction Banking (incorporating Trade and Cash Management), Lending and flow foreign exchange, remains the foundation of our business, contributing more than half of client income. The sustainability of this performance is underpinned by the complementary nature of the different services and high volume of day-to-day transactions.

Transaction Banking grew market share with more clients relying on us to provide working capital solutions to their business. We further extended our lead as the primary bank for corporates' Asian transaction banking operations[1].

Financial Markets continues to develop its offering and grow its reputation in our footprint. In 2012, we led a number of groundbreaking transactions for clients in Asia, Africa and the Middle East. The business derives strength from its linkages and collaboration with other parts of the Group.

2012 was another strong year for Corporate Finance. We see further diversification in our business with more clients choosing to come to us for a broader range of solutions, resulting in an increased number of transactions and a lower reliance on large deals.

Principal Finance works alongside clients to provide Equity and Mezzanine financing solutions. Our strategic positioning supported strong valuation gains and positive realisations that contributed over one-third of Principal Finance income.

The diversity in our performance is also reflected geographically. WB now has 10 markets generating income greater than $250 million with four markets making more than $1 billion. Africa as a region contributed more than $1 billion in income with four markets – Nigeria, Ghana, Kenya and South Africa – surpassing the $100 million mark.

We continue to support clients across our footprint by leveraging the expansion of trade and investment flows. For the first time in a full-year period, network income contributed more than half of client income. Markets that grew network income strongly included China, India, Africa and Korea. China's growth was driven by facilitating our clients' business in Hong Kong and between the China-Africa corridor.

Sharpening execution to drive future growth

In the last decade, we have earned a reputation for putting our clients first through the disciplined execution of our strategy.

We believe our strategy presents future opportunities. We will continue to be relentless in sharpening the quality of our execution by leveraging the strength of our international network and ensuring better collaboration between product groups to deliver our clients' growth ambitions.

As always, we will be guided by our brand promise to be Here for good. Our future success on the next stage of our journey will be underpinned by our commitment to being a force for good and doing the right thing by our clients and our stakeholders.

1 According to East & Partners Asian Institutional Transaction Banking Market report (November 2012) which covered 931 of the Top 1,000 revenue ranked firms in Asia

Wholesale Banking

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

2012

	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	Wholesale Banking Total $million
Operating income	**1,938**	**1,229**	**669**	**2,183**	**1,145**	**1,481**	**1,111**	**2,023**	**11,779**
Operating expenses	**(801)**	**(616)**	**(286)**	**(1,096)**	**(435)**	**(607)**	**(478)**	**(1,680)**	**(5,999)**
Loan impairment	**(14)**	**(4)**	**(26)**	**(37)**	**(138)**	**(265)**	**(18)**	**(22)**	**(524)**
Other impairment	**(7)**	**(2)**	**(7)**	**(95)**	**9**	**(32)**	**–**	**14**	**(120)**
Operating profit	**1,116**	**607**	**350**	**955**	**581**	**577**	**615**	**335**	**5,136**

2011

	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa[1] $million	Americas UK & Europe $million	Wholesale Banking Total $million
Operating income	1,723	1,262	565	1,898	1,323	1,496	960	1,619	10,846
Operating expenses	(693)	(602)	(312)	(961)	(477)	(598)	(446)	(1,058)	(5,147)
Loan impairment	(32)	(19)	(32)	(18)	(80)	(197)	(7)	1	(384)
Other impairment	–	(31)	(8)	31	(60)	(13)	(10)	(8)	(99)
Operating profit	998	610	213	950	706	688	497	554	5,216

1 Amounts have been restated as explained in note 45

Operating income by product	2012 $million	2011 $million	Better/(worse) %
Lending and Portfolio Management	**891**	841	6
Transaction Banking			
Trade	**1,940**	1,595	22
Cash Management and Custody	**1,731**	1,652	5
	3,671	3,247	13
Global Markets[1]			
Financial Markets	**3,663**	3,688	(1)
Asset and Liability Management (ALM)	**849**	921	(8)
Corporate Finance	**2,222**	1,873	19
Principal Finance	**483**	276	75
	7,217	6,758	7
Total operating income	**11,779**	10,846	9

Financial Markets operating income by desk	2012 $million	2011 $million	Better/(worse) %
Foreign Exchange	**1,282**	1,434	(11)
Rates	**966**	893	8
Commodities and Equities	**521**	603	(14)
Capital Markets	**591**	548	8
Credit and Other	**303**	210	44
Total Financial Markets operating income	**3,663**	3,688	(1)

1 Global Markets comprises the following businesses: Financial Markets (foreign exchange, interest rate and other derivatives, commodities and equities, debt capital markets, syndications); ALM; Corporate Finance (corporate advisory, structured trade finance, structured finance and project and export finance); and Principal Finance (corporate private equity, mezzanine, real estate infrastructure and alternative investments)

Wholesale Banking continued

Performance in 2012

WB continued to be disciplined in the execution of its strategy, delivering strong results and a tenth consecutive year of income growth. Operating income grew $933 million, or 9 per cent, to $11,779 million and is increasingly diversified, with the Africa region exceeding $1 billion of income for the first time. Client income, which constitutes over 80 per cent of WB income, increased by 8 per cent compared with 2011 as we continued to strengthen and deepen relationships across a broader client base. Own account income increased 12 per cent.

Net interest income was up $534 million, or 10 per cent, to $6,103 million as average balances across Trade and Cash Management (Cash) increased and Trade margins improved. Non-interest income increased by $399 million, or 8 per cent, to $5,676 million.

Commercial Banking, which includes Transaction Banking (incorporating Trade and Cash), Lending and flow foreign exchange (FX), continues to be the core of the WB business, contributing over half of client income. Transaction Banking delivered a strong performance, with income up 13 per cent, driven by Trade Finance, where average balances and margins rose over the prior year, and Cash on the back of higher average balances.

Income from Financial Markets (FM) fell marginally by 1 per cent to $3,663 million, with strong growth in Rates and Credit offset by lower flow FX and Commodities income. ALM income fell by 8 per cent as a result of increased holdings of lower yielding, highly liquid securities to comply with regulatory requirements in the UK. Corporate Finance income grew 19 per cent, supported by continued product and geographic diversity. Income in Principal Finance increased by 75 per cent, primarily reflecting valuation gains.

Operating expenses grew $852 million, or 17 per cent, to $5,999 million. Excluding the impact of the $667 million settlements with the US authorities and a legacy legal provision of $86 million, expenses increased by 2 per cent, 7 per cent lower than income growth. We maintained strong expense discipline with staff costs held flat through efficiency initiatives and lower levels of variable compensation. The increase in expenses was concentrated in targeted investment in systems and infrastructure to support our Cash and flow FX businesses.

Loan impairment increased by $140 million to $524 million, driven by a very small number of exposures in India and the UAE. The portfolio remains predominantly short tenor and credit quality continues to be strong. Other impairment was higher by $21 million, or 21 per cent, at $120 million, driven by incremental Private Equity charges, offset by recoveries on disposal of previously impaired investments.

Operating profit fell $80 million, or 2 per cent, to $5,136 million. Excluding the impact of the settlements with the US authorities, operating profit increased 11 per cent.

Product performance

Lending and Portfolio Management income grew by $50 million, or 6 per cent, to $891 million. We continued to focus on return optimisation, maintaining margins at similar levels to 2011. Income also benefited from one-off gains on asset sales.

Transaction Banking income was up $424 million, or 13 per cent, at $3,671 million. Trade income grew 22 per cent due to higher average asset and contingent balances and improved margins, which were up 10 basis points, although we saw high levels of liquidity in the second half of 2012 that led to increasing competitive pressure. Cash income increased by 5 per cent, as average balances increased due to targeted liability drives. Cash margins were flat compared with 2011 and started to tighten in the second half of the year driven by excess liquidity in markets.

Global Markets income increased by $459 million, or 7 per cent, to $7,217 million. Within Global Markets, the FM business, which primarily comprises sales and trading of foreign exchange and interest rate products, continued to be the largest contributor to income and has increasingly diverse income streams. FM income fell by $25 million, or 1 per cent, to $3,663 million against a backdrop of regulatory tightening, lower volatility and lack of directional trends. Client income, which represents over three-quarters of FM income, was flat against 2011 as good momentum in Rates and Credit was offset by lower FX income. Own account income decreased by 3 per cent. Fixed Income, Currency & Commodities (FICC), which includes FX, Rates, Commodities and Credit, was 3 per cent lower.

FX income fell 11 per cent, driven by tighter spreads. Lower volatility also impacted corporate sentiment, driving a greater proportion of volumes from lower spread spot and swap business. In the second half of the year, the business focused on capturing a greater share of corporate flows, resulting in 19 per cent growth in corporate volumes over the first half of 2012.

Rates income grew 8 per cent with client income up 18 per cent underpinned by our strong credit rating and the reach of our network. There were strong performances across our footprint, most notably in Africa, Hong Kong, China, Korea, and the Americas, UK & Europe region.

Commodities and Equities income fell 14 per cent. Client hedging activity declined, due to reduced levels of volatility across most asset classes. Income was also impacted by the non-recurrence of big ticket transactions seen in the previous year. Cash equities income increased despite significant declines in market volumes.

Capital Markets income grew 8 per cent, with a strong performance in debt capital markets as clients favoured funding through capital markets over borrowing. This more than offset lower levels of loan syndications. Credit and other income increased by 44 per cent, reflecting our strong credit rating and improved market conditions.

ALM income was $72 million, or 8 per cent, lower at $849 million as a result of increased holdings of highly liquid assets in line with regulatory requirements.

Corporate Finance income rose $349 million, or 19 per cent, to $2,222 million. Approximately 60 per cent of Corporate Finance income is reported within net interest income. We saw an 18 per cent increase in new deals compared with 2011 with increased client demand for financing solutions, particularly in Structured Trade Finance. We continued to build increasing levels of product and geographic diversification within this business, and derived a higher proportion of new deal fee income from small and medium-sized ticket deals compared with prior years.

Principal Finance income increased $207 million, or 75 per cent, to $483 million. Improving market conditions drove higher valuations compared with 2011. Although realisation opportunities remain limited, around one-third of the gains booked in 2012 are linked to realisations and announced sales.

Geographic performance

Hong Kong

Income was up $215 million, or 12 per cent, to $1,938 million. Client income was up 10 per cent as we continued to leverage the opportunities from increasing RMB internationalisation and trade flows between Hong Kong and China. Income from RMB business grew 30 per cent, and generated increased income in Trade, although regulatory changes and margin compression moderated growth in the latter part of 2012. FX income increased, reflecting market demand for RMB hedging products, although market sentiment impacted growth in the second half of 2012. Cash income increased strongly due to higher average balances and slightly improved margins. Corporate Finance income also continued to grow and was up strongly compared with 2011, reflecting a full year's contribution from our transport leasing business, which we expanded into Hong Kong in the latter part of 2011. Hong Kong continued to leverage the Group's network, enhancing its position as both a hub into and out of

Deepening client relationships with Cash Management

"Globally, we are the second largest trade finance bank and seventh in US dollar commercial payments."

The resilience of the Wholesale Banking business is built on Standard Chartered's historical role and strength in supporting clients' commercial banking needs across Asia, Africa and the Middle East.

We are one of the global leaders in providing Transaction Banking services to corporate and institutional clients and have experienced consistent double-digit growth over the last decade.

Commercial Banking institutionalises client relationships and the high daily volumes provide a predictable and reliable business for the Group. Within Commercial Banking, Cash Management plays a critical role by helping the Group to understand the clients' business and provides insights into the health of these businesses through managing payments, collecting receivables and optimising liquidity.

Cash Management across our footprint presents challenges to businesses with complexities from taxation and regulatory requirements as well as handling a wide variety of emerging market currencies. Our customised integrated working capital and cash solutions enable clients to rapidly expand into new markets.

We are a core international banking partner to China Communication Construction Company Group and support their global treasury centre in Hong Kong. Over the past few years, we have helped them navigate complex regulatory and operating account country requirements and now work as their regional Cash Management bank in 24 markets across Asia, Africa and the Middle East. Our services have helped our client to rationalise complexity, improve visibility of their cash position and better manage their foreign exchange and interest rate risks.

We partnered with India's Tractors and Farm Equipment Limited to integrate their dealer management system with our dynamic virtual account solution. This solution with straight-through processing and seamless data flow has enabled our client to fulfil orders and accelerate their sales cycle better through quicker reconciliation of receivables.

To further differentiate our strength in Cash Management, we are investing in a multi-year project to enhance capabilities across 46 markets. This upgrade combines the Group's geographic network and local knowledge with Straight2Bank, our suite of electronic platforms, for a superior client proposition.

Offering the industry's widest range of emerging market currencies, Straight2Bank combines full working capital services including rates, foreign exchange, global liquidity management, payments and collections solutions with adaptive global pricing and billing capabilities.

Straight2Bank's ability to interface with different banking partners and directly with our clients' systems offers enhanced predictability and forecasting to optimally manage their global liquidity. It provides real-time treasurer style dashboards accessible on a variety of devices, including mobile.

Cash Management is a key source of liquidity that underpins the strength of our balance sheet. Its steady growth has enabled the Group to remain highly liquid.

Wholesale Banking continued

China, with inbound revenues from China up 23 per cent compared with 2011.

Operating expenses grew $108 million, or 16 per cent, to $801 million. Almost half of the increase relates to depreciation of assets held within our transport leasing business, with the balance reflecting flow-through impact from 2011 and ongoing investment in frontline technology.

Pre-provision profit was up $107 million, or 10 per cent, to $1,137 million. Loan impairment was lower by $18 million, reflecting higher recoveries. Operating profit was up $118 million, or 12 per cent, at $1,116 million.

Singapore

Income fell $33 million, or 3 per cent, to $1,229 million. The current year consolidated on the strong performance in 2011, with client income increasing by 5 per cent. However, this was more than offset by lower own account income. Transaction Banking grew strongly as a result of higher Cash and Trade average balances and a widening of margins, although margins narrowed in the second half of 2012. FM income fell, due to lower Commodities income reflecting reduced client flow in the current year. This was partially mitigated by increased volumes of smaller transactions, generating a greater degree of diversification in income flows. FX revenues were impacted by reduced corporate volumes, reflecting continuing market uncertainty. ALM income fell primarily due to lower reinvestment yields as we continued to grow our portfolio of highly liquid assets to comply with regulatory requirements. Corporate Finance income was impacted by the absence of large ticket transactions in the current year.

Operating expenses were well managed and were slightly higher at $616 million, with higher staff costs due to the flow-through impact of prior year investments being offset by lower variable compensation and operating efficiencies through disciplined cost management.

Pre-provision profit fell $47 million, or 7 per cent, to $613 million. Loan impairment was $15 million lower and credit quality remains good. Other impairment was lower at $2 million as prior year Principal Finance provisions were not repeated. Operating profit fell by $3 million to $607 million.

Korea

Income increased $104 million, or 18 per cent, to $669 million and included a $35 million gain on a property disposal. Excluding this gain, income increased by 13 per cent. Client income fell 6 per cent, as the FM business was impacted by low corporate hedging activity resulting from continuing global market uncertainties. Transaction Banking income grew, led by Trade, which benefited from asset growth and widening margins. Cash income also increased as higher average balances offset margin compression in the second half of 2012. Lending income fell as average asset balances declined, reflecting sluggish demand and increasing competitive pressures. Own account income increased, primarily due to realisation gains in the Private Equity portfolio. Income earned on transactions with Korean clients, but delivered across our network markets, continued to grow strongly, with double-digit growth against 2011.

Operating expenses were lower by $26 million, or 8 per cent, at $286 million, reflecting disciplined cost management.

Pre-provision profit was higher by $130 million, or 51 per cent, at $383 million. Loan impairment decreased by $6 million to $26 million as higher levels of recoveries offset a small increase in new provisions. Operating profit was higher by $137 million, or 64 per cent, at $350 million.

Other APR

Income was up $285 million, or 15 per cent, at $2,183 million. Income grew in most of the major markets in this region, driven by strong FM flow business. China delivered income growth of 18 per cent to $703 million. Trade and Lending saw improved margins through active re-pricing, while Capital Markets income grew strongly. Corporate Finance income grew as we provided advisory and financing solutions across a wider range of industries. Client income was moderated by lower margins in Cash, following interest rate cuts, and reduced FM income, with FX impacted by lower RMB volatility and client demand shifting to vanilla flow products. Own account income rose strongly following realignment of the portfolio to higher yields. Income earned on transactions with China clients and delivered across our network markets continued to grow strongly, with Hong Kong remaining the main cross-border partner. Income in Taiwan fell marginally to $143 million. Strong growth in Trade and Cash, reflecting higher margins, and higher FX income, which saw good momentum in RMB derivatives and commodities, was more than offset by lower Capital Markets and Corporate Finance income. Income in Malaysia was up 27 per cent, with good growth in Lending and higher Corporate Finance income. Indonesia also delivered good growth, up 13 per cent due to higher Corporate Finance and Capital Markets revenues.

Operating expenses in Other APR were up $135 million, or 14 per cent, to $1,096 million. The increase in expenses was primarily driven by a legacy commercial legal provision. China operating expenses were up 8 per cent to $374 million largely due to increased staff costs.

Pre-provision profit in Other APR was higher by 16 per cent at $1,087 million. Loan impairment increased by $19 million to $37 million, of which $12 million relates to China. Other impairment resulted in a charge of $95 million. 2011 benefited from impairment recoveries on disposal of previously impaired Private Equity investments while the 2012 charge was driven by provisions against unrelated Private Equity investments in China. Operating profit was 1 per cent higher at $955 million. China contributed $272 million of operating profit, with Indonesia and Malaysia as the other major profit contributors in this region.

India

Income fell $178 million, or 13 per cent, to $1,145 million. On a constant currency basis, income fell 2 per cent. Flow business continues to grow well, Transaction Banking income grew (on a constant currency basis) and Cash was up, with a strong growth in average balances partially offset by slightly lower margins reflecting a shift in product mix. Trade income also increased as a result of higher average balances against a backdrop of lower export levels and an improvement in margins. On a constant currency basis, FM income fell and Corporate Finance was also lower, as these businesses continued to be impacted by subdued business sentiment. We continued to support our Indian clients' cross-border needs and income booked across our network grew at a strong double-digit rate as we continued to leverage the Group's international franchise.

Operating expenses were lower by $42 million, or 9 per cent, at $435 million. On a constant currency basis, expenses were higher by 4 per cent, with the flow-through impact of prior year investments offset by tight cost management.

Pre-provision profit was down $136 million, or 16 per cent, at $710 million. Loan impairment increased by $58 million to $138 million primarily due to credit concerns around a single corporate exposure, the impact of which was partially mitigated by a release of the additional portfolio impairment provisions established in 2011 in respect of market uncertainty. Other impairment saw a net recovery of $9 million compared with a charge of $60 million in 2011, as the prior year was impacted by a charge relating to a specific bond exposure that was partially released in the current year. Operating profit was down $125 million, or 18 per cent, to $581 million. On a constant currency basis, operating profit fell 6 per cent.

MESA

Income was lower by $15 million, or 1 per cent, at $1,481 million. Client income demonstrated resilient performance in a challenging environment, with growth driven by Transaction Banking and Corporate Finance. Own account income, however, was impacted by the run-off of higher yielding assets and lower levels of volatility. Income in the UAE, which generates almost 50 per cent of the income in this region, was down 5 per cent overall. While client income increased due to higher Trade and Corporate Finance income, this was offset by lower levels of own account income. Islamic banking capabilities continue to be enhanced, with income up compared with 2011. Income in Bangladesh grew 5 per cent driven by Cash. Income in Pakistan fell 9 per cent primarily due to lower levels of ALM income while Bahrain fell 16 per cent as a result of lower Corporate Finance activity.

Operating expenses in MESA were up $9 million, or 2 per cent, to $607 million, as we managed costs tightly across the region.

Pre-provision profit in MESA was down $24 million, or 3 per cent, to $874 million. Loan impairment increased $68 million to $265 million, driven by a small number of accounts in the UAE. Operating profit fell 16 per cent to $577 million.

Africa

Income exceeded $1 billion for the first time, increasing $151 million, or 16 per cent, to $1,111 million. On a constant currency basis, income was up 21 per cent. We continue to diversify our revenue engines within this region across products, client groups and countries, with four markets now delivering WB income over $100 million. Income growth was led by a strong Transaction Banking performance, with both Trade and Cash performing well, and higher Corporate Finance income. Nigeria continues to be the largest WB market in the region with income up by 13 per cent, with growth in Rates and Corporate Finance income offsetting lower Lending margins. Income also grew strongly in Ghana, up 22 per cent, Kenya, up 40 per cent, and South Africa, up 28 per cent. Growth in these markets was primarily driven by Transaction Banking, reflecting a combination of improved cash margins and higher average balances.

Operating expenses were up $32 million, or 7 per cent, to $478 million. On a constant currency basis, expenses were 12 per cent higher, reflecting investments to build capability together with inflation related increases.

Pre-provision profit was up $119 million, or 23 per cent, to $633 million. Loan impairment remained low at $18 million, up $11 million from 2011. Operating profit was $118 million higher at $615 million, up 24 per cent. On a constant currency basis, operating profit was up 29 per cent.

Americas, UK & Europe

This region acts as a two-way bridge, linking the Americas, UK & Europe with our markets in Asia, Africa and the Middle East, and leverages capabilities built within the region to support our clients' cross-border needs. Income was up 25 per cent to $2,023 million, with client income up 27 per cent. Double-digit income growth was recorded across our core products of Transaction Banking, FX, Rates and Corporate Finance, driving increasingly diversified income streams. Transaction Banking grew strongly, reflecting higher average balances and wider margins in Trade. Corporate Finance income grew with an increase in the volume of medium-sized deals as we deepened global relationships. Own account income increased with a strong performance in Credit from selling Asian credit products to US clients.

Operating expenses increased by $622 million, or 59 per cent. Excluding the impact of the settlements with the US authorities, expenses fell by $45 million, reflecting efficiencies and continued cost discipline across the region.

Pre-provision profit fell $218 million, or 39 per cent to $343 million. Loan impairment increased by $23 million to a charge of $22 million whilst other impairment fell by $22 million to a net recovery of $14 million. Operating profit fell 40 per cent to $335 million. Excluding the impact of the settlements with the US authorities, operating profit increased 81 per cent compared with 2011.

Risk review

Nigeria

Nigeria is Standard Chartered's largest franchise in Africa. We have over 61,000 customers – more than 13 times the number we had in 2003

Risk review

Focused and disciplined risk management

Standard Chartered has maintained a robust and disciplined approach to risk management.

Our portfolio remains well diversified and focused on our core markets. We are well capitalised and highly liquid.

Risk profile

Diversified portfolio

- We have a well diversified portfolio of loans and advances and diversified income streams; no individual country accounts for more than 20 per cent of our loans and advances to customers or operating income
- In Consumer Banking, 72 per cent of assets are secured and the average loan-to-value ratio on our mortgage portfolio is less than 48 per cent
- In Wholesale Banking 62 per cent of loans and advances are short-term
- We have low exposure to asset classes outside our core markets and customer base; our exposure to commercial real estate, asset backed securities and leveraged loans is non-material from a Group perspective

Strong capital and liquidity position

- We remain well capitalised and already meet the liquidity thresholds required under forthcoming Basel III regulations
- We have a strong advances-to-deposits ratio
- We remain a net provider of liquidity to interbank markets
- Our customer deposit base is diversified by type and maturity
- We have a substantial portfolio of liquid assets that can be realised if a liquidity stress occurs

Robust risk governance structure and experienced senior team

- We have a clear statement of risk appetite, which is aligned to the Group's strategy; it is approved by the Board and informs the more granular risk parameters within which our businesses operate
- We continuously monitor our risk profile to ensure it remains within risk appetite and regularly conduct stress tests
- We review and adjust our underwriting standards and limits in response to observed and anticipated changes in the external environment and the evolving expectations of our shareholders
- We have a very experienced senior risk team and our risk committees are staffed by the Group's most senior leaders
- We have a robust risk management framework, which assigns accountability and responsibility for the management and control of risk

The Group's Pillar 3 disclosures for 31 December 2012, provide details from a regulatory perspective on certain aspects of credit risk, market risk and operational risk and are available on our website. Pages 113 to 115 set out the summary of differences between the Pillar 3 disclosures and the Annual Report along with a cross-reference between disclosures made in the Risk review section of the Annual Report and the Pillar 3 disclosures.

The following parts of the Risk review form part of the audited financial statements: from the start of the 'Risk management' section on page 62 to the end of the 'Liquidity' section on page 110, with the exception of the 'Asset backed securities' and 'The Impact of Basel III' sections on pages 94, 95 and 103.

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 and monitor concentrations to ensure that we are operating within our approved risk appetite.

We review and adjust our underwriting standards and limits in response to observed and anticipated changes in the external environment and the evolving expectations of our stakeholders. In 2012, we maintained our cautious stance overall whilst continuing to support our core clients.

Our balance sheet and liquidity have remained strong and we already meet the enhanced liquidity thresholds required under forthcoming Basel III regulations.

Our lending portfolio is diversified across a wide range of products, industries and customer segments, which serves to mitigate risk. We operate in 68 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 47 per cent of our loans and advances to customers are of short maturity, and in Wholesale Banking 62 per cent of loans and advances have a tenor of one year or less. In Consumer Banking 72 per cent of assets are secured and the overall loan-to-value ratio on our mortgage portfolio is less than 48 per cent.

We have low exposure to asset classes and segments outside of our core markets and target customer base. We have no direct sovereign exposure (as defined by the European Banking Authority (EBA)) 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 0.6 per cent of total assets. Our direct sovereign exposure to the remainder of the eurozone is immaterial. Further details are given on page 95. Our exposure to countries directly impacted by the political developments in the Middle East and North Africa are also low. Exposures in Bahrain, Syria, Egypt, Libya, Algeria and Tunisia represent less than 0.5 per cent of our total assets.

Our exposure to commercial real estate and leveraged loans account for less than 2 per cent and 1 per cent of our total assets respectively. The notional value of the asset backed securities (ABS) portfolio, which accounts for 0.7 per cent of our total assets, increased by $2.3 billion in 2012 due to investments in high quality, senior ABS and residential mortgage backed securities (RMBS) assets in the Group's portfolio of liquid assets. Further details are given on page 94.

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. Further details on market risk are given on pages 99 to 102.

Our liquidity in 2012 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 that can be realised in the event of liquidity stress. Further details on liquidity are given on pages 103 to 110.

The Group has continued to make detailed submissions to the UK's Financial Services Authority (FSA) during 2012 regarding a Group level recovery plan and information to support resolution planning. We continue to engage actively with our regulators, in particular our 'Crisis Management Group' regulators, to develop appropriate and workable responses to the various regulatory requirements that are being developed. It is critical that international regulators work together to develop co-ordinated approaches for cross-border banking groups.

We have a well established risk governance structure, which is set out on page 63, and an experienced senior team. Members of our executive committee (the Court) sit on our principal risk executive 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. Board Committees provide additional risk management oversight and challenge.

We continue to build on the Group's culture of risk management discipline. The management of operational risk, in particular, continues to be enhanced across all areas of the Group. We are introducing increased rigour in the process for anticipating a wide variety of operational risks and in our assessments of risks and control effectiveness. Operational risk is covered in more detail on pages 111 and 112.

Risk review continued

Risk performance review

2012 impairment charges were higher in both businesses than the historic lows experienced in 2010 and 2011, driven principally by impairment charges in a very small number of exposures in Wholesale Banking and change in portfolio mix in Consumer Banking.

In Consumer Banking, the total loan impairment provisions for 2012 continued to remain low as a percentage of loans and advances. There was an increase in overall impairment in line with portfolio growth and our continued strategic shift towards unsecured products in selected markets. These tend to have both higher impairment rates and higher returns. We have also seen pockets of localised pressure, particularly in Korea. We remain disciplined in our approach to risk management and proactive in our collection efforts to minimise account delinquencies. Recoveries continued to benefit from loan sales during this period.

In Wholesale Banking, the increase in provisions was primarily related to a very small number of clients in India and the UAE. While we do not see a broad-based deterioration in asset quality, we have increased the number of clients subject to additional precautionary monitoring reflecting our proactive approach to managing risk in an uncertain environment.

Portfolio impairment provisions have been reduced principally because the sector-specific provision held in India is no longer required.

The advances-to-deposits ratio remained strong, strengthening to 74.1 per cent from 76.6 per cent as we experienced good rates of deposit growth in a number of markets. The liquid asset ratio also improved to 30.4 per cent from 27.8 per cent as we increased our investment in highly liquid assets.

Total average VaR in 2012 was 35 per cent higher than 2011. The increase was principally driven by increased holdings of available-for-sale securities, primarily held as liquidity buffers, as we continued to maintain a highly liquid balance sheet.

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
Regulatory changes and compliance	■ 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 ■ Although we seek to comply with all applicable laws and regulations, we may be subject to regulatory actions and investigations across our markets, the outcome of which is generally difficult to predict and could be material to the Group	■ We review key regulatory developments in order to anticipate changes and their potential impact on our performance ■ We respond both unilaterally and through our participation in industry groups to consultation papers and discussions initiated by regulators and governments. The focus of these activities is to develop the framework for a stable and sustainable financial sector and global economy
Financial markets dislocation	■ Financial markets 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 markets 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 and rate them internally according to their systemic importance, adjusting our exposure accordingly ■ We maintain robust processes to assess the suitability and appropriateness of products and services we provide to our clients and customers
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

Risk review continued

Principal uncertainties

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.

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 coming out of a difficult period and uncertainty remains. The sovereign crisis in the eurozone continues and, although acute risks have been addressed by ongoing policy initiatives, there is still a need for substantial new structural reform (see additional information on the risk of redenomination on page 95). The US will likely continue to be held back by fiscal challenges unless political compromises are struck, though economic fundamentals are improving.

Our exposure to 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 brought more subdued economic growth in some of our footprint countries. New governments in Japan, Korea and China are embarking on more expansionary policy paths that should enhance their contribution to world growth, while India is cautiously pursuing new economic reforms that should in time lift its performance back to its long-term trend rate.

In the event of an external shock, larger and more domestically driven economies such as India, Indonesia and China are expected to be more resilient than the more open economies such as Singapore, Hong Kong and South Korea.

Inflation and property prices appear to be under control in most of the countries in which we operate. 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 will continue to be subject to an evolving and 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 nature and impact of such future changes are not predictable and could run counter to our strategic interests. Some are anticipated to have a significant impact such as changes to capital and liquidity regimes, changes to the calculation of risk weighted assets, derivatives reform, remuneration reforms, recovery and resolution plans, banking structural reforms in a number of markets, the UK bank levy and the US Foreign Account Tax Compliance Act. In particular, the outcome of discussions on the European Union's Capital Requirements Directive IV (CRD IV) and Over The Counter (OTC) Derivative reforms across our markets will potentially have a material impact on the Group and its business model. Proposed changes could also adversely affect economic growth, 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. Despite these concerns, we remain a highly liquid and well capitalised bank.

It is in the wider interest to have a well run financial system, and we are supportive of a tighter regulatory regime that enhances the resilience of the international financial system. The Group will continue to participate in the regulatory debate through responses to consultations and working towards an improved and workable regulatory architecture. We are also encouraging our international regulators to work together to develop co-ordinated approaches to regulating and resolving cross-border banking groups. We support changes to laws, regulations and codes of practice that will improve the overall stability of, and the conduct within the financial system because this provides benefits to our customers, clients and shareholders. 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.

The Group seeks to comply with all applicable laws and regulations but may be subject to regulatory actions and investigations across our markets, the outcome of which are generally difficult to predict and can be material to the Group.

The Group seeks to co-operate with regulators in response to requests for information, inquiries and investigations and takes remedial actions as necessary.

Regulators and other agencies in certain markets are conducting investigations or reviews into submissions made to set various market interest rates and other benchmarks. Certain of the Group's branches and subsidiaries were (and are) submitting data to bodies that set such rates and benchmarks.

The Group is participating in regulatory reviews wherever relevant, contributing to industry proposals to strengthen rate-setting processes in certain markets and continues to review its practices and processes in the light of such proposals.

During 2012, the Group reached settlements with the US authorities regarding US sanctions compliance in the period 2001 to 2007, involving a Consent Order by the New York Department of Financial Services (NYDFS), a Cease and Desist Order by the Federal Reserve Bank of New York (FRBNY), Deferred Prosecution Agreements with each of the Department of Justice and with the District Attorney of New York and a Settlement Agreement with the Office of Foreign Assets Control. In addition to the civil penalties totalling $667 million, the terms of these settlements include conditions and ongoing obligations such as: reporting requirements; compliance reviews; banking transparency requirements; training measures; audit programmes; disclosure obligations; requirements to co-operate with further information requests and testimony; requirement to compliance with a remediation programme and the appointment of an independent monitor at the direction of NYDFS; and compliance with a separate remediation programme at the direction of the FRBNY.

The Group is engaged with all relevant authorities to implement these programmes and to meet the obligations under the settlements, including the monitoring and compliance reviews, responding to further requests for information and inquiries related to its sanctions compliance and identifying further improvements to processes. The Group remains resolute in its commitment to tackling financial crime across its global footprint and complying with all relevant regulations. The Group has made significant enhancements in its global sanctions and anti-money laundering systems and procedures. The Group recognises that, following these settlements, its compliance with sanctions, not just in the US but throughout its footprint, will remain a focus of the relevant authorities.

Financial markets dislocation

There is a risk that a sudden financial market dislocation, perhaps as a result of 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 processes to assess the appropriateness and suitability of products and services we provide to clients and customers to mitigate the risk of 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 conflicts 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 development of events in the Middle East and territorial disputes in North East Asia. 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. Further details on stress testing are given on page 64.

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.

Risk review continued

The table below sets out the period end and average currency exchange rates per US dollar for India, Korea, Singapore and Taiwan for the year ended 31 December 2012 and 31 December 2011. These are the markets for which currency exchange rate movements have had the greatest translation impact on the Group's results in 2012.

	2012	2011
Indian rupee		
Average	**53.43**	46.63
Period end	**54.96**	53.03
Korean won		
Average	**1,126.23**	1,107.84
Period end	**1,070.34**	1,151.56
Singapore dollar		
Average	**1.25**	1.26
Period end	**1.22**	1.30
Taiwan dollar		
Average	**29.57**	29.43
Period end	**29.07**	30.28

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.

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

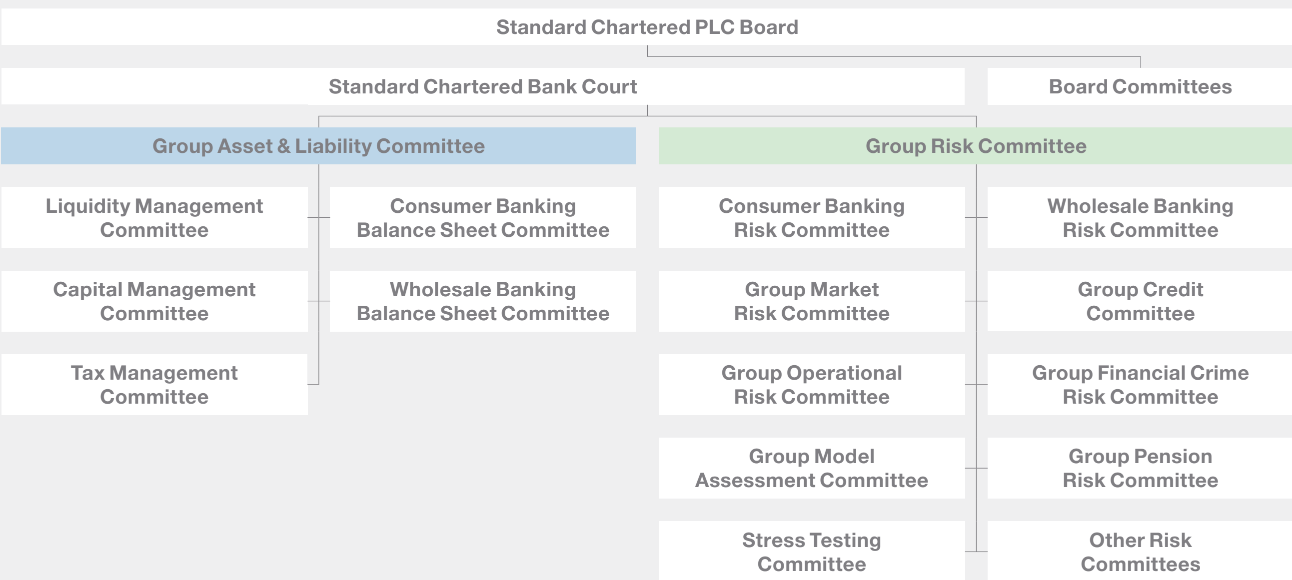
Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Group.

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

Group risk committee structure[1]



1 More information on Board committees can be found in the Corporate governance section on pages 122 to 141

- 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 and operational. 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 BRC also conducts 'deep dive' reviews on a rolling basis of different sections of the consolidated group risk information report.

The Brand and Values Committee (BVC) oversees the brand, culture, 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.

The role of the Audit Committee is to have oversight and review of financial, audit and internal control issues.

Overall accountability for risk management is held by the Court of Standard Chartered Bank (the Court) which comprises the group executive directors and other senior executives of Standard Chartered Bank.

The Court is the highest executive body of the Group and its terms of reference are approved by the Board of Standard Chartered PLC. 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 GRC and the GALCO are both drawn from the Court. 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.

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.

- First line of defence: 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
- Second line of defence: this 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 the following sections
- Third line of defence: the independent assurance provided by the Group Internal Audit (GIA) function. Its role is defined and overseen by the Audit Committee

Risk review continued

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 Court.

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 and risk appetite
- 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 independence of the Risk function is 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 adequate regulatory capital requirements under stress scenarios. We also define a risk appetite with respect to liquidity risk, operational 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. It is also assessed against a range of exposure concentration thresholds.

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 Group will not compromise adherence to its risk appetite in order to pursue revenue growth or higher returns.

The GRC and GALCO are responsible for ensuring that our risk profile is managed in compliance with the risk appetite set by the Board.

Stress testing

Stress testing and scenario analysis are used to assess the financial and management capability of Standard Chartered to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, regulatory, 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
- Support the development of mitigating actions and contingency plans
- Ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing
- 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 members drawn from the businesses, Group Finance, Global Research and Group Treasury, aims to ensure that the implications of specific stress scenarios are fully understood allowing informed mitigation actions and construction of contingency plans. 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.

Credit risk management

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 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. The Group manages its credit exposures following the principle of diversification across products, geographies, client and customer segments.

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 requirements.

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 periodic 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.

Credit concentration risk

Credit concentration risk may arise from a single large exposure or from multiple exposures that are closely correlated. This is managed within concentration caps set by counterparty or groups of connected counterparties, and having regard for correlation, by country and industry in Wholesale Banking; and by product and country in Consumer Banking. Additional concentration thresholds are set and monitored, where appropriate, by tenor profile, collateralisation levels and credit risk profile.

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.

Risk review continued

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.

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.

The Consumer Banking Credit Governance Committee (CGC) is a sub-committee of the Consumer Banking Risk Committee (CBRC). Both the CGC and CBRC meet regularly to assess relevant credit matters. This includes market developments with direct credit concerns, credit policy changes, prominent or emerging credit concerns and mitigating actions.

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 risk 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.

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.

Collateral is held to mitigate credit risk exposures and risk mitigation policies determine the eligibility of collateral types.

For Wholesale Banking, these policies set out the clear criteria that must be satisfied if the mitigation is to be considered effective:

- excessive exposure to any particular risk mitigants or counterparties should be avoided. Collateral concentration mitigation standards are maintained at both the portfolio and counterparty level
- risk mitigants should not be correlated with the underlying assets such that default would coincide with a lowering of the forced sale value of the collateral
- where there is a currency mismatch, haircuts should be applied to protect against currency fluctuations
- legal opinions and documentation must be in place
- ongoing review and controls exist where there is a maturity mismatch between the collateral and exposure

For all credit risk mitigants that meet the policy criteria, a clear set of procedures are applied to ensure that the value of the underlying collateral is appropriately recorded and updated regularly.

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.

All eligible collateral accepted by Consumer Banking is covered by a product proposal approved by senior credit officers with the relevant delegated authority. New collateral types have to be vetted through a stringent 'New Business Approval' process and approved by the CBRC.

In order to be recognised as security and for the loan to be classified as secured, all items pledged must be valued and an active secondary resale market must exist for the collateral. Documentation must be held to enable Consumer Banking to realise the asset without the co-operation of the asset owner in the event that this is necessary.

For certain types of lending – typically mortgages and 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. The requirement for collateral is, however, not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

Regular valuation of collateral is required in accordance with the Group's risk mitigation policy, which prescribes both the process of valuation and the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. Physical collateral is required to be insured at all times and against all risks, with the Group as the loss payee under the insurance policy. Detailed procedures over collateral management must be in place for each business at the country level.

Where appropriate, collateral values are adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of possession.

Where guarantees or credit derivatives are used as credit risk mitigation the creditworthiness of the guarantor is assessed and established using the credit approval process in addition to that of the obligor or main counterparty. The main types of guarantors include bank guarantees, insurance companies, parent companies, shareholders and export credit agencies.

The Group uses bilateral and multilateral netting to reduce pre-settlement and settlement counterparty risk. Pre-settlement risk exposures are normally netted using bilateral netting documentation in legally approved jurisdictions. Settlement exposures are generally netted using Delivery versus Payments or Payment versus Payments systems.

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 only presented net in the financial statement if there is a legal right to offset and the assets/liabilities will be settled simultaneously.

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 68.

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.

Risk review continued

Credit portfolio

Maximum exposure to credit risk

The table below presents the Group's maximum exposure to credit risk for its on-balance sheet and off-balance sheet financial instruments as at 31 December 2012, before taking into account any collateral held or other credit risk mitigation. 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 generally represents the contractual notional 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.

The Group's maximum exposure to credit risk has increased by $29.2 billion compared with 2011. Exposure to loans and advances to banks and customers has increased by $19.7 billion since 2011 due to growth in the unsecured lending portfolio in Consumer Banking and broad-based growth across several industry sectors in Wholesale Banking. Further details of the loan portfolio are set out on page 69. The Group's credit risk exposure arising from derivatives has decreased by $9 billion compared with 2011.

	2012 $million	2011 $million
Derivative financial instruments	**49,496**	58,524
Loans and advances to customers	**288,863**	271,778
Loans and advances to banks	**69,155**	66,549
Investment securities[1]	**114,313**	100,419
Contingent liabilities	**44,449**	42,880
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	**56,697**	52,700
Documentary credits and short-term trade-related transactions	**7,752**	8,612
Forward asset purchases and forward deposits placed	**711**	733
	631,436	602,195

1 Excludes equity shares

Credit risk mitigation

Loans and advances

The Group holds collateral against loans and advances to customers and banks of $140 billion (2011: $142 billion). Further details of collateral held by businesses and held for past due and individually impaired loans are set out on page 72.

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 $1,321 million (2011: $2,212 million). The Group continues to recognise these assets in addition to the proceeds and related liability of $1,093 million (2011: $1,843 million) arising from the securitisations. The Group considers the above customer loan assets to be encumbered. Further details of encumbered assets are provided on page 104.

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $22.1 billion (2011: $20.3 billion). These credit default swaps are accounted for as guarantees. The Group continues to hold the underlying assets referenced in the credit default swaps as it continues to be exposed to related credit and foreign exchange risk on these assets. Further details of the transactions are set out in the special purposes entity note 43 to the financial statements on page 262.

Derivatives financial instruments

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 values of applicable derivative transactions. At 31 December 2012, $35,073 million (2011: $40,605 million) was available for offset as a result of master netting agreements.

The Group holds cash collateral against derivative and other financial instruments of $3,245 million (2011: $3,145 million) as disclosed in note 31 on page 246.

Cash collateral includes collateral called under a variation margin process from counterparties 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 values of positions is in the counterparty's favour and exceeds an agreed threshold. The Group holds $2,700 million (2011: $2,452 million) under CSAs.

Off-balance sheet exposures

For certain types of exposure such as letters of credit and guarantees, the Group obtains collateral such as in cash depending on internal credit risk assessments as well as the case of letters of credit holding legal title to the underlying assets should a default take place.

Loan portfolio

Overview

This section covers a summary of the Group's loan portfolio broadly analysed by business and geography, along with an analysis of the maturity profile, credit quality and provisioning of the loan book.

A more detailed analysis is set out for Consumer Banking on pages 76 to 84 and Wholesale Banking on pages 84 to 93.

Geographic analysis

Loans and advances to customers grew by $17.1 billion since 31 December 2011 to $288.9 billion. The Consumer Banking portfolio in 2012 has grown by $7.6 billion, or 6 per cent, since 2011 with a majority of the increase driven by unsecured lending in Hong Kong, Singapore and Korea. Consumer Banking loans in Africa also grew strongly, up 28 per cent. The Wholesale Banking portfolio has continued to grow in 2012, increasing by $9.4 billion, or 6 per cent, compared with December 2011 with all geographic regions except Hong Kong growing balances. Loans to banks have increased by $2.6 billion since 31 December 2011 to $69.2 billion.

	2012								
	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
Consumer Banking	**31,324**	**27,567**	**28,587**	**29,161**	**5,190**	**5,418**	**1,710**	**3,919**	**132,876**
Wholesale Banking	**21,515**	**28,321**	**7,710**	**24,336**	**6,827**	**14,672**	**6,327**	**47,023**	**156,731**
Portfolio impairment provision	**(74)**	**(47)**	**(132)**	**(188)**	**(39)**	**(138)**	**(63)**	**(63)**	**(744)**
Total loans and advances to customers[1,2]	**52,765**	**55,841**	**36,165**	**53,309**	**11,978**	**19,952**	**7,974**	**50,879**	**288,863**
Total loans and advances to banks[1,2]	**19,356**	**6,205**	**4,633**	**8,720**	**571**	**3,172**	**378**	**26,120**	**69,155**

	2011								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[3] $million	India $million	Middle East & Other S Asia $million	Africa[3] $million	Americas UK & Europe $million	Total $million
Consumer Banking	27,554	24,014	31,546	27,913	4,830	4,615	1,341	3,437	125,250
Wholesale Banking	23,432	24,815	6,646	23,890	6,407	13,957	6,002	42,139	147,288
Portfolio impairment provision	(72)	(41)	(126)	(184)	(84)	(138)	(49)	(66)	(760)
Total loans and advances to customers[1,2,3]	50,914	48,788	38,066	51,619	11,153	18,434	7,294	45,510	271,778
Total loans and advances to banks[1,2]	19,097	7,301	3,777	8,305	362	2,426	638	24,643	66,549

1 Amounts net of impairment provision and include financial instruments held at fair value through profit or loss (see note 15 on page 224)
2 Loans and advances to customers in the above table are presented on the basis of booking location of the loan. The analysis of loans and advances by geography presented on page 215 in note 2 to the financial statements present loans based on the location of the customers
3 Amounts have been restated as explained in note 45

Risk review continued

Maturity analysis

Approximately half of our loans and advances to customers are short-term and have a contractual maturity of one year or less. The Wholesale Banking portfolio remains predominantly short-term, with 62 per cent (2011: 64 per cent) of loans and advances having a contractual maturity of one year or less.

In Consumer Banking, 55 per cent (2011: 58 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.

	2012			
	One year or less $million	**One to five years $million**	**Over five years $million**	**Total $million**
Consumer Banking	**39,795**	**24,511**	**68,570**	**132,876**
Wholesale Banking	**97,444**	**46,729**	**12,558**	**156,731**
Portfolio impairment provision				**(744)**
Total loans and advances to customers				**288,863**

	2011			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Consumer Banking	33,679	25,844	65,727	125,250
Wholesale Banking	94,827	42,588	9,873	147,288
Portfolio impairment provision				(760)
Total loans and advances to customers				271,778

Credit quality analysis

The table on the right 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.

Most of the Group's loans to banks 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.

As at 31 December 2012, 5.9 per cent of the Wholesale Banking loans to customers are either past due or individually impaired, up from 2.8 per cent at 31 December 2011. Loans past due less than 30 days amount to $1.6 billion and increased by $1 billion mainly in Hong Kong and the UAE. The majority of these exposures were repaid or renegotiated shortly after the year-end.

Loans past due more than 60 days but less than 90 days increased by $2.9 billion compared with 2011 and related to a very small number of exposures on which interest and other servicing charges were overdue. These were regularised prior to renegotiations on commercial terms and with no shortfall in the present value of cash flows when compared with the original terms of the loans and no impairment is expected.

Net individually impaired loans in Wholesale Banking increased by $0.8 billion driven by a small number of exposures in India and the UAE.

The proportion of Consumer Banking loans that are past due or individually impaired increased to 4.6 per cent as at 31 December 2012, which is slightly higher than 4.1 per cent at 31 December 2011. This was largely driven by an increase in loans in the less than 30 days past due category as a result of timing differences around the year-end. In a high proportion of cases the overdue amounts in this bucket are collected well before they are 30 days past due.

	2012				2011			
	Loans to banks $million	**Loans to customers – Wholesale Banking $million**	**Loans to customers – Consumer Banking $million**	**Total loans to customers $million**	Loans to banks $million	Loans to customers – Wholesale Banking $million	Loans to customers – Consumer Banking $million	Total loans to customers $million
Neither past due nor individually impaired loans								
– Grades 1-5	**59,697**	**63,274**	**59,280**	**122,554**	54,838	59,755	55,965	115,720
– Grades 6-8	**7,762**	**62,368**	**41,833**	**104,201**	10,432	60,162	40,238	100,400
– Grades 9-11	**1,457**	**22,272**	**23,597**	**45,869**	980	22,925	22,579	45,504
– Grade 12	**32**	**1,400**	**2,689**	**4,089**	76	1,674	1,835	3,509
	68,948	**149,314**	**127,399**	**276,713**	66,326	144,516	120,617	265,133
Past due but not individually impaired loans								
– Up to 30 days past due	**3**	**1,602**	**3,832**	**5,434**	75	577	3,187	3,764
– 31-60 days past due	**–**	**115**	**515**	**630**	–	129	477	606
– 61-90 days past due	**–**	**3,058**	**238**	**3,296**	–	203	217	420
– 91-150 days past due	**–**	**–**	**216**	**216**	–	–	154	154
	3	**4,775**	**4,801**	**9,576**	75	909	4,035	4,944
Individually impaired loans	**309**	**4,437**	**1,249**	**5,686**	232	3,262	1,089	4,351
Individual impairment provisions	**(103)**	**(1,795)**	**(573)**	**(2,368)**	(82)	(1,399)	(491)	(1,890)
Net individually impaired loans	**206**	**2,642**	**676**	**3,318**	150	1,863	598	2,461
Total loans and advances	**69,157**	**156,731**	**132,876**	**289,607**	66,551	147,288	125,250	272,538
Portfolio impairment provision	**(2)**	**(309)**	**(435)**	**(744)**	(2)	(326)	(434)	(760)
	69,155	**156,422**	**132,441**	**288,863**	66,549	146,962	124,816	271,778
Of which held at fair value through profit or loss:								
Neither past due nor individually impaired								
– Grades 1-5	**555**	**1,237**	**–**	**1,237**	217	1,599	–	1,599
– Grades 6-8	**219**	**3,048**	**–**	**3,048**	351	2,651	–	2,651
– Grades 9-11	**–**	**692**	**–**	**692**	–	563	–	563
– Grade 12	**–**	**1**	**–**	**1**	–	175	–	175
	774	**4,978**	**–**	**4,978**	568	4,988	–	4,988

Risk review continued

Collateral

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 nor impaired, we have assessed the significance of the collateral held in relation to the type of lending.

For loans and advances to banks and customers (including those held at fair value through profit or loss), the table below sets out the fair value of collateral held by the Group adjusted where appropriate in accordance with the risk mitigation policy as outlined on page 66 and for the effect of over-collateralisation.

Collateral held against Consumer Banking loans fell as a result of the proportion of total lending, reflecting the gradual shift in mix to unsecured loans. 72 per cent of the loans to customers are fully secured and around 90 per cent of collateral across the portfolio is property based.

Collateral held against Wholesale Banking loans also covers the off-balance sheet exposures including undrawn commitments and trade related instruments. As a proportion of total lending in Wholesale Banking, collateral decreased compared with 31 December 2011, although the proportion of collateral held in the assets and properties increased to more than 50 per cent from around 40 per cent in 2011.

Further details on collateral are explained in the Consumer Banking and Wholesale Banking sections on pages 79 and 89 respectively.

	Consumer Banking			Wholesale Banking			Total		
As at 31 December 2012	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million
Collateral	**88,119**	**2,802**	**570**	**51,594**	**1,823**	**591**	**139,713**	**4,625**	**1,161**
Amount outstanding[1]	**132,876**	**4,801**	**1,249**	**225,888**	**4,778**	**4,746**	**358,764**	**9,579**	**5,995**
As at 31 December 2011									
Collateral	88,471	2,481	568	53,790	328	459	142,261	2,809	1,027
Amount outstanding[1]	125,250	4,035	1,089	213,839	984	3,494	339,089	5,019	4,583

1 Includes loans held at fair value through profit or loss

Collateral and other credit enhancements possessed or called upon

The Group obtains assets by taking possession of collateral or calling upon other credit enhancements (such as guarantees). Repossessed properties are sold in an orderly fashion. Where the proceeds are in excess of the outstanding loan balance the excess is returned to the borrower. Certain equity securities acquired may be held by the Group for investment purposes and are classified as available-for-sale, and the related loan written off. The table below details the carrying value of collateral possessed and held by the Group as at 31 December 2012 and 31 December 2011:

	2012			2011		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Property	**65**	**9**	**74**	79	–	79
Other	**3**	**–**	**3**	3	–	3
	68	**9**	**77**	82	–	82

Problem credit management and provisioning

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and advances. 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 204.

Estimating the amount and timing of future recoveries involves significant judgment, 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 where the Group operates. 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.

Non-performing loans

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 gross non-performing loans in Consumer Banking have increased by 18 per cent since 31 December 2011, mainly reflecting the shift in mix towards unsecured lending, the impact of the Personal Debt Rehabilitation Scheme (PDRS) regulation in Korea and seasoning of the loan portfolio. In Wholesale Banking, non-performing loans have increased by $1.2 billion, mainly due to a small number of large exposures in India and the UAE. The table below presents a summary of the non-performing loans and cover ratio for Consumer Banking and Wholesale Banking. Further details by geography are set out in pages 83 to 84 and 92 for Consumer Banking and Wholesale Banking respectively.

	2012		2011	
	Consumer Banking $million	**Wholesale Banking $million**	Consumer Banking $million	Wholesale Banking $million
Gross non-performing loans	**1,291**	**4,309**	1,096	3,087
Individual impairment provisions[1]	**(532)**	**(1,897)**	(458)	(1,459)
Portfolio impairment provision	**(435)**	**(311)**	(434)	(328)
Cover ratio	**75%**	**51%**	81%	58%

1 The difference to total individual impairment provision as at 31 December 2012 reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days

Risk review continued

Individual and portfolio impairment provisions:
Individual impairment provisions increased by $499 million compared with 31 December 2011. This was primarily in India ($158 million increase) and the UAE ($201 million increase) as a result of a small number of Wholesale Banking exposures and in Korea ($110 million increase) due to higher levels of filings under the Personal Debt Rehabilitation Scheme (PDRS) regulation.

Portfolio impairment provisions fell $16 million primarily due to the release of an additional portfolio impairment provision in India that was created in 2011 in respect of market uncertainty.

The following tables set out the movements in total individual and portfolio impairment provisions, together with the movement in individual impairment provisions by geography:

	2012			2011		
	Individual Impairment Provisions $million	Portfolio Impairment Provisions $million	Total $million	Individual Impairment Provisions $million	Portfolio Impairment Provisions $million	Total $million
Provisions held as at 1 January	1,972	762	2,734	1,917	762	2,679
Exchange translation differences	2	11	13	(40)	(14)	(54)
Amounts written off	(958)	–	(958)	(957)	–	(957)
Releases of acquisition fair values	(3)	–	(3)	(10)	–	(10)
Recoveries of amounts previously written off	288	–	288	265	–	265
Discount unwind	(77)	–	(77)	(70)	–	(70)
New provisions	1,716	157	1,873	1,266	130	1,396
Recoveries/provisions no longer required	(469)	(184)	(653)	(399)	(116)	(515)
Net impairment charge/(release) against profit	1,247	(27)	1,220	867	14	881
Provisions held at 31 December	2,471	746	3,217	1,972	762	2,734

	2012								
	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
Provisions held as at 1 January	78	38	136	471	112	972	61	104	1,972
Exchange translation differences	–	5	17	(1)	(7)	(9)	(4)	1	2
Amounts written off	(155)	(57)	(175)	(342)	(42)	(123)	(29)	(35)	(958)
Releases of acquisition fair values	–	–	–	(2)	–	(2)	–	1	(3)
Recoveries of amounts previously written off	44	44	28	124	11	29	5	3	288
Discount unwind	(2)	(3)	(13)	(17)	(13)	(28)	(1)	–	(77)
New provisions	158	111	334	428	235	387	31	32	1,716
Recoveries/provisions no longer required	(49)	(49)	(81)	(186)	(26)	(53)	(14)	(11)	(469)
Net impairment charge against profit	109	62	253	242	209	334	17	21	1,247
Provisions held at 31 December	74	89	246	475	270	1,173	49	95	2,471

	2011								
	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
Provisions held as at 1 January	102	25	193	507	112	782	60	136	1,917
Exchange translation differences	–	(1)	(1)	(1)	(20)	(13)	(4)	–	(40)
Amounts written off	(121)	(52)	(244)	(304)	(51)	(136)	(19)	(30)	(957)
Releases of acquisition fair values	–	–	–	(8)	–	(2)	–	–	(10)
Recoveries of amounts previously written off	27	18	16	147	13	30	12	2	265
Discount unwind	(3)	(1)	(12)	(16)	(11)	(23)	(2)	(2)	(70)
New provisions	111	72	214	333	98	395	35	8	1,266
Recoveries/provisions no longer required	(38)	(23)	(30)	(187)	(29)	(61)	(21)	(10)	(399)
Net impairment charge/(release) against profit	73	49	184	146	69	334	14	(2)	867
Provisions held at 31 December	78	38	136	471	112	972	61	104	1,972

Forbearance and other renegotiated loans

In certain circumstances, the Group may renegotiate client and customer loans. Loans that are renegotiated on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared with the original terms of the loans are considered to be subject to forbearance strategies and are disclosed as 'Loans subject to forbearance' in the disclosures below. Loans that are renegotiated primarily to prevent the loan becoming past due or impaired are considered to be 'Renegotiated loans that would otherwise be past due or impaired' in the disclosures below. Loans that are renegotiated for commercial reasons, which may occur, for example, if a client had a credit rating upgrade, are not included within this disclosure.

Forbearance strategies assist customers who 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 requires higher impairment charges for loans subject to forbearance 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.

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 the individual impairment provisions (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.

As at 31 December 2012, $769 million (2011: $708 million) of Consumer Banking loans were subject to forbearance programmes that required impairment provisions to be recognised. This 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 12 per cent (2011: 17 per cent), reflecting collateral held and expected recovery rates.

	2012		2011	
	Gross loans $million	**Provisions $million**	Gross loans $million	Provisions $million
Loans subject to forbearance	**769**	**96**	708	117
Renegotiated loans that would otherwise be past due/impaired	**319**	**–**	228	–
Total Consumer Banking	**1,088**	**96**	936	117

Risk review continued

For Wholesale Banking, Medium Enterprises 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 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 66.

As at 31 December 2012, $1,011 million (2011: $873 million) of Wholesale Banking loans were subject to forbearance strategies that required impairment provisions to be recognised. This represents 0.6 per cent of total loans and advances to Wholesale Banking customers. $437 million (2011: $407 million) of loans subject to forbearance represents those loans that have complied with the renegotiated loan terms for more than 180 days. Although these remain impaired loans, they are excluded from our analysis of non-performing loans.

	2012		2011	
	Gross loans $million	Provisions $million	Gross loans $million	Provisions $million
Loans subject to forbearance	1,011	232	873	127
Renegotiated loans that would otherwise be past due/impaired	773	–	609	–
Total Wholesale Banking	1,784	232	1,482	127

Consumer Banking loan portfolio

The Consumer Banking portfolio in 2012 has grown by $7.6 billion, or 6 per cent compared with 2011. The proportion of mortgages in the Consumer Banking portfolio is 55 per cent. The overall mortgage portfolio was broadly flat compared with 2011 as regulatory restrictions continued to restrict growth in a number of markets, particularly in Korea and Taiwan where balances fell. We did however originate and sell $4.9 billion of fixed-rate mortgages in Korea under the Mortgage Purchase Programme to the Korea Housing Finance Corporation. Other loans, which include credit cards and personal loans, (including those related to Private Banking), increased by $4.9 billion since 2011 as we continued to selectively grow our unsecured lending portfolios, particularly in Hong Kong, Singapore and Korea. Africa also saw strong growth in unsecured product, up 20 per cent compared with 2011. SME lending continued to grow, up by $1.9 billion compared with 2011 with growth in the core strategic trade and working capital products, partly offset by lower levels of mortgages.

Geographic analysis

	2012								
	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	21,441	14,278	16,686	15,574	2,284	1,629	256	1,221	73,369
Other	6,843	10,038	6,936	7,017	806	2,902	1,152	2,696	38,390
Small and medium enterprises	3,040	3,251	4,965	6,570	2,100	887	302	2	21,117
	31,324	27,567	28,587	29,161	5,190	5,418	1,710	3,919	132,876
Portfolio impairment provision	(50)	(26)	(116)	(153)	(20)	(44)	(22)	(4)	(435)
Total loans and advances to customers	31,274	27,541	28,471	29,008	5,170	5,374	1,688	3,915	132,441

	2011								
	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[1]	19,245	12,076	20,835	15,905	2,062	1,486	216	749	72,574
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
	27,554	24,014	31,546	27,913	4,830	4,615	1,341	3,437	125,250
Portfolio impairment provision	(45)	(22)	(101)	(159)	(21)	(63)	(19)	(4)	(434)
Total loans and advances to customers	27,509	23,992	31,445	27,754	4,809	4,552	1,322	3,433	124,816

1 Amounts have been restated as explained in note 45

Maturity analysis

The proportion of Consumer Banking loans maturing in less than one year increased compared with 31 December 2011, reflecting the strategic shift towards unsecured lending. In addition, the increase in lending to SME and Private Banking clients are typically of short tenor.

The following tables show the contractual maturity of loans and advances to customers by each principal category of borrower.

	2012			
	One year or less $million	**One to five years $million**	**Over five years $million**	**Total $million**
Loans to individuals				
Mortgages	**3,728**	**9,564**	**60,077**	**73,369**
Other	**24,477**	**11,158**	**2,755**	**38,390**
Small and medium enterprises	**11,590**	**3,789**	**5,738**	**21,117**
	39,795	**24,511**	**68,570**	**132,876**
Portfolio impairment provision				**(435)**
Total loans and advances to customers				**132,441**

	2011			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages[1]	3,011	11,892	57,671	72,574
Other	20,194	10,502	2,749	33,445
Small and medium enterprises	10,474	3,450	5,307	19,231
	33,679	25,844	65,727	125,250
Portfolio impairment provision				(434)
Total loans and advances to customers				124,816

1 Amounts have been restated as explained in note 45

Risk review continued

Credit quality analysis

The tables below set out the loan portfolio for Consumer Banking by product and by geography 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.

The overall credit quality of the portfolio remains good with over 95 per cent of the portfolio neither past due nor impaired. The mortgage portfolio is well collateralised and has an average loan-to-value ratio of 47.8 per cent.

The proportion of the past due but not individually impaired loans increased to $4.8 billion, or 3.6 per cent of the loan portfolio. Two-thirds of the increase of $0.8 billion arose in the less than 30 days past due category, primarily due to temporary timing differences in payments in Korea, Malaysia and Singapore.

Individually impaired loans increased by $160 million primarily in Korea, which was impacted by increased filings due to PDRS, which also drove the $82 million increase in individual impairment provisions. The portfolio impairment provision was largely flat with an increase in Korea offset by reduced provisions in the MESA region where credit quality of the portfolio has improved.

	2012				2011			
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired loans $million	Total $million	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired loans $million	Total $million
Loans to individuals								
Mortgages	**70,920**	**2,237**	**350**	**73,507**	70,332	2,023	356	72,711
Other	**36,317**	**1,833**	**471**	**38,621**	31,785	1,460	352	33,597
Small and medium enterprises	**20,162**	**731**	**428**	**21,321**	18,500	552	381	19,433
	127,399	**4,801**	**1,249**	**133,449**	120,617	4,035	1,089	125,741
Individual impairment provision				**(573)**				(491)
Portfolio impairment provision				**(435)**				(434)
Total loans and advances to customers				**132,441**				124,816

	2012								
	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
Neither past due nor individually impaired	**30,878**	**26,956**	**27,340**	**27,280**	**4,825**	**4,772**	**1,629**	**3,719**	**127,399**
Past due but not individually impaired loans	**404**	**569**	**1,059**	**1,594**	**342**	**587**	**69**	**177**	**4,801**
Individually impaired loans	**66**	**57**	**329**	**434**	**52**	**224**	**24**	**63**	**1,249**
Individual impairment provisions	**(24)**	**(15)**	**(141)**	**(147)**	**(29)**	**(165)**	**(12)**	**(40)**	**(573)**
Portfolio impairment provision	**(50)**	**(26)**	**(116)**	**(153)**	**(20)**	**(44)**	**(22)**	**(4)**	**(435)**
Total loans and advances to customers	**31,274**	**27,541**	**28,471**	**29,008**	**5,170**	**5,374**	**1,688**	**3,915**	**132,441**

	2011								
	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
Neither past due nor individually impaired	27,202	23,478	30,525	26,319	4,492	3,952	1,299	3,350	120,617
Past due but not individually impaired loans	315	515	924	1,305	310	576	30	60	4,035
Individually impaired loans	54	35	165	435	60	246	28	66	1,089
Individual impairment provisions	(17)	(14)	(68)	(146)	(32)	(159)	(16)	(39)	(491)
Portfolio impairment provision	(45)	(22)	(101)	(159)	(21)	(63)	(19)	(4)	(434)
Total loans and advances to customers	27,509	23,992	31,445	27,754	4,809	4,552	1,322	3,433	124,816

Credit risk mitigation

A secured loan is one where the borrower pledges an asset as collateral that the Group is able to take possession of in the event that the borrower defaults. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination.

Other secured loans are considered to be partially secured. Within Consumer Banking, 72 per cent of lending is fully secured and 10 per cent was partially secured. The following tables present an analysis of Consumer Banking loans by product split between fully secured, partially secured and unsecured.

	2012				2011			
	Fully secured $million	**Partially secured $million**	**Unsecured $million**	**Total $million**	Fully secured $million	Partially secured $million	Unsecured $million	Total $million
Loans to individuals								
Mortgages	**73,369**	**–**	**–**	**73,369**	72,574	–	–	72,574
Other	**15,959**	**–**	**22,431**	**38,390**	14,317	–	19,128	33,445
Small and medium enterprises	**5,967**	**12,707**	**2,443**	**21,117**	5,415	11,967	1,849	19,231
	95,295	**12,707**	**24,874**	**132,876**	92,306	11,967	20,977	125,250
Percentage of total loans	**72%**	**10%**	**18%**		74%	9%	17%	

Risk review continued

Mortgage loan-to-value ratios by geography

The following table provides an analysis of loan-to-value (LTV) ratios by geography for the mortgages portfolio. LTV ratios are determined based on the ratio of the current mortgage outstanding to the current fair value of the properties on which they are secured. Overall the average LTV ratio for the book is 47.8 per cent compared with 49.0 per cent in 2011. Our major mortgage markets of Hong Kong, Singapore and Korea have an average LTV of less than 50 per cent. The proportion of the portfolio with average LTVs in excess of 100 per cent has declined from 0.8 per cent to 0.5 per cent. This has been primarily seen within the UAE due to improving economic conditions in the current year, such as job market stability. As at 31 December 2012 average LTVs in Hong Kong and MESA regions were lower as new business was originated at lower LTVs and in Hong Kong the current book benefited from an increase in property prices.

2012	Hong Kong %	Singapore %	Korea %	Other Asia Pacific %	India %	Middle East & Other S Asia %	Africa %	Americas UK & Europe %	Total %
Less than 50 per cent	75.4	52.5	49.0	37.9	55.8	24.1	30.0	1.1	54.4
50 per cent to 59 per cent	11.4	18.4	24.6	19.1	15.4	15.9	13.6	98.9	17.9
60 per cent to 69 per cent	6.1	13.8	18.5	21.0	12.7	17.3	20.0	–	14.4
70 per cent to 79 per cent	3.2	12.7	5.0	14.5	10.5	13.3	17.7	–	8.4
80 per cent to 89 per cent	3.2	2.6	2.0	5.9	4.7	8.0	16.7	–	3.6
90 per cent to 99 per cent	0.7	–	0.7	1.3	0.9	5.2	1.2	–	0.8
100 per cent and greater	–	–	0.2	0.3	–	16.2	0.8	–	0.5
Average Portfolio loan-to-value	41.2	46.1	48.9	54.1	45.6	72.1	50.1	53.9	47.8
Loans to individuals – Mortgages ($million)	21,441	14,278	16,686	15,574	2,284	1,629	256	1,221	73,369

2011	Hong Kong %	Singapore %	Korea %	Other Asia Pacific %	India %	Middle East & Other S Asia %	Africa %	Americas UK & Europe %	Total %
Less than 50 per cent	60.2	54.7	50.5	31.6	53.8	19.2	27.5	1.8	49.0
50 per cent to 59 per cent	22.5	17.9	27.9	18.0	17.3	11.5	13.1	91.4	22.2
60 per cent to 69 per cent	9.2	15.8	16.4	19.6	13.9	14.9	17.7	6.8	15.0
70 per cent to 79 per cent	5.3	9.2	3.5	20.2	10.2	16.0	18.1	–	8.8
80 per cent to 89 per cent	1.7	2.4	1.1	8.9	3.4	7.4	17.9	–	3.4
90 per cent to 99 per cent	1.1	–	0.3	1.3	1.4	6.0	4.1	–	0.8
100 per cent and greater	–	–	0.3	0.4	–	25.0	1.6	–	0.8
Average Portfolio loan-to-value	45.5	45.0	47.2	57.3	45.8	82.1	71.7	57.8	49.0
Loans to individuals – Mortgages ($million)	19,245	12,076	20,835	15,905	2,062	1,486	216	749	72,574

Problem credit management and provisioning

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 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 cash flows, 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 pages 83 and 84, 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. In the Group's experience, it 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 89).

Loan impairment

The total net impairment charge in Consumer Banking in 2012 increased by $173 million, or 33 per cent, over 2011. In Korea, regulatory actions to curtail the household debt situation are driving a market-wide increase in the number of filings under the PDRS. Impairment charges also increased in Hong Kong, Singapore, Malaysia and Thailand in line with the growth in unsecured lending and maturing of certain personal loan products. However market conditions in both India and the Middle East have improved and as a result we have seen lower levels of provisioning in these regions.

There was a portfolio impairment release of $5 million in 2012 (2011: $10 million).

Risk review continued

The table below sets out the individual impairment provision by geography together with an analysis of the individual impairment charge and the movement in impaired provision by product type.

	2012								
	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	135	109	289	379	43	122	29	13	1,119
Recoveries/provisions no longer required	(44)	(49)	(72)	(166)	(19)	(52)	(12)	(3)	(417)
Net individual impairment charge	91	60	217	213	24	70	17	10	702
Portfolio impairment provision release									(5)
Net impairment charge									697

	2011								
	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

The following table sets out the movement in total impairment provisions for Consumer Banking loans and advances as at 31 December by each principal category of borrower.

	Impairment provision held as at 1 January 2012 $million	Net impairment charge 2012 $million	Amounts written off/ other movements 2012 $million	Impairment provision held as at 31 December 2012 $million
Loans to individuals				
Mortgages	137	14	(13)	138
Other	152	579	(500)	231
Small and medium enterprises	202	109	(107)	204
	491	702	(620)	573
Portfolio impairment provision	434	(5)	6	435
	925	697	(614)	1,008

	Impairment provision held as at 1 January 2011 $million	Net impairment charge 2011 $million	Amounts written off/ other movements 2011 $million	Impairment provision held as at 31 December 2011 $million
Loans to individuals				
Mortgages	128	21	(12)	137
Other	180	412	(440)	152
Small and medium enterprises	198	101	(97)	202
	506	534	(549)	491
Portfolio impairment provision	451	(10)	(7)	434
	957	524	(556)	925

Non-performing loans

Non-performing loans have increased by $195 million compared with 2011 largely driven by Korea ($182 million increase) in line with the increase in the delinquency impacted by PDRS filings, partly offset by a decline in the UAE where credit quality has improved.

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 on page 73.

The following tables set out the total non-performing loans and related provisions for Consumer Banking by geography:

	2012								
	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	**67**	**70**	**376**	**369**	**65**	**253**	**26**	**65**	**1,291**
Individual impairment provision[1]	**(24)**	**(14)**	**(141)**	**(107)**	**(29)**	**(165)**	**(12)**	**(40)**	**(532)**
Non-performing loans net of individual impairment provision	**43**	**56**	**235**	**262**	**36**	**88**	**14**	**25**	**759**
Portfolio impairment provision									**(435)**
Net non-performing loans and advances									**324**
Cover ratio									**75%**

1 The difference to total individual impairment provision at 31 December 2012 reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days

Risk review continued

	2011								
	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 reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days

The following table sets out the movement in individually impaired loans, those renegotiated loans excluded from non-performing and total non-performing loans. Renegotiated loans are excluded from non-performing loans if certain specific criteria are met as explained on page 73.

	2012			2011		
	Individually impaired loans $million	**Renegotiated loans $million**	**Total non-performing loans $million**	Individually impaired loans $million	Renegotiated loans $million	Total non-performing loans $million
At 1 January	**1,243**	**(147)**	**1,096**	1,106	–	1,106
Exchange translation differences	**11**	**(7)**	**4**	(61)	4	(57)
Additions	**706**	**(20)**	**686**	755	(164)	591
Maturities and disposals	**(495)**	**–**	**(495)**	(557)	13	(544)
At 31 December	**1,465**	**(174)**	**1,291**	1,243	(147)	1,096

Wholesale Banking loan portfolio

The Wholesale Banking portfolio has increased by $9.4 billion, or 6 per cent, compared with December 2011. More than two-thirds of the growth is due to Trade Finance and Corporate Finance as Wholesale Banking continues to deepen relationships with clients in core markets.

Customer assets growth has been broadly spread, with growth in Singapore, Korea, Africa and the Americas, UK & Europe region partly offset by a decline in Hong Kong. Growth in Singapore is mainly in trade loans and is concentrated in the Commerce and Manufacturing industry segments. Hong Kong loans fell primarily due to repayments of loans linked to acquisitions or IPOs. The growth in the Americas, UK & Europe region is as a result of a certain number of large ticket leveraged finance deals primarily relating to clients across our network.

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.

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. The largest sector exposure is to manufacturing, which is spread across many sub-industries.

Exposure to bank counterparties at $69.2 billion increased by $2.6 billion compared with 31 December 2011, mainly in Korea, Hong Kong, on the back of RMB financing demand, and in Other Asia Pacific (APR) due to increased money market activity in China. The Group continues to be a net lender in the interbank money markets, particularly in geographies such as Hong Kong, Singapore, Other APR, MESA and Americas, UK & Europe.

Geographic analysis

	2012								
	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
Agriculture, forestry and fishing	54	806	4	469	13	261	785	2,079	4,471
Construction	374	484	487	570	629	1,183	259	659	4,645
Commerce	4,983	11,773	665	4,297	815	4,428	768	6,229	33,958
Electricity, gas and water	510	407	–	561	7	366	251	2,723	4,825
Financing, insurance and business services	2,702	2,184	52	4,514	378	2,295	455	10,149	22,729
Governments	50	790	651	765	2	319	47	630	3,254
Mining and quarrying	700	1,938	–	1,059	394	778	602	9,495	14,966
Manufacturing	6,018	3,845	4,182	9,348	2,864	2,893	2,208	8,941	40,299
Commercial real estate	3,524	2,296	1,354	1,445	1,270	1,082	64	540	11,575
Transport, storage and communication	2,400	3,330	194	1,074	447	965	809	5,411	14,630
Other	200	468	121	234	8	102	79	167	1,379
	21,515	28,321	7,710	24,336	6,827	14,672	6,327	47,023	156,731
Portfolio impairment provision	(24)	(21)	(16)	(35)	(19)	(94)	(41)	(59)	(309)
Total loans and advances to customers	**21,491**	**28,300**	**7,694**	**24,301**	**6,808**	**14,578**	**6,286**	**46,964**	**156,422**
Total loans and advances to banks	**19,356**	**6,205**	**4,633**	**8,720**	**571**	**3,172**	**378**	**26,120**	**69,155**

	2011								
	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
Agriculture, forestry and fishing	356	472	16	473	13	248	823	781	3,182
Construction	345	639	371	668	463	790	237	291	3,804
Commerce	4,858	7,645	439	3,826	547	4,067	851	5,999	28,232
Electricity, gas and water	523	908	–	665	7	300	300	1,771	4,474
Financing, insurance and business services	3,824	4,107	167	4,536	645	3,247	595	8,837	25,958
Governments	–	1,312	11	1,949	2	230	9	2,160	5,673
Mining and quarrying	1,019	1,325	–	841	353	300	333	8,103	12,274
Manufacturing	7,248	2,602	3,818	8,413	2,461	2,604	1,825	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	929	776	1,257	771	5,607	14,696
Other	218	630	180	258	9	233	194	143	1,865
	23,432	24,815	6,646	23,890	6,407	13,957	6,002	42,139	147,288
Portfolio impairment provision	(27)	(19)	(25)	(25)	(63)	(75)	(30)	(62)	(326)
Total loans and advances to customers[1]	23,405	24,796	6,621	23,865	6,344	13,882	5,972	42,077	146,962
Total loans and advances to banks[1]	19,097	7,301	3,777	8,305	362	2,426	638	24,643	66,549

1 Amounts have been restated as explained in note 45

Risk review continued

Maturity analysis

The Wholesale Banking portfolio remains predominantly short-term, with 62 per cent (2011: 64 per cent) of loans and advances having a contractual maturity of one year or less driven by short-dated loans and trade finance transactions. The portfolio has seen a marginal extension in tenor as loans over five years have increased by $2.7 billion primarily in the financing, insurance and communication sectors.

The following tables show the contractual maturity of loans and advances to customers by each principal category of borrowers' business or industry.

	2012			
	One year or less $million	**One to five years $million**	**Over five years $million**	**Total $million**
Agriculture, forestry and fishing	**3,307**	**1,000**	**164**	**4,471**
Construction	**3,205**	**1,269**	**171**	**4,645**
Commerce	**29,268**	**4,271**	**419**	**33,958**
Electricity, gas and water	**1,864**	**1,047**	**1,914**	**4,825**
Financing, insurance and business services	**14,021**	**7,641**	**1,067**	**22,729**
Governments	**2,873**	**303**	**78**	**3,254**
Mining and quarrying	**6,966**	**5,313**	**2,687**	**14,966**
Manufacturing	**27,061**	**11,410**	**1,828**	**40,299**
Commercial real estate	**4,195**	**6,859**	**521**	**11,575**
Transport, storage and communication	**3,921**	**7,031**	**3,678**	**14,630**
Other	**763**	**585**	**31**	**1,379**
	97,444	**46,729**	**12,558**	**156,731**
Portfolio impairment provision				**(309)**
Total loans and advances to customers				**156,422**

	2011			
	One year or less $million	One to five years $million	Over five years $million	Total $million
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
	94,827	42,588	9,873	147,288
Portfolio impairment provision				(326)
Total loans and advances to customers				146,962

Credit quality analysis

The table below sets out an analysis of the loans to customers and banks 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 by industry type and by geography.

In Wholesale Banking, the overall portfolio quality remains good and more than 94 per cent of the portfolio is neither past due nor individually impaired.

Neither past due nor impaired loans have increased by $4.8 billion in line with portfolio growth, and this is primarily concentrated within the commerce and manufacturing sectors and within credit grades 1-5.

Loans past due but not individually impaired increased by $3.9 billion compared with 2011. Of this increase, $1 billion was in the less than 30 days past due category and related to a small number of exposures in the UAE (within construction and commerce), in Hong Kong (within mining and construction) and in Singapore (within financing, insurance and business services). The remainder of the increase was in the 60-90 days past due category and related to the financing, insurance and business services and manufacturing sectors in the Americas, UK & Europe region. As explained on page 70, a majority of these past due balances relate to a small number of exposures and have since been either repaid or renegotiated shortly after the balance sheet date.

Individually impaired loans increased by $1.2 billion, mainly due to an increase in a small number of exposures in India and the UAE, and this flowed into a higher individual impairment provision of $0.4 billion. Portfolio impairment provision declined by $17 million primarily due to a release in India of provisions created in 2011 in respect of market uncertainties.

Loans to banks remain predominantly high quality and more than 99 per cent of the portfolio is neither past due nor individually impaired.

	2012				2011			
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired loans $million	Total $million	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired loans $million	Total $million
Agriculture, forestry and fishing	4,364	54	92	4,510	3,089	29	104	3,222
Construction	4,175	309	237	4,721	3,703	40	129	3,872
Commerce	33,369	323	940	34,632	28,018	91	596	28,705
Electricity, gas and water	4,744	4	85	4,833	4,317	155	8	4,480
Financing, insurance and business services	19,115	2,640	1,139	22,894	25,168	74	883	26,125
Governments	3,254	–	–	3,254	5,673	–	–	5,673
Mining and quarrying	14,363	593	19	14,975	12,228	37	10	12,275
Manufacturing	38,932	748	1,191	40,871	36,075	274	1,077	37,426
Commercial real estate	11,403	38	158	11,599	9,991	107	181	10,279
Transport, storage and communication	14,241	43	543	14,827	14,410	77	249	14,736
Other	1,354	23	33	1,410	1,844	25	25	1,894
	149,314	4,775	4,437	158,526	144,516	909	3,262	148,687
Individual impairment provision				(1,795)				(1,399)
Portfolio impairment provision				(309)				(326)
Total loans and advances to customers				156,422				146,962
Loans and advances to banks	68,948	3	309	69,260	66,326	75	232	66,633
Individual impairment provision				(103)				(82)
Portfolio impairment provision				(2)				(2)
Total loans and advances to banks				69,155				66,549

Risk review continued

The tables below set out an analysis of the loans to customers and banks 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 by geography.

	2012								
	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
Neither past due nor individually impaired	20,674	28,036	7,554	23,806	6,186	12,697	6,212	44,149	149,314
Past due but not individually impaired loans	769	160	–	256	134	657	20	2,779	4,775
Individually impaired loans	122	199	261	524	748	2,326	132	125	4,437
Individual impairment provisions	(50)	(74)	(105)	(250)	(241)	(1,008)	(37)	(30)	(1,795)
Portfolio impairment provision	(24)	(21)	(16)	(35)	(19)	(94)	(41)	(59)	(309)
Total loans and advances to customers	21,491	28,300	7,694	24,301	6,808	14,578	6,286	46,964	156,422

	2011								
	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
Neither past due nor individually impaired	23,244	24,752	6,511	23,654	6,130	12,439	5,818	41,968	144,516
Past due but not individually impaired loans	174	10	1	22	104	522	76	–	909
Individually impaired loans	75	114	202	462	249	1,775	154	231	3,262
Individual impairment provisions	(61)	(61)	(68)	(248)	(76)	(779)	(46)	(60)	(1,399)
Portfolio impairment provision	(27)	(19)	(25)	(25)	(63)	(75)	(30)	(62)	(326)
Total loans and advances to customers	23,405	24,796	6,621	23,865	6,344	13,882	5,972	42,077	146,962

	2012								
	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
Neither past due nor individually impaired	19,349	6,205	4,633	8,635	570	3,076	378	26,102	68,948
Past due but not individually impaired loans	2	–	–	–	1	–	–	–	3
Individually impaired loans	5	–	–	164	–	97	–	43	309
Individual impairment provisions	–	–	–	(78)	–	–	–	(25)	(103)
Portfolio impairment provision	–	–	–	(1)	–	(1)	–	–	(2)
Total loans and advances to banks	19,356	6,205	4,633	8,720	571	3,172	378	26,120	69,155

	2011								
	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
Neither past due nor individually impaired	19,027	7,288	3,777	8,217	362	2,427	637	24,591	66,326
Past due but not individually impaired loans	62	13	–	–	–	–	–	–	75
Individually impaired loans	8	–	–	165	–	–	1	58	232
Individual impairment provisions	–	–	–	(76)	–	–	–	(6)	(82)
Portfolio impairment provision	–	–	–	(1)	–	(1)	–	–	(2)
Total loans and advances to banks	19,097	7,301	3,777	8,305	362	2,426	638	24,643	66,549

Credit risk mitigation

Collateral held against Wholesale Banking exposures amounted to $52 billion (2011: $54 billion). Our underwriting standards encourage taking specific charges on assets. 51 per cent of collateral held is comprised of physical assets or is property based, with the remainder held largely in investment securities.

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.

Problem credit management and provisioning

Loans are classified as impaired and considered non-performing in line with the definition on page 73 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.

Risk review continued

Loan impairment

The individual impairment charge increased by $212 million, or 64 per cent, compared with 2011, which is in line with the increase in non-performing loans mentioned on page 92 in India and the UAE. These arose primarily in the commerce, and transport, storage and communication sectors. Portfolio provisions were reduced in some markets in 2012 with a release of sector-specific provisions in India. Consequently, there was a net portfolio impairment release in 2012 of $22 million, compared with a $24 million charge in 2011.

The table below sets out the net impairment charge for Wholesale Banking loans and advances and other credit risk provisions by geography.

	2012								
	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	23	2	45	49	192	265	2	19	597
Recoveries/provisions no longer required	(5)	–	(9)	(20)	(7)	(1)	(2)	(8)	(52)
Net individual impairment charge	18	2	36	29	185	264	–	11	545
Portfolio impairment provision release									(22)
Net loan impairment charge									523
Other credit risk provisions									1
Total impairment									524

	2011								
	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 loan impairment charge									357
Other credit risk provisions									27
Total impairment									384

Impairment provisions on loans and advances

The following table sets out the impairment provision on loans and advances by each principal category of borrower's business or industry.

	Impairment provision held as at 1 January 2012 $million	Net impairment charge 2012 $million	Amounts written off/other movements 2012 $million	Impairment provision held as at 31 December 2012 $million
Agriculture, forestry and fishing	**40**	**–**	**(1)**	**39**
Construction	**68**	**19**	**(11)**	**76**
Commerce	**473**	**136**	**65**	**674**
Electricity, gas and water	**6**	**–**	**2**	**8**
Financing, insurance and business services	**167**	**118**	**(120)**	**165**
Mining and quarrying	**1**	**–**	**8**	**9**
Manufacturing	**551**	**100**	**(79)**	**572**
Commercial real estate	**24**	**–**	**–**	**24**
Transport, storage and communication	**40**	**162**	**(5)**	**197**
Other	**29**	**4**	**(2)**	**31**
Individual impairment provision against loans and advances to customers	**1,399**	**539**	**(143)**	**1,795**
Portfolio impairment provision against loans and advances to customers	**326**	**(22)**	**5**	**309**
Total impairment provisions on loans and advances to customers	**1,725**	**517**	**(138)**	**2,104**
Individual impairment provision against loans and advances to banks	**82**	**6**	**15**	**103**
Portfolio impairment provision against loans and advances to banks	**2**	**–**	**–**	**2**
Total impairment provisions on loans and advances to banks	**84**	**6**	**15**	**105**

	Impairment provision held as at 1 January 2011 $million	Net impairment charge 2011 $million	Amounts written off/other movements 2011 $million	Impairment provision held as at 31 December 2011 $million
Agriculture, forestry and fishing	42	–	(2)	40
Construction	57	5	6	68
Commerce	467	47	(41)	473
Electricity, gas and water	7	–	(1)	6
Financing, insurance and business services	120	81	(34)	167
Mining and quarrying	1	–	–	1
Manufacturing	558	181	(188)	551
Commercial real estate	23	–	1	24
Transport, storage and communication	23	7	10	40
Other	20	–	9	29
Individual impairment provision against loans and advances to customers	1,318	321	(240)	1,399
Portfolio impairment provision against loans and advances to customers	309	24	(7)	326
Total impairment provisions on loans and advances to customers	1,627	345	(247)	1,725
Individual impairment provision against loans and advances to banks	93	12	(23)	82
Portfolio impairment provision against loans and advances to banks	2	–	–	2
Total impairment provisions on loans and advances to banks	95	12	(23)	84

Risk review continued

Non-performing loans

Gross non-performing loans in Wholesale Banking have increased by $1,222 million, or 40 per cent, since December 2011. These increases were primarily driven by a very small number of exposures in India and the UAE.

The cover ratio reflects the extent to which gross non-performing loans are covered by individual and portfolio impairment provisions and was 51 per cent as at 31 December 2012, down from 58 per cent as at 31 December 2011, largely due to the factors previously outlined. The balance of non-performing loans not covered by individual impairment provisions represents the value of collateral held and the Group's estimate of the net outcome of any workout strategy. The cover ratio after taking into account collateral is 65 per cent (2011: 72 per cent).

The following tables set out the total non-performing loans to banks and customers for Wholesale Banking on the basis of the geographic regions to which the exposure relates to rather than the booking location.

	2012								
	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	128	21	261	744	754	2,089	147	165	4,309
Individual impairment provision[1]	(50)	(14)	(105)	(335)	(240)	(1,061)	(37)	(55)	(1,897)
Non-performing loans net of individual impairment provision	78	7	156	409	514	1,028	110	110	2,412
Portfolio impairment provision									(311)
Net non-performing loans and advances									2,101
Cover ratio									51%

1 The difference to total individual impairment provision at 31 December 2012 reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days

	2011								
	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	83	18	202	773	260	1,476	146	129	3,087
Individual impairment provision[1]	(61)	(4)	(68)	(325)	(80)	(811)	(45)	(65)	(1,459)
Non-performing loans net of individual impairment provision	22	14	134	448	180	665	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

The following table sets out the movement in individually impaired loans, those renegotiated loans excluded from non-performing and the total non-performing loans. Renegotiated loans are excluded from non-performing loans if certain specific criteria are met as explained on page 73.

	2012			2011		
	Individually impaired loans $million	**Renegotiated loans $million**	**Total non-performing loans $million**	Individually impaired loans $million	Renegotiated loans $million	Total non-performing loans $million
As at 1 January	**3,494**	**(407)**	**3,087**	3,450	–	3,450
Exchange translation differences	**(43)**	**(3)**	**(46)**	(64)	1	(63)
Additions	**1,709**	**(28)**	**1,681**	517	(416)	101
Maturities and disposals	**(414)**	**1**	**(413)**	(409)	8	(401)
As at 31 December	**4,746**	**(437)**	**4,309**	3,494	(407)	3,087

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

	2012			2011		
	Debt securities $million	**Treasury bills $million**	**Total $million**	Debt securities $million	Treasury bills $million	Total $million
Net impaired securities:						
Impaired securities	**404**	**–**	**404**	432	–	432
Impairment	**(159)**	**–**	**(159)**	(187)	–	(187)
	245	**–**	**245**	245	–	245
Securities neither past due nor impaired:						
AAA	**20,698**	**6,516**	**27,214**	15,164	3,285	18,449
AA– to AA+	**20,232**	**6,594**	**26,826**	18,806	7,959	26,765
A– to A+	**23,570**	**10,694**	**34,264**	23,849	8,712	32,561
BBB– to BBB+	**10,244**	**3,949**	**14,193**	7,090	4,396	11,486
Lower than BBB–	**3,027**	**502**	**3,529**	2,435	1,347	3,782
Unrated	**6,471**	**1,571**	**8,042**	6,541	590	7,131
	84,242	**29,826**	**114,068**	73,885	26,289	100,174
	84,487	**29,826**	**114,313**	74,130	26,289	100,419
Of which:						
Assets at fair value[1]						
Trading	**14,890**	**2,955**	**17,845**	13,025	4,609	17,634
Designated at fair value	**333**	**–**	**333**	45	–	45
Available-for-sale	**65,413**	**26,871**	**92,284**	55,567	21,680	77,247
	80,636	**29,826**	**110,462**	68,637	26,289	94,926
Assets at amortised cost[1]						
Loans and receivables	**3,851**	**–**	**3,851**	5,475	–	5,475
Held-to-maturity	**–**	**–**	**–**	18	–	18
	3,851	**–**	**3,851**	5,493	–	5,493
	84,487	**29,826**	**114,313**	74,130	26,289	100,419

1 See notes 15, 16 and 21 to the financial statements for further details

Risk review continued

The provision for impairment has declined due to partial release of provision relating to a bond investment in India. The movement in impairment provisions for securities classified as loans and receivables is set out in note 21 to the financial statements.

The table on page 93 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 credit rating and measurements on page 65.

Debt securities in the AAA rating category increased by $5.5 billion to $20.7 billion in 2012 mainly due to an increase in higher quality corporate bonds to meet the UK liquid asset buffer requirements.

Unrated securities primarily relate to corporate issuers. Using internal credit ratings, $7,208 million (2011: $6,254 million) of these securities are considered to be equivalent to investment grade.

Asset backed securities

Total exposures to asset backed securities

	31 December 2012				31 December 2011			
	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)	**46%**	**2,160**	**2,114**	**2,120**	32%	769	688	667
Collateralised Debt Obligations (CDOs)	**5%**	**260**	**203**	**219**	13%	308	241	244
Commercial Mortgage Backed Securities (CMBS)	**10%**	**478**	**355**	**351**	26%	633	488	465
Other asset backed securities (Other ABS)	**39%**	**1,869**	**1,847**	**1,861**	29%	712	679	694
	100%	**4,767**	**4,519**	**4,551**	100%	2,422	2,096	2,070
Of which included within:								
Financial assets held at fair value through profit or loss	**4%**	**190**	**191**	**191**	6%	132	130	130
Investment securities – available-for-sale	**61%**	**2,905**	**2,786**	**2,786**	22%	538	379	379
Investment securities – loans and receivables	**35%**	**1,672**	**1,542**	**1,574**	72%	1,752	1,587	1,561
	100%	**4,767**	**4,519**	**4,551**	100%	2,422	2,096	2,070

1 Fair value reflects the value of the entire portfolio, including assets redesignated to loans and receivables

The carrying value of asset backed securities (ABS) represents 0.7 per cent (2011: 0.3 per cent) of our total assets.

The Group has an existing portfolio of ABS that it reclassified from trading and available-for-sale to loans and receivables with effect from 1 July 2008. No assets have been reclassified since 2008. This portfolio has been gradually managed down since 2010. The carrying value and fair value for this part of the portfolio were $0.97 billion and $1.0 billion respectively as at the end of 2012. Note 12 to the financial statements provides details of the remaining balance of those assets reclassified in 2008.

The Group has also extended its investment to a limited amount of trading in ABS and has also acquired an additional $2.3 billion of ABS during 2012 for liquidity reasons. This is classified as available-for-sale and primarily related to high quality ABS assets with an average credit grade of AAA. The credit quality of the asset backed securities portfolio remains strong. With the exception of those securities subject to an impairment charge, more than 90 per cent of the overall portfolio is rated A– or better, and 61 per cent of the overall portfolio is rated as AAA. The portfolio is broadly diversified across asset classes and geographies, with an average credit grade of AA.

The fair value of the entire portfolio is $32 million higher than the carrying value as at 31 December 2012 (2011: $26 million lower), benefiting from some redemptions and a recovery in market prices in certain asset classes.

Further details of asset backed securities are explained on page 41 of the Pillar 3 disclosures.

Financial statement impact of asset backed securities

	Available-for-sale $million	Loans and receivables $million	Total $million
31 December 2012			
Charge to available-for-sale reserves	**(3)**	**–**	**(3)**
Credit to the profit and loss account	**5**	**–**	**5**
31 December 2011			
Credit to available-for-sale reserves	16	–	16
Charge to the profit and loss account	(9)	(7)	(16)

Selected European country exposures

The tables on the following page summarise the Group's direct exposure (both on and off balance sheet) to certain specific countries within the eurozone that have been identified on the basis of their higher bond yields, higher sovereign debt to GDP ratio and external credit ratings compared with the rest of the eurozone.

Total gross exposure represents the amount outstanding on the balance sheet (including any accrued interest but before provisions) and positive mark-to-market amounts on derivatives before netting. To the extent gross exposure does not represent the maximum exposure to loss, this is disclosed separately. Exposures are assigned to a country based on the country of incorporation of the counterparty as at 31 December 2012.

The Group has no direct sovereign exposure (as defined by the European Banking Authority) to the eurozone countries of Greece, Ireland, Italy, Portugal and Spain (GIIPS) and only $0.9 billion direct sovereign exposure to other eurozone countries. The Group's non-sovereign exposure to GIIPS is $3.5 billion ($2.3 billion after collateral and netting) and $47.2 billion ($32.6 billion after collateral and netting) to the remainder of the eurozone. This exposure primarily consists of balances with corporates. The substantial majority of the Group's total gross GIIPS exposure has a tenor of less than five years, with approximately 30 per cent having a tenor of less than one year. The Group has no direct sovereign exposure and $263 million (2011: $281 million) of non-sovereign exposure (after collateral and netting) to Cyprus.

The exit of one or more countries from the eurozone or ultimately its dissolution could potentially lead to significant market dislocation, the extent of which is difficult to predict. Any such exit or dissolution, and the redenomination of formerly euro-denominated rights and obligations in replacement national currencies would cause significant uncertainty in any exiting country, whether sovereign or otherwise. Such events are also likely to be accompanied by the imposition of capital, exchange and similar controls. While the Group has limited eurozone exposure as disclosed above, the Group's earnings could be impacted by the general market disruption if such events should occur. We monitor the situation closely and we have prepared contingency plans to respond to a range of potential scenarios, including the possibility of currency redenomination. Local assets and liability positions are carefully monitored by in-country asset and liability and risk committees with appropriate oversight by GALCO and GRC at the Group level.

Risk review continued

Country	2012 Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
Direct sovereign exposure	–	–	–	–	–	–
Banks	2	918	600	1	281	1,802
Other financial institutions	–	1,331	9	–	–	1,340
Other corporate	29	173	65	20	74	361
Total gross exposure	31	2,422	674	21	355	3,503
Direct sovereign exposure	–	–	–	–	–	–
Banks	–	(914)	(55)	–	(130)	(1,099)
Other financial institutions	–	(78)	(9)	–	–	(87)
Other corporate	(2)	(39)	–	–	(4)	(45)
Total collateral/netting	(2)	(1,031)	(64)	–	(134)	(1,231)
Direct sovereign exposure	–	–	–	–	–	–
Banks	2	4[1]	545	1	151	703
Other financial institutions	–	1,253[2]	–	–	–	1,253
Other corporate	27	134	65	20	70	316
Total net exposure	29	1,391	610	21	221	2,272

1 This represents a single exposure, which is fully guaranteed by its US parent company
2 This represents a single exposure that is part of a wider structured finance transaction and is unaffected by Irish economic risk

Country	2011 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 that is part of a wider structured finance transaction and is unaffected by Irish economic risk

The Group's exposure to GIIPS as at 31 December 2012 is analysed by financial asset as follows:

	2012					
	Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
Loans and advances						
Loans and receivables	20	91	301	20	26	458
Held at fair value through profit or loss	–	–	17	–	–	17
Total gross loans and advances	20	91	318	20	26	475
Collateral held against loans and advances	(2)	(38)	(24)	–	(4)	(68)
Total net loans and advances	18	53	294	20	22	407
Debt securities						
Trading						
Designated at fair value	–	–	–	–	41	41
Available-for-sale	–	51	–	–	78	129
Loans and receivables	–	–	–	–	–	–
Total gross debt securities	–	51	–	–	119	170
Collateral held against debt securities	–	–	–	–	–	–
Total net debt securities	–	51	–	–	119	170
Derivatives						
Gross exposure	2	1,025	44	–	137	1,208
Collateral/netting[1]	–	(992)	(39)	–	(132)	(1,163)
Total derivatives	2	33	5	–	5	45
Contingent liabilities and commitments	9	1,254	311	1	75	1,650
Total net exposure (on and off balance sheet)[1]	29	1,391	610	21	221	2,272
Total balance sheet exposure	22	1,167	362	20	282	1,853

1 Based on ISDA (International Swaps and Derivatives Association) netting

Other selected eurozone countries

A summary analysis of the Group's exposure to France, Germany, the Netherlands and Luxembourg is also provided as these countries are considered to have significant sovereign debt exposure to GIIPS.

	France $million	Germany $million	Netherlands $million	Luxembourg $million	Total $million
Direct sovereign exposure	236	443	–	–	679
Banks	2,712	11,765	4,712	1,097	20,286
Other financial institutions	147	–	333	893	1,373
Other corporate	643	601	7,069	604	8,917
Total net exposure as at 31 December 2012	3,738	12,809	12,114	2,594	31,255
Total net exposure as at 31 December 2011	4,900	7,665	7,831	1,445	21,841

The Group's lending to these selected eurozone countries primarily takes the form of repurchase agreements, interbank loans and bonds. The substantial majority of the Group's total gross exposures to these selected countries have a tenor of less than three years, with more than 67 per cent having a tenor of less than one year. The Group's exposure in Germany is primarily with the central bank.

Other than all these specifically identified countries, the Group's residual net exposure to the eurozone is $2.2 billion, which primarily comprises bonds and export structured financing to banks and corporates.

Risk review continued

Country cross-border risk

Country cross-border risk is the risk that we will be unable to obtain payment from our customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

The GRC is responsible for 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, Singapore, Indonesia and Korea has risen further in 2012, reflecting our business focus and continued expansion in our core countries. Changes in the pace of economic activity is reflected in the growth of cross-border exposure for certain territories.

Growth in our business in China and Hong Kong continued to drive increases in cross-border exposure. Changes in exposures to both countries also reflect an overall reduction in the placement of surplus liquidity in China in the second half of the year and an increase in surplus liquidity placements in the US.

Cross-border exposure in Indonesia grew strongly reflecting the opportunities in this market for the Group as whole, and for our joint venture, Permata. Customer demand for US dollar loans, principally from local corporate customers, remained buoyant, and there were significant transactions for acquisition financing.

Korea has seen a reduction in exposures greater than one year and an increase in exposures of one year or less. This reflects a change of business mix from offshore funded term loans to local short-term trade finance.

Cross-border exposure to countries in which we do not have a major presence predominantly relates to short-dated money market activities, and some global corporate business for customers with interests in our footprint. This explains our significant exposure in the US and Switzerland. Growth in US exposure was driven by surplus liquidity flowing into the US and being placed with the Federal Reserve Bank, other US institutions and in short-term US issued instruments.

The table below, which is based on our internal cross-border country risk reporting requirements, shows cross-border exposures that exceed 1 per cent of total assets.

	2012			2011		
	Less than one year $million	**More than one year $million**	**Total $million**	Less than one year $million	More than one year $million	Total $million
China	**23,809**	**11,783**	**35,592**	24,351	10,497	34,848
India	**12,230**	**18,200**	**30,430**	12,061	16,904	28,965
US	**22,485**	**6,730**	**29,215**	17,581	4,728	22,309
Hong Kong	**18,096**	**8,458**	**26,554**	16,796	4,586	21,382
Singapore	**16,561**	**5,508**	**22,069**	13,372	5,158	18,530
United Arab Emirates	**6,580**	**11,293**	**17,873**	6,691	10,687	17,378
Korea	**9,696**	**6,693**	**16,389**	6,931	7,138	14,069
Indonesia	**5,688**	**4,758**	**10,446**	3,949	3,395	7,344
Switzerland	**5,050**	**4,983**	**10,033**	4,897	3,939	8,836

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.

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'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 and from the fourth quarter of 2012 has been extended to also cover the majority of specific (credit spread) risk VaR
- 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 now applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets

In both methods, an historical observation period of one year is chosen and applied.

VaR is calculated as our exposure as at the close of business, generally UK 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 2012, there have been no exceptions in the regulatory back testing, compared with four in 2011. 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.

Risk review continued

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.

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 in 2012 was 35 per cent higher than 2011 in line with increases in the market positions.

Further standardisation of VaR methodology with the implementation of historical simulation VaR for specific (credit spread) risk from 5 October 2012 permitted improved VaR aggregation but also contributed to subsequent increases in VaR for credit-sensitive business. The impact was greatest at the Group level with a rise of $10.6 million in total VaR on 5 October. The corresponding increase in trading book interest rate VaR was $1.0 million and non-trading book interest rate VaR was $4.7 million.

For 2012 as a whole, non-trading book average VaR was 41 per cent higher than 2011, with increases in both interest rate and equity risk. The increase in non-trading book interest VaR was due to increased holdings of available-for-sale securities, primarily held as liquid asset buffers and changes in the VaR methodology as described above. The increase in non-trading book equity risk VaR was due primarily to increased holdings in listed private equities.

Trading book average VaR in 2012 was 20 per cent higher than 2011, as the Rates business had higher net long interest rate exposures in India and South East Asia currencies.

Daily value at risk (VaR at 97.5%, one day)

	2012				2011			
	Average $million	High[3] $million	Low[3] $million	Actual[4] $million	Average $million	High[3] $million	Low[3] $million	Actual[4] $million
Trading and non-trading								
Interest rate risk[1]	**25.8**	**31.1**	**20.7**	**24.4**	20.4	25.1	15.2	23.5
Foreign exchange risk	**4.8**	**7.7**	**2.3**	**4.2**	4.3	8.8	2.6	3.4
Commodity risk	**1.7**	**3.0**	**1.0**	**1.0**	2.2	3.7	1.1	1.2
Equity risk	**15.9**	**18.5**	**13.9**	**16.4**	11.2	13.9	9.0	12.7
Total[2]	**28.8**	**38.5**	**22.6**	**29.5**	21.4	27.7	15.3	24.5
Trading								
Interest rate risk[1]	**10.4**	**15.7**	**6.1**	**8.2**	8.4	11.4	5.4	8.7
Foreign exchange risk	**4.8**	**7.7**	**2.3**	**4.2**	4.3	8.8	2.6	3.4
Commodity risk	**1.7**	**3.0**	**1.0**	**1.0**	2.2	3.7	1.1	1.2
Equity risk	**1.5**	**2.8**	**0.6**	**1.9**	1.9	3.1	1.1	1.1
Total[2]	**12.8**	**20.8**	**6.8**	**8.0**	10.7	14.4	7.0	9.7
Non-trading								
Interest rate risk[1]	**22.2**	**26.7**	**17.8**	**21.4**	16.0	21.6	11.1	20.1
Equity risk	**16.7**	**18.0**	**14.4**	**16.9**	11.4	13.7	9.4	12.7
Total[2]	**27.1**	**33.5**	**21.9**	**23.9**	19.2	25.3	11.0	22.6

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 at period end date

Average daily income earned from market risk related activities

	2012 $million	2011 $million
Trading		
Interest rate risk	**6.7**	4.6
Foreign exchange risk	**5.1**	5.7
Commodity risk	**1.6**	2.0
Equity risk	**0.4**	0.3
Total	**13.8**	12.6
Non-trading		
Interest rate risk	**3.8**	3.6
Equity risk	**0.1**	(0.4)
Total	**3.9**	3.2

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 right) in the same way as for the trading book, including 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.

Structural foreign exchange currency risks are managed by Group Treasury, and are not included within Group VaR. The foreign exchange risk on the non-trading book portfolios is minimised by match funding assets and liabilities in the same currency.

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

	2012 $million	2011 $million
+25 basis points	**33.1**	30.9
–25 basis points	**(33.1)**	(30.9)

Group Treasury also manages the structural foreign exchange risk that arises from non-US dollar currency net investments in branches and subsidiaries. The impact of foreign exchange movements is taken to reserves, which 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. With the approval of CMC, Group Treasury may hedge the net investments if it is anticipated that the capital ratio will be materially affected by exchange rate movements. As at 31 December 2012, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial investments) of $971 million (2011: $1,115 million) to partly cover its exposure to the Korean won.

Risk review continued

The table below sets out the principal structural foreign exchange exposures (net of investment hedges) of the Group.

	2012 $million	2011 $million
Hong Kong dollar	**6,619**	5,712
Korean won	**6,301**	5,316
Indian rupee	**4,025**	3,305
Taiwanese dollar	**2,946**	2,847
Chinese renminbi	**2,245**	1,993
Singapore dollar	**1,195**	1,791
Thai baht	**1,662**	1,514
UAE dirham	**1,598**	1,490
Malaysian ringgit	**1,360**	1,213
Indonesian rupiah	**1,164**	892
Pakistani rupee	**586**	639
Other	**3,648**	3,152
	33,349	29,864

An analysis has been performed on these exposures to assess the impact of a 1 per cent fall in the US dollar exchange rates adjusted to incorporate the impacts of correlations of these currencies to the US dollar. The impact on the positions above would be an increase of $255 million (2011: $221 million). Changes in the valuation of these positions are taken to reserves.

Derivatives

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. This is covered in more detail in the Credit risk section.

Hedging

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 notional value of interest rate swaps for the purpose of fair value hedging increased by $6.1 billion as at 31 December 2012 compared with 31 December 2011, as a result of our ongoing balance sheet management activity. The increase was largely due to the hedging of higher holdings of debt securities in the UK, which form part of the Group's liquidity buffers. Currency swaps used for cash flow hedging increased by $5.3 billion compared with 31 December 2011, primarily reflecting deposit growth in Hong Kong. The notional value of interest rate swaps used for cash flow hedging decreased by $6.5 billion compared with 31 December 2011, largely due to lower floating rate mortgage balances in Korea.

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.

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 adversely impact us, thereby affecting our ability to fulfil our obligations as they fall due. The principal uncertainties for liquidity risk are that customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the 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 of 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 that can be realised, repurchased or used as collateral in the event of liquidity stress. In addition, a funding crisis response and recovery plan (FCRRP) is maintained by Group Treasury that is reviewed and approved annually. The FCRRP lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by senior management. A similar plan is maintained within each country.

Impact of Basel III

We already meet the Basel III requirements of 100 per cent for both the Net Stable Funding Ratio and the Liquidity Coverage Ratio, well ahead of the required implementation date.

Risk review 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. Of total customer deposits, 41 per cent is retail deposits, 51 per cent corporate deposits, 8 per cent other (2011: retail 40 per cent, corporate 52 per cent, other 8 per cent). 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. In the next 12 months, approximately $7 billion of the Group's senior and subordinated debt is falling due for repayment either contractually or callable by the Group. Further details of the Group's senior and subordinated debt by geography are provided in note 2 to the financial statements on page 216.

Encumbered assets

Encumbered assets represent those on-balance sheet assets pledged or used as collateral in respect of certain of the Group's liabilities. Hong Kong government certificates of indebtedness, which secure the equivalent amount of Hong Kong currency notes in circulation, and cash collateral pledged against derivatives are included within other assets. Taken together, these encumbered assets represent 3.7 per cent (2011: 4.0 per cent) of total assets, continuing the Group's historical low level of encumbrance.

The following table provides a reconciliation of the Group's encumbered assets to total assets.

	2012			2011		
	Unencumbered assets $million	**Encumbered assets $million**	**Total assets $million**	Unencumbered assets $million	Encumbered assets $million	Total assets $million
Cash and balances at central banks	**51,480**	**227**	**51,707**	37,403	–	37,403
Restricted balances at central banks	**–**	**9,336**	**9,336**	–	9,961	9,961
Derivative financial instruments	**49,496**	**–**	**49,496**	58,524	–	58,524
Loans and advances to banks[1]	**68,432**	**723**	**69,155**	66,549	–	66,549
Loans and advances to customers[1]	**286,485**	**2,378**	**288,863**	269,551	2,227	271,778
Investment securities[1]	**119,147**	**1,598**	**120,745**	101,776	2,779	104,555
Other assets	**19,559**	**9,259**	**28,818**	18,387	8,899	27,286
Current tax assets	**215**	**–**	**215**	232	–	232
Prepayments and accrued income	**2,581**	**–**	**2,581**	2,521	–	2,521
Interests in associates	**953**	**–**	**953**	903	–	903
Goodwill and intangible assets	**7,312**	**–**	**7,312**	7,061	–	7,061
Property, plant and equipment	**6,646**	**–**	**6,646**	5,078	–	5,078
Deferred tax assets	**691**	**–**	**691**	835	–	835
Total	**612,997**	**23,521**	**636,518**	568,820	23,866	592,686

1 Includes assets held at fair value through profit or loss

In addition to the above, the Group received $10,517 million (2011: $7,076 million) as collateral under reverse repurchase agreements that was eligible for repledging. Of this, the Group repledged $1,378 million (2011: $1,005 million) under repurchase agreements.

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.

	2012 $million	2011 $million
Loans and advances to customers[1]	**288,863**	271,778
Customer accounts[2]	**389,882**	354,844
Advances-to-deposits ratio	**74.1%**	76.6%

1 See note 19 to the financial statements on page 237
2 See note 29 to the financial statements on page 246

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 and the holdings of these assets are spread across our geographies.

The following table details the component of liquid assets together with the ratio of liquid assets to total assets.

This ratio improved in 2012 compared with 2011 reflecting the increased levels of liquid assets held to meet regulatory liquidity requirements, especially in the UK.

	2012 $million	2011 $million
Cash and balances at central banks	**61,043**	47,364
Restricted balances	**(9,336)**	(9,961)
Loans and advances to banks	**69,155**	66,549
Deposits by banks	**(37,445)**	(36,388)
Treasury bills	**29,826**	26,289
Debt securities	**84,487**	74,130
of which :		
Issued by governments	**33,688**	28,635
Issued by banks	**32,261**	27,198
Issued by corporate and other entities	**18,538**	18,297
Illiquid securities	**(1,706)**	(1,415)
Other encumbered assets	**(2,398)**	(1,850)
Liquid assets	**193,626**	164,718
Total assets	**636,518**	592,686
Liquid assets to total asset ratio (%)	**30.4%**	27.8%

Geographic spread of liquid assets

2012

	Hong Kong %	Singapore %	Korea %	Other Asia Pacific %	India %	Middle East & Other S Asia %	Africa %	Americas UK & Europe %	Total %
Liquid assets	**17**	**11**	**8**	**16**	**4**	**5**	**3**	**36**	**100**

2011

	Hong Kong %	Singapore %	Korea %	Other Asia Pacific %	India %	Middle East & Other S Asia %	Africa %	Americas UK & Europe %	Total %
Liquid assets	17	10	8	21	4	5	4	31	100

Risk review continued

Liquidity management – stress scenarios

The Group conducts a range of liquidity-related stress analyses, both for internal and regulatory purposes.

Internally, three stress tests are run routinely: an acute eight-day name-specific stress, a 30-day market-wide stress and a more chronic 90-day combined name specific and market-wide stress.

The eight-day stress is specifically designed to determine a minimum quantity of marketable securities that must be held at all times in all countries. This stress is computed daily, and the minimum marketable securities requirement is observed daily. This is intended to ensure that, in the unlikely event of an acute loss of confidence in the Group or any individual entity within it, there is sufficient time to take corrective action. Every country must pass, on stand-alone basis, with no presumption of Group support.

As at 31 December 2012, all countries passed the stress test.

The Group is also exposed to the risk of market-wide disruption in one or more countries. It is therefore appropriate to test resilience in each country to unexpected local market disruption, for example loss of interbank money or foreign exchange markets. To this end, country ALCOs consider a 30-day market-wide stress.

Finally, a 90-day test is run. These stress tests consider more prolonged stresses that affect markets across a number of the Group's main footprint countries and in which the Group itself may come under some sustained pressure. This pressure may be unwarranted or may be because the Group is inextricably linked with those markets/countries. The stress tests the adequacy of contingency funding arrangements beyond the marketable securities held to cover the eight-day stress, including the portability of funding from one country to support another. These stresses are managed at a Group rather than individual country level.

Liquidity and funding risks are also considered as part of the Group's wider periodic scenario analysis.

In addition, the Group runs regulatory stress scenarios, namely the FSA stress scenario and the Basel III Liquidity Coverage Ratio scenario, which are reported periodically to the FSA, as well as local regulatory stresses where applicable.

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities

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.

Within the tables below and on the next page, 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.

	2012				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Total $million
Assets					
Cash and balances at central banks	51,707	–	–	9,336	61,043
Derivative financial instruments	10,492	9,523	19,034	10,447	49,496
Loans and advances to banks[1]	47,308	18,916	2,760	171	69,155
Loans and advances to customers[1]	90,800	45,695	71,240	81,128	288,863
Investment securities[1]	24,919	34,128	47,282	14,416	120,745
Other assets	22,331	2,840	289	21,756	47,216
Total assets	247,557	111,102	140,605	137,254	636,518
Liabilities					
Deposits by banks[1]	35,482	1,294	597	72	37,445
Customer accounts[1]	318,871	53,086	10,873	7,052	389,882
Derivative financial instruments	10,077	10,150	17,567	9,398	47,192
Senior debt[1]	1,618	2,713	15,539	1,786	21,656
Other debt securities in issue[1]	23,823	9,890	3,147	2,724	39,584
Other liabilities	17,117	5,434	1,606	11,748	35,905
Subordinated liabilities and other borrowed funds	617	944	3,496	13,742	18,799
Total liabilities	407,605	83,511	52,825	46,522	590,463
Net liquidity gap	(160,048)	27,591	87,780	90,732	46,055

1 Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 224 and 225)

Risk review continued

	2011				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Total $million
Assets					
Cash and balances at central banks	37,402	–	–	9,962	47,364
Derivative financial instruments	12,952	18,283	15,270	12,019	58,524
Loans and advances to banks[1]	46,369	16,381	3,269	530	66,549
Loans and advances to customers[1]	85,480	42,266	68,430	75,602	271,778
Investment securities[1]	20,695	32,456	41,208	10,196	104,555
Other assets	14,898	5,966	310	22,742	43,916
Total assets	217,796	115,352	128,487	131,051	592,686
Liabilities					
Deposits by banks[1]	34,092	1,488	524	284	36,388
Customer accounts[1]	300,079	40,242	7,284	7,239	354,844
Derivative financial instruments	11,621	19,232	13,842	11,822	56,517
Senior debt	1,768	2,725	13,045	384	17,922
Other debt securities in issue	22,781	5,268	3,473	2,129	33,651
Other liabilities	19,139	2,316	951	12,866	35,272
Subordinated liabilities and other borrowed funds	26	–	923	15,768	16,717
Total liabilities	389,506	71,271	40,042	50,492	551,311
Net liquidity gap	(171,710)	44,081	88,445	80,559	41,375

1 Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 224 and 225)

Behavioural maturity of financial assets and liabilities

As discussed on pages 103 to 109, 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 on page 107 reflect the cash flows that 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.

	2012				
	Three months or less $million	**Between three months and one year $million**	**Between one year and five years $million**	**More than five years and undated $million**	**Total $million**
Loans and advances to customers	**82,464**	**51,309**	**89,714**	**65,376**	**288,863**
Loans and advances to banks	**49,975**	**15,903**	**3,106**	**171**	**69,155**
Total loans and advances	**132,439**	**67,212**	**92,820**	**65,547**	**358,018**
Deposits by banks	**35,315**	**1,451**	**607**	**72**	**37,445**
Customer accounts	**166,223**	**65,206**	**149,956**	**8,497**	**389,882**
Total deposits	**201,538**	**66,657**	**150,563**	**8,569**	**427,327**
Net gap	**(69,099)**	**555**	**(57,743)**	**56,978**	**(69,309)**

	2011				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Total $million
Loans and advances to customers	66,706	40,826	102,686	61,560	271,778
Loans and advances to banks	45,481	16,536	3,980	552	66,549
Total loans and advances	112,187	57,362	106,666	62,112	338,327
Deposits by banks	33,717	1,745	628	298	36,388
Customer accounts	142,394	57,673	125,291	29,486	354,844
Total deposits	176,111	59,418	125,919	29,784	391,232
Net gap	(63,924)	(2,056)	(19,253)	32,328	(52,905)

Risk review 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 the remaining contractual maturities on an undiscounted basis. The financial liability balances in the table below do 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 $3,241 million (2011: $3,417 million), all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five years.

	2012				2011			
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million
Deposits by banks[1]	35,526	1,397	698	75	34,184	1,549	635	330
Customer accounts[1]	316,367	55,026	12,799	8,021	298,211	41,538	8,151	5,954
Debt securities in issue[1]	27,395	15,202	27,916	4,658	24,967	8,475	17,512	3,393
Subordinated liabilities and other borrowed funds[1]	87	291	4,301	21,024	166	600	4,436	18,505
Other liabilities	19,927	4,143	1,460	11,007	23,151	2,322	771	9,332
Total liabilities	399,302	76,059	47,174	44,785	380,679	54,484	31,505	37,514
Gross loan commitments	122,986	9,544	21,727	10,185	70,558	22,349	3,968	1,120

1 Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 225)

Derivative 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.

	2012				2011			
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million
Derivative financial instruments	400,114	169,817	47,386	25,696	352,344	272,637	169,305	24,964

Operational risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring. We seek to control operational risks to ensure that operational losses do not cause material damage to the Group's franchise.

Operational risks can arise from all business lines and from all activities carried out by the Group. We seek to systematically identify and manage operational risk by segmenting all of the Group's activities into manageable units. Each of these has an owner who is responsible for identifying and managing all the risks that arise from those activities as an integral part of their first line responsibilities. Products and services offered to clients and customers in all our markets are also assessed and authorised in accordance with product governance procedures.

Although operational risk exposures can take many varied forms, we seek to manage them in accordance with standards that drive systematic risk identification, assessment, control and monitoring. These standards are challenged and reviewed regularly to ensure their ongoing effectiveness. To support the systematic identification of material operational risk exposures associated with a given process, we classify them into the following types:

Operational risk subtypes

Processing failure	Potential for loss due to failure of an established process or to a process design weakness
External rules and regulations	Potential for actual or opportunity loss due to failure to comply with laws or regulations, or as a result of changes in laws or regulations or in their interpretation or application
Liability	Potential for loss or sanction due to a legal claim against any part of the Group or individuals within the Group
Legal enforceability	Potential for loss due to failure to protect legally the Group's interests or from difficulty in enforcing the Group's rights
Damage to assets	Potential for loss or damage to physical assets and other property from natural disaster and other events
Safety and security	Potential for loss or damage to health or safety of staff, customers or third parties arising from internal failures or the effects of external events
Internal crime or dishonesty	Potential for loss due to action by staff that is intended to defraud, misappropriate property or to circumvent the law or company policy
External financial crime	Potential for loss due to criminal acts by external parties such as fraud, theft and other criminal activity
Model	Potential for loss due to a significant discrepancy between the output of risk measurement models and actual experience

Risk review continued

Identified operational risk exposures are rated 'low', 'medium', 'high' or 'very high' in accordance with defined risk assessment criteria. Risks that are outside set materiality thresholds receive a differential level of management attention and are reported to senior management and risk committees up to Board level. Significant external events or internal failures that have occurred are analysed to identify the root cause of any failure for remediation and future mitigation. Actual operational losses are systematically recorded.

In the second line of defence, Group Operational Risk is responsible for setting and maintaining the standards for operational risk management and control. In addition, specialist operational risk control owners have responsibility for the control of operational risk arising from the management of the following activities Group-wide: people, technology, vendor, property, security, accounting and financial control, tax, legal processes, corporate authorities and structure and regulatory compliance.

Each risk control owner, supported by a specialist control function, is responsible for identifying risks that are material to the Group and for maintaining an effective control environment across the whole organisation. This includes defining appropriate policies for approval by authorised risk committees, that impose specific controls and constraints on the Group's activities.

The Group Operational Risk Committee, chaired by the GCRO, oversees the management of operational risks across the Group, supported by business, functional, and country-level committees. All operational risk committees operate on the basis of a defined structure of delegated authorities and terms of reference derived from the GRC.

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 of 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. 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. All employees are responsible for day-to-day identification and management of reputational risk. These responsibilities form part of the Group Code of Conduct and are further embedded through values-based performance assessments.

Reputational risk may also arise from a failure to comply with environmental and social standards. Our primary environmental and social impacts arise through our relationship with our clients and customers and the financing decisions we take. We have published a series of position statements covering high impact sectors and key issues. These set out our approach to providing financial services to clients who operate in these sectors, and support our internal environmental and social risk assessment process. We have mechanisms in our origination and credit processes to identify and assess environmental and social risks, and a dedicated Sustainable Finance team in Wholesale Banking that reviews proposed high-risk transactions.

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 a country level, the Head of Corporate Affairs is the risk control owner of reputational risk. It is his/her 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.

Summary of differences between Pillar 3 disclosures and Risk review

The Group's Pillar 3 disclosures for 31 December 2012 provide details from a regulatory perspective on certain aspects of credit risk, market risk and operational risk. The quantitative disclosures in the Pillar 3 disclosures will not, however, be directly comparable to those in the Risk review of the Annual Report and Accounts as they are largely based on internally modelled risk metrics such as probability of default (PD), loss of given default (LGD) and exposure at default (EAD) under Basel rules, whereas the quantitative disclosures in the Risk review are based on International Financial Reporting Standards (IFRS). EAD differs from the IFRS exposure primarily due to the inclusion of undrawn credit lines and off-balance sheet commitments. In addition, a number of the credit risk disclosures within the Pillar 3 disclosures are only provided for the internal ratings-based portfolio, which represents 80 per cent of loans and advances to customers.

Topic	Annual Report and Accounts	Pillar 3 report
Basis of requirements	■ The Group's Annual Report is prepared in accordance with the requirements of IFRS, the UK Companies Act 2006, and the UK, Hong Kong and India Listing rules	■ The Group's Pillar 3 disclosures, provide detail on risk from a regulatory perspective to fulfil Basel II rule requirements, which have been implemented in the UK through the FSA's General Prudential sourcebook (GENPRU) and its Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)
Basis of preparation	■ The quantitative credit risk disclosures in the Risk review are based on IFRS ■ Loans and advances are analysed between Consumer Banking (split by product), Wholesale Banking (split by standard industry classification codes) ■ Market risk disclosures are presented using VaR methodology for the trading and non-trading books	■ Provides details from a regulatory perspective on certain aspects of credit risk, market risk and operational risk. For credit risk this is largely based on internally modelled risk metrics such as PD, LGD and EAD under Basel rules ■ Loans and advances are analysed between those that are internal ratings basis (IRB) and standardised, split by standard BIPRU categories ■ Market risk and operational risk disclosures are based on the capital required
Coverage	■ All external assets that have an exposure to credit risk ■ Market risk exposure is the trading and non-trading books ■ Liquidity risk analysis of contractual maturities, liquid assets and encumbered assets	■ A number of the credit risk disclosures within the Pillar 3 disclosures are only provided for the IRB portfolio, which represent 80 per cent of loans and advances to customers and derivatives. The remainder of the portfolio is on the standardised rules as prescribed in the BIPRU sourcebook

Risk review continued

Summary of cross-references between the Pillar 3 disclosure and the Risk review

Topic	Annual Report and Accounts	Pillar 3 report
Credit rating and measurement	▪ Overview of credit risk management credit grading and the use of IRB models. Page 65 ▪ Maximum exposure to credit risk set out on page 68 ▪ Internal credit grading analysis provided by business for loans neither past due nor impaired on page 71 ▪ External credit grading analysis for unimpaired Treasury bill and debt securities is set out on page 93	▪ A detailed analysis of IRB and standardised approach to credit risks is set out on page 19 ▪ A more detailed explanation of IRB models is set out on page 20 and 21 ▪ For the IRB portfolio, page 33 provides an indicative mapping of the Group's credit grades in relation to Standard and Poor's credit ratings ▪ Minimum regulatory capital requirements for credit risk on pages 22 and 23 ▪ Credit grade analysis provided for the IRB portfolio only. EAD within the IRB portfolio after credit risk mitigation (CRM), undrawn commitments, exposure weighted average LGD and weighted average risk weight are bucketed by internal credit grade on pages 34 to 37
Credit risk mitigation	▪ CRM approach is set out on page 66 ▪ Overview of fair value of collateral held and other credit risk mitigants for the loan portfolio, with further details on Consumer Banking (CB) collateral provided on page 79 and Wholesale Banking (WB) on page 89 ▪ Quantitative overview of other risk mitigants including: – Securitisations – includes disclosures of both retail transferred and synthetic securitisation – Master netting, CSAs and cash collateral for derivatives	▪ Provides details on CRM from a regulatory perspective, by providing EAD after CRM by IRB exposure class. Explanation is given on what constitutes eligible collateral including explanations of funded and unfunded protection. The main type of collateral for the Group's standardised portfolio is also disclosed. Please refer to pages 30 and 31 ▪ Extensive disclosures on securitisation including disclosure of notional amounts, details of securitisation programmes where the Group is an originator, accounting policy information, governance of securitisation activities and securitisation retained exposures and carrying value bucketed by risk weight bands. Please refer to pages 41 to 47 ▪ EAD for items subject to counterparty credit (CCR) risk pre and post credit mitigation is disclosed. The products that are covered under CCR include 'repo style' transactions and derivative transactions. Please refer to pages 38 to 40

Topic	Annual Report and Accounts	Pillar 3 report
Loan portfolio	■ Group overview of the loan portfolio provided by business by geography is on page 69. A more detailed analysis by CB product is set out on pages 76 and 77 and by WB counterparty (based on standard industry classifications) on page 85 ■ Maturity analysis provided on pages 70, 77 and 86	■ EAD by geography, split between IRB and standardised portfolios (page 24) and by industry types (as specified by BIPRU) on page 26 ■ Maturity of EAD, split by IRB and standardised on page 28
Problem credit management and provisioning	■ Provisioning approach set out on page 73 and definition on non-performing loans on page 73 ■ Disclosures of non-performing loans, neither past due nor impaired, past due and impaired loans, individual impairment charge and portfolio Impairment charge by geography, product and industry	■ Disclosures around the expected loss model used for regulatory purposes and a tabular disclosure showing the regulatory expected loss against the net individual impairment charge. Please refer to page 32
Market Risk	■ Details of the VaR methodology, and VAR (trading and non-trading) is disclosed by risk type on pages 99 to 101 ■ Details of Group Treasury's market risk including a table showing a parallel shift in the yield curves on page 101	■ Provides details of the internal model approvals such as the Capital Adequacy 2 (CAD2) that the FSA has granted the Group, including the extension of the CAD2 scope to include coal market risk ■ Market risk capital requirements for the trading books are disclosed by risk type on page 48 and 49

Capital

Maintaining a strong capital position to support customers

Conservatively managing the levels and mix of capital to ensure strong foundations

Our highlights and achievements in 2012

- Strongly capitalised with a focus on Core Tier 1, Tier 1 and total capital, to support a conservative, diversified balance sheet and low exposure to higher-risk asset classes and segments
- Our capital position, allied with strong liquidity, continues to allow us to support our clients and customers

The Group's Pillar 3 disclosures for 31 December 2012 provide further regulatory details on the Basel II capital structure (pages 8 to 13) and the impact of Basel III (pages 8 to 14) and can be found on our website. Where appropriate, disclosures within Capital have been cross-referenced to the Pillar 3 disclosures.

The following parts of Capital form part of the audited financial statements: from the start of 'Capital management' on page 116 to the end of 'Movement in total capital' on page 119.

Capital management

Our approach to capital management is to maintain a strong capital base to support the development of our business, to meet regulatory capital requirements at all times and to maintain strong 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. Group Treasury is responsible for the ongoing assessment of the demand for capital and for updating the Group's capital plan.

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 signalling tool to the market
- available supply of capital and capital-raising options

The Group formulates a capital plan with the help of internal models and other quantitative techniques. The models help to estimate potential future losses arising from credit, market and other risks, and using regulatory formulae, the amount of capital required to support them. In addition, the models enable the Group to gain an enhanced understanding of its risk profile, e.g. by identifying potential concentrations and assessing the impact of portfolio management actions. Stress testing and scenario analysis are used to ensure that the Group's internal capital assessment considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events and how these could be mitigated.

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. The key capital management committees are the Capital Management Committee (CMC) and the Group Asset and Liability Committee (GALCO). GALCO approves the capital governance framework and delegates the approval of capital management policies to CMC.

At a country level, capital is monitored by the local Asset and Liability Committee (ALCO). Appropriate policies are in place to govern the transfer of capital within the Group. These ensure that capital is remitted, as appropriate, subject to complying with local regulatory requirements and statutory and contractual restrictions. There are no current material, practical or legal impediments to the prompt transfer of capital resources in excess of those required for regulatory purposes or repayment of liabilities between the parent company, Standard Chartered PLC and its subsidiaries when due.

Current compliance with capital adequacy regulations

In light of the uncertain economic environment and continuing uncertainty in the evolving regulatory debate on banks' capital structures, we continue to believe it is appropriate to remain strongly capitalised and well above regulatory requirements.

Our lead supervisor is the UK's Financial Services Authority (FSA). On 1 April 2013, the FSA will cease to exist and from this date, Standard Chartered Bank will be authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority and PRA.

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. Further detail on counterparty and risk exposures is included in the Risk review on page 68.

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 118 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.

Since 1 January 2008, we have been using the advanced Internal Ratings Based (IRB) approach for the calculation of credit risk capital requirements with the approval of the FSA. 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 calculation of market risk capital requirements 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 published in December 2010, and updated in June 2011 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, in particular, via the implementation of European Union legislation (the package of reforms commonly referred to as the Capital Requirements Directive IV (CRD IV)), comprising the current proposals for a Capital Requirements Regulation and a Capital Requirements Directive.

Capital continued

Capital base

	2012 $million	2011 $million
Shareholders' equity		
Parent company shareholders' equity per balance sheet	45,362	40,714
Preference share classified as equity included in Tier 1 capital	(1,495)	(1,494)
	43,867	39,220
Non-controlling interests		
Non-controlling interests per balance sheet	693	661
Non-controlling Tier 1 capital included in other Tier 1 capital	(320)	(320)
	373	341
Regulatory adjustments		
Unrealised (gains)/losses on available-for-sale debt securities	(97)	282
Unrealised gains on available-for-sale equity securities included in Tier 2	(490)	(241)
Cash flow hedge reserve	(81)	13
Other adjustments	(35)	(46)
	(703)	8
Deductions		
Goodwill and other intangible assets	(7,312)	(7,061)
50 per cent excess of expected losses[1]	(966)	(702)
50 per cent of tax on expected losses	240	186
50 per cent of securitisation positions	(118)	(106)
Other regulatory adjustments	(42)	(53)
	(8,198)	(7,736)
Core Tier 1 capital	35,339	31,833
Other Tier 1 capital		
Preference shares included within shareholders' equity	1,495	1,494
Preference shares included within 'Subordinated debt and other borrowings'	1,205	1,194
Innovative Tier 1 securities (excluding non-controlling Tier 1 capital)	2,553	2,506
Non-controlling Tier 1 capital	320	320
	5,573	5,514
Deductions		
50 per cent of tax on expected losses	240	186
50 per cent of material holdings	(552)	(521)
	(312)	(335)
Total Tier 1 capital	40,600	37,012
Tier 2 capital		
Qualifying subordinated liabilities[2]		
Subordinated liabilities and other borrowed funds as per balance sheet	18,799	16,717
Preference shares eligible for Tier 1 capital[3]	(1,205)	(1,194)
Innovative Tier 1 securities eligible for Tier 1 capital	(2,553)	(2,506)
Adjustments relating to fair value hedging and non-eligible securities	(2,052)	(1,669)
	12,989	11,348
Regulatory adjustments		
Reserves arising on revaluation of available-for-sale equities	490	241
Portfolio impairment provision	248	239
	738	480
Deductions		
50 per cent excess of expected losses[1]	(966)	(702)
50 per cent of material holdings	(552)	(521)
50 per cent of securitisation positions	(118)	(106)
	(1,636)	(1,329)
Total Tier 2 capital	12,091	10,499
Deductions from Tier 1 and Tier 2 capital	(3)	(4)
Total capital base	52,688	47,507

1 Excess of expected losses in respect of advanced IRB portfolios are shown gross of tax benefits
2 Consists of perpetual subordinated debt $1,314 million (2011: $1,489 million) and other eligible subordinated debt $11,675 million (2011: $9,859 million). Lower Tier 2 instruments that will mature within five years includes amortisation
3 Represents $1,336 million (2011: $1,338 million) reported in note 32 after deduction of $131 million (2011: $144 million) of ineligible fair value gains

Movement in total capital

	2012 $million	2011 $million
Opening Core Tier 1 capital	**31,833**	28,922
Ordinary shares issued in the year and share premium	**59**	64
Profit for the year	**4,887**	4,849
Dividends, net of scrip	**(1,407)**	(1,152)
Increase in goodwill and other intangible assets	**(251)**	(64)
Foreign currency translation differences	**513**	(982)
(Increase)/decrease in unrealised gains on available-for-sale assets	**(379)**	107
Movement in eligible other comprehensive income	**306**	100
Increase in excess expected loss, net of tax	**(210)**	(37)
(Increase)/decrease in securitisation positions	**(12)**	26
Closing Core Tier 1 capital	**35,339**	31,833
Opening other Tier 1 capital	**5,179**	5,373
Increase in tax benefit of excess expected loss	**54**	1
Increase in material holdings deducted from capital	**(31)**	(195)
Other	**59**	–
Closing Other Tier 1 capital	**5,261**	5,179
Opening Tier 2 capital	**10,499**	10,770
Issuance of subordinated loan capital, net of redemptions and foreign currency translation differences	**1,641**	252
Increase/(decrease) in revaluation reserve	**249**	(289)
Increase/(decrease) in portfolio impairment provision	**9**	(27)
Increase in excess expected loss	**(264)**	(38)
Increase in material holdings deducted from capital	**(31)**	(195)
(Increase)/decrease in securitisation positions	**(12)**	26
Closing Tier 2 capital	**12,091**	10,499
Deductions from total capital	**(3)**	(4)
Closing total capital	**52,688**	47,507

Risk-weighted assets and capital ratios

	2012 $million	2011 $million
Credit risk	**246,650**	220,394
Operational risk	**30,761**	28,762
Market risk	**24,450**	21,354
Total risk-weighted assets	**301,861**	270,510
Capital ratios		
Core Tier 1 capital	**11.7%**	11.8%
Tier 1 capital	**13.4%**	13.7%
Total capital ratio	**17.4%**	17.6%

Capital continued

Risk-weighted assets by business and geography

	2012 $million	2011 $million
Consumer Banking	**80,889**	71,970
Credit risk	**71,481**	62,856
Operational risk	**9,408**	9,114
Wholesale Banking	**220,972**	198,540
Credit risk	**175,169**	157,538
Operational risk	**21,353**	19,648
Market risk	**24,450**	21,354
Total risk-weighted assets	**301,861**	270,510
Hong Kong	**36,534**	31,528
Singapore	**45,064**	36,465
Korea	**26,667**	25,447
Other Asia Pacific	**52,313**	50,707
India	**23,145**	21,266
Middle East & Other S Asia	**33,119**	33,477
Africa	**19,856**	15,689
Americas, UK & Europe	**73,527**	63,976
	310,225	278,555
Less : Netting balances[1]	**(8,364)**	(8,045)
Total risk-weighted assets	**301,861**	270,510

1 Risk-weighted assets by geography are reported gross of any netting benefits

Risk weighted contingent liabilities and commitments[2]

	2012 $million	2011 $million
Contingent liabilities	**14,725**	12,917
Commitments	**12,640**	10,135

2 These amounts are included in total risk-weighted assets and include amounts relating to the Group's share of its joint ventures

Movement in risk-weighted assets

	Wholesale Banking credit risk $million	Consumer Banking credit risk $million	Total credit risk $million	Market risk $million
Opening risk-weighted assets at 1 January 2012	157,538	62,856	220,394	21,354
Assets growth	10,236	3,763	13,999	2,000
Credit migration	4,940	1,164	6,104	–
Risk-weighted assets efficiencies	(2,800)	(1,000)	(3,800)	–
Model, methodology and policy changes	5,324	2,713	8,037	(700)
Foreign currency translation differences	(69)	1,985	1,916	–
Stressed VaR	–	–	–	1,796
Closing risk-weighted assets at 31 December 2012	175,169	71,481	246,650	24,450

Risk-weighted assets (RWA) increased by $31.3 billion, or 12 per cent, compared with 31 December 2011, with an increase in Wholesale Banking and Consumer Banking of $22.4 billion and $8.9 billion respectively. Wholesale Banking RWA growth was mainly in Americas, UK & Europe, Singapore, Hong Kong and Other Asia Pacific. Consumer Banking RWA growth was mainly in Singapore, Hong Kong and Korea.

Wholesale Banking credit risk RWA increased by $17.6 billion. $10.2 billion was driven by asset growth in Transaction Banking and Corporate Finance, across Americas, UK & Europe, Africa, and Middle East & Other South Asia. RWA efficiencies, being those activities undertaken by the Group to manage proactively credit risk, through optimising collateral arrangements, improving data quality and portfolio management activities, such as through secondary distribution, reduced RWA by $2.8 billion. These RWA efficiencies were partially offset by increased RWA due to lower collateral and netting recoveries in Americas, UK & Europe. Credit migration increased RWA by $4.9 billion, as a result of internal rating downgrades in India and Korea. Following FSA guidance issued during 2012, the Group applies a floor of 45 per cent for the loss given default (LGD) associated with sovereign exposures, which increased RWA by $3.5 billion. Additional changes to the modelling of sovereign exposures increased RWA by $0.7 billion. The FSA also required the Group to recognise additional RWA for transactions that bear transfer risk, which increased RWA by $1.1 billion. Transfer risk is the risk that governments impose controls on the servicing of foreign currency debt.

The growth in Consumer Banking credit risk RWA of $8.6 billion, was driven by $2 billion due to foreign currency translation differences, as a result of movements in the Korean won and Indonesian rupiah, $3.8 billion due to underlying asset growth and $1.2 billion due to credit migration mainly in Korea, Malaysia and Thailand. Asset growth was driven by increased personal loans in Korea and credit cards in Hong Kong and Singapore, along with growth in SME mainly in Malaysia, India and Indonesia.

The impact of model adjustments increased RWA by $0.8 billion. Changes to the calculation of exposure for certain revolving credit portfolios further increased RWA by $0.9 billion. FSA approval was obtained during 2012 for the use of an advanced model for the Hong Kong SME portfolio, which increased RWA by $0.4 billion. In the Private Bank, RWA increased by $0.6 billion following reduction in collateral. These RWA increases of $2.7 billion relating to model and methodology changes were offset by a $1 billion reduction in RWA following the implementation of an improved mortgage credit scoring process in Singapore.

As at 31 December 2012, our market risk RWA was $24.5 billion (31 December 2011: $21.4 billion). The increase in market risk RWA was driven by an increased issuance of equity options during the year, which increased RWA by $2 billion, and $1.8 billion due to an increase in stressed VaR.

The FSA has granted the Group CAD2 internal model approval covering the majority of interest rate, foreign exchange risk, energy and agricultural trading, as well as market risk arising from precious and base metals trading. In 2012, the commodities coal business was approved for inclusion in the Group's CAD2 permission and reduced RWA by $0.7 billion. Positions outside the CAD2 permission continue to be assessed according to standard FSA rules. Of the total market risk RWA, 39 per cent is subject to CAD2 internal models and 61 per cent is under standard rules.

Operational risk RWA increased by $2 billion, or 7 per cent. Given that this is primarily determined by the change in income over a rolling three-year time horizon, the growth reflects the strong performance of the Group over that period.

Basel III

The Group remains strongly capitalised with a focus on Common Equity Tier 1 (CET1) capital. Although the CRD IV rules have not been finalised, we expect our CET1 ratio would be around 100 bp lower than our reported Basel II Core Tier 1 ratio on a pro forma basis. This movement is driven by increased RWAs, in particular the introduction of capital requirements for Credit Valuation Adjustments (CVA) and increased regulatory deductions from CET1. The actual outcome will depend on how emerging rules are implemented, the future shape of the Group, and the extent to which the Group's regulators give recognition to the Group's implementation of internal models for the calculation of RWA. The Group's Pillar 3 disclosures as at 31 December 2012 provide disclosure in respect of Basel III transitional capital and leverage ratios on pages 14 to 18.

Corporate governance

Singapore
Standard Chartered has a history of over 150 years in Singapore. We opened our first branch in 1859 and in October 1999 were one of the first international banks to receive a Qualifying Full Bank (QFB) licence – an endorsement of the Group's long-standing commitment to its businesses in the country

GO
for it!
Standard Chartered

Board of directors

The Board is accountable for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. It provides leadership through oversight, review and by providing guidance whilst setting the strategic direction.

1. Sir John Peace
Chairman
Sir John joined the Board in 2007 as Deputy Chairman and was appointed Chairman in 2009. Sir John is also chairman of Burberry Group plc and Experian plc and between 2000 and 2006, he was chief executive of GUS plc, having joined the board in 1997. He has a strong financial services and retailing background and chairmanship experience, and is committed to supporting his local community and has a long-standing interest in education. For 10 years he was the chairman of the board of governors of Nottingham Trent University. He has been a trustee of the Djanogly City Academy in Nottingham since 1999, is Lord-Lieutenant of Nottinghamshire, a fellow of the Royal Society of Arts and has an honorary doctorate from The University of Nottingham. Sir John brings extensive international experience and exemplary governance credentials. Sir John was knighted in 2011 for services to business and the voluntary sector. Age 64.

2. Peter Sands
Group Chief Executive
Peter was appointed Group Chief Executive in November 2006. He joined the Board as Group Finance Director in May 2002 and is based in London. Before his appointment as Group Chief Executive he was responsible for Finance, Strategy, Risk and Technology and Operations. Prior to joining Standard Chartered, Peter was a director with worldwide consultants McKinsey & Company, where he worked extensively in the banking and technology sectors in a wide range of international markets. Peter is also lead non-executive director of the board of the Department of Health. Age 51.

3. Rudy Markham
Senior Independent
Non-Executive Director
Rudy joined the Board in February 2001. He is also Senior Independent Director. Rudy is a non-executive director of Legal and General Group Plc, AstraZeneca PLC and of United Parcel Service, Inc, the Operational Board of the Foreign and Commonwealth Office and non-executive chairman of Moorfields Eye Hospital. He is also a member of the Supervisory Board of CSM.nv. Rudy was previously financial director of Unilever PLC and Unilever NV until his retirement. He joined Unilever in 1968 and from 1989 to 1998 he was based in East Asia, latterly as business group president North East Asia based in Singapore. He joined the board of Unilever as strategy and technology director and became a member of the executive committee in May 1998. He has also been a member of the board of the Financial Reporting Council. Rudy has demonstrated excellent chairmanship skills as Chairman of the Audit Committee and as a result of his length of service and commitment provides an in-depth knowledge of the Group that is invaluable to the Board, the Audit Committee, the Board Risk Committee, the Nomination Committee and the Governance Committee. Age 67.

Board of directors continued

4. Richard Meddings
Group Finance Director

Richard was appointed Group Finance Director in November 2006, having joined the Board as a Group Executive Director in November 2002. He is responsible for Finance, Group Corporate Treasury, Risk, Group Strategy and Group Corporate Development. Immediately prior to his appointment as Group Finance Director, Richard had been Group Executive Director for growth and governance across Africa, the Middle East, Pakistan, Europe and the Americas. Before that he was Group Executive Director with responsibility for Risk, Group Special Assets Management and Legal and Compliance. Before joining Standard Chartered, Richard was chief operating officer, Barclays Private Clients and prior to that he was group financial controller at Barclays PLC. Richard was group finance director of Woolwich PLC before the acquisition of Woolwich PLC by Barclays PLC. In this role his responsibilities included finance, strategy, investor relations, risk, compliance and treasury. Richard is a non-executive director of 3i Group plc and is a member of the Governing Council of the International Chamber of Commerce UK. Richard is chairman of 'Seeing is Believing', a Standard Chartered community investment project that eliminates avoidable blindness for hundreds of thousands of individuals and communities around the world. Age 55.

5. Steve Bertamini
Group Executive Director

Steve joined Standard Chartered as Group Executive Director and Chief Executive Officer, Consumer Banking in May 2008 and was appointed to the Board in June 2008. He became the executive sponsor for employee volunteering for the Group in 2010. Before his appointment at Standard Chartered he spent 22 years with GE, most recently as chairman and chief executive officer of GE North East Asia. He was also responsible for GE's acquisition and merger business in the Asia Pacific region from 2004 and president of GE Capital Asia from January 2001. Prior to that, Steve was chief executive officer of GE Australia and New Zealand. He led the establishment of GE's consumer finance business in Asia in 1993 and was its managing director from 1994 to 1998. He is a member of YPO, Global 50 and Visa's senior client council. Steve is based in Singapore. Age 48.

6. Om Bhatt
Non-Executive Director

Om was appointed to the Board in January 2013. He is currently an independent non-executive director of Hindustan Unilever Ltd., Oil and Natural Gas Corporation and Tata Consultancy Services. He is also a governor on the board of the Center for Creative Leadership, a US non-profit leadership development organisation. Until March 2011, Om was chairman of the State Bank Group, which includes the State Bank of India (SBI), India's largest commercial bank. In a career spanning 38 years with SBI, Om held a number of roles beginning with the lead bank department, which pioneered financial inclusion. He led the project team that pioneered SBI's technology initiative in the 1990s, undertook assignments at SBI's London and Washington offices and general management roles between 2004 and 2006. He became managing director of SBI in 2006, culminating in his appointment as chairman in the same year. Om has also served as chairman of the Indian Banks' Association. Om is based in India. Age 62.

7. Jaspal Bindra
Group Executive Director

Jaspal was appointed to the Board in January 2010 and is based in Hong Kong. He joined Standard Chartered in 1998 and has held senior positions in the Group such as Global Head of Client Relationships for Wholesale Banking and Chief Executive Officer for India. Before joining Standard Chartered, Jaspal was with UBS Investment Banking. He began his career with Bank of America in 1984 and worked across treasury markets and consumer banking in India and Singapore. Jaspal also leads Standard Chartered's award-winning work on diversity and inclusion. As chair of the Group's Diversity and Inclusion Council, he is responsible for the Group's strategy and programmes designed to support employees, customers and communities. He is a board member of Vital Voices Global Partnership in the US, a member of President's Group of The Business Disability Forum in the UK and also sits on the board of governors of XLRI School of Business & Human Resources, India. Age 52.

8. Dr Louis Cheung
Non-Executive Director

Louis joined the Board in January 2013. He is currently the chief executive officer of Boyu Capital Advisory Co., a China-focused private equity investment firm. He is also an independent non-executive director of Fubon Financial Holding Company and a fellow and council member of the Hong Kong Management Association. He was with the Ping An Insurance Group from 2000 to 2011 and became group president in 2003 and executive director in 2006 after several senior roles, including chief financial officer. Prior to joining Ping An he was a global partner of McKinsey & Company and a leader in its Asia Pacific financial institutions practice. Louis is based in Hong Kong. Age 49.

9. Richard Delbridge
Non-Executive Director

Richard joined the Board in January 2010. He is a non-executive director of University College London Hospitals Foundation Trust. In 1976, he joined JP Morgan and was group comptroller and later managing director of the London offices. In 1989, he was appointed director, group finance, at Midland Bank plc, later becoming group finance director, HSBC Holdings plc. In 1996, Richard was appointed director and group chief financial officer of National Westminster Bank Plc, a position he held until April 2000. Richard's previous non-executive director positions include Tate & Lyle PLC, JP Morgan Cazenove, Fortis NV, Balfour Beatty plc, Gallaher Group plc, Innogy Plc and Egg Plc. He was a council member and treasurer of the Open University for eight years until 2009. Richard brings with him banking and financial accounting knowledge. Age 70.

10. Jamie Dundas
Non-Executive Director

Jamie became a member of the Board in March 2004 and is chairman of Jupiter Fund Management plc. Jamie was previously chief executive of the UK property company MEPC and finance director of the Airport Authority Hong Kong. He is deputy president (and former chairman) of Macmillan Cancer Support, the UK's largest cancer care charity and non-executive director of The Francis Crick Institute. He began his career as a merchant banker with Morgan Grenfell, where he became deputy head of banking. Jamie brings to the Board significant high-level experience in Hong Kong and a strong background in banking, including a deep understanding of the wholesale banking marketplace. Age 62.

11. Margaret Ewing
Non-Executive Director
Margaret was appointed to the Board in November 2012. She is currently a member of the Financial Reporting Review Panel and a member of the audit and risk committee of John Lewis Partnership plc. Margaret was a senior partner at Deloitte LLP and a member of the firm's executive and board until May 2012, where she was responsible for leading Deloitte's response to the global European and UK regulatory environment and its firm-wide quality and risk agenda. She is currently an adviser to Deloitte's CFO programme. From 2002 to 2006, Margaret was chief financial officer of BAA plc and from 2000 to 2002, group finance director of Trinity Mirror plc. Margaret was previously a non-executive director and chair of the audit committee of Whitbread PLC and a former member of the board and chair of the audit committee for the Confederation of British Industry. Age 58.

12. Dr Han Seung-soo, KBE
Non-Executive Director
Dr Han is a former prime minister of the Republic of Korea and joined the Board in January 2010. He has a distinguished political, diplomatic and administrative career serving as deputy prime minister and minister of finance, foreign affairs, and industry and trade before serving as prime minister in 2008 and 2009. He also served as Korean ambassador to the United States, chief of staff to the president, president of the 56th Session of the United Nations General Assembly, special envoy of the UN Secretary-General on Climate Change and chairman of the 2009 OECD Ministerial Council Meeting in Paris. He is currently on the UN Secretary-General's Advisory Board on Water and Sanitation, is the founding chair of the High-Level Expert Panel on Water and Disaster/UNSGAB, as well as the founding chairman of the Global Green Growth Institute and chairman of the International Advisory Board of the International Finance Forum of China. Dr Han is based in Korea and brings with him valuable knowledge of Asia and economics. Age 76.

13. Val Gooding, CBE
Non-Executive Director
Val was appointed to the Board in January 2005. Val is chairman and non-executive director of Premier Farnell plc. She is also a non-executive director of the Lawn Tennis Association and lead non-executive director of the Departmental Board at the Home Office. Val was formerly Chief Executive Officer of BUPA, the independent health care company. She joined BUPA in 1996 and was appointed chief executive officer in 1998, stepping down in 2008. Val was formerly a non-executive director of the BBC, J Sainsbury plc, BAA plc, Cable and Wireless Communications plc, Compass plc and XL Group plc. She is a trustee of the British Museum, has sat on the board of the Association of British Insurers and was a member of the Advisory Committee of Virgin Group Holdings. One of the UK's most internationally recognised businesswomen, Val has a high-level knowledge of financial services and regulation, marketing and customer service as well as people management and corporate strategy experience. Age 62.

14. Simon Lowth
Non-Executive Director
Simon joined the Board in May 2010. He is an executive director and chief financial officer of AstraZeneca PLC and formerly finance director at Scottish Power PLC following two years as executive director, corporate strategy and development. As finance director, Simon led Scottish Power's group-wide performance and risk management processes and played a critical role in the strategic transformation of Scottish Power. Simon's move to Scottish Power in 2003 followed 15 years' experience with the global management consultancy, McKinsey & Company, latterly as a senior director responsible for the firm's UK industrial practice where he advised leading multinational companies on a wide range of strategic, financial and operational issues. Age 51.

15. Ruth Markland
Non-Executive Director
Ruth was appointed to the Board in November 2003. She is a non-executive director of The Sage Group plc, a member of the supervisory board of Arcadis NV, and until November 2012 she was chairman of the board of trustees of the WRVS charity. Previously Ruth was managing partner, Asia for the international law firm Freshfields Bruckhaus Deringer, responsible for the firm's eight offices in Asia between 1996 and 2003. Prior to that, Ruth worked for Freshfields in London and Singapore. She first joined Freshfields in 1977 and became a partner in 1983. Ruth has significant expertise in Asia and a deep understanding of the regulatory environment. Age 60.

16. John Paynter
Non-Executive Director
John joined the Board in October 2008. He is chairman of Standard Life Investments Holdings and is senior independent director of Standard Life Plc. He was appointed senior adviser to Greenhill & Co., Inc. in April 2009 and was previously vice chairman of JP Morgan Cazenove. He joined Cazenove in 1979, was appointed partner in 1986, and later headed corporate finance, Cazenove's largest business. Following Cazenove's merger with JP Morgan in 2005, John was appointed vice chairman where his responsibilities were predominantly external facing, acting on behalf of major clients and handling all aspects of the broking relationship. John brings a wealth of experience in the fields of corporate broking, financial advisory and institutional investor knowledge. John was previously a non-executive director of Jardine Lloyd Thompson Group plc. He has a deep understanding of financial markets and the corporate sector. Age 58.

17. Mike Rees
Group Executive Director
Mike was appointed to the Board in August 2009. He is based in London and is Chief Executive Officer, Wholesale Banking. Mike joined Standard Chartered in 1990 as the Chief Financial Officer for Global Treasury then, in October 1994, he was appointed Regional Treasurer in Singapore, responsible for the South East Asia Treasury businesses. In 2000, Mike was appointed Group Head of Global Markets. In November 2002, he was promoted to the new role of Chief Executive Officer, Wholesale Banking, responsible for all Commercial Banking products in addition to his responsibilities for Global Markets products. Mike is a member of the International Advisory Board of Mauritius and the Mayor of Rome's business advisory council. Age 57.

18. V. Shankar
Group Executive Director
Shankar joined the Board in January 2012. Based in Dubai, he is Chief Executive Officer, Europe, Middle East, Africa and Americas. He joined Standard Chartered in 2001 as Group Head of Corporate Finance, was appointed Group Head of Origination and Client Coverage in 2007 and promoted to his current role in 2010. Before joining Standard Chartered, Shankar was with Bank of America for 19 years. In addition to his responsibilities at Standard Chartered, Shankar is a non-executive director of Majid Al Futtaim Holding LLC, a member of the board of the Inland Revenue Authority of Singapore and the board of trustees of SINDA. He is also a member of the Singapore Government's National Integration Council. Age 55.

Board of directors continued

19. Paul Skinner
Non-Executive Director

Paul was appointed to the Board in November 2003. He is chairman of Infrastructure UK, a division of HM Treasury. Paul is also a non-executive director of the Tetra Laval Group and L'Air Liquide SA. In addition, Paul is a member of the public interest body of PwC. He was chairman of Rio Tinto Plc from 2003 to 2009 and was formerly a director of The Shell Transport and Trading Company plc and group managing director of the Royal Dutch/Shell Group of companies, where he was chief executive officer of its global oil products business. He worked for Shell for 37 years in the UK, Greece, Nigeria, New Zealand and Norway. Paul was a UK business ambassador over the period 2008 to 2012. He also served as a member of the Defence Board of the Ministry of Defence and as chairman of the Commonwealth Business Council. Age 68.

20. Oliver Stocken
Non-Executive Director

Oliver joined the Board in June 2004. He is chairman of Stanhope Group Holdings Limited, the MCC and the trustees of the Natural History Museum and of the board of trustees of CARE International UK. Previously Oliver was chairman of Home Retail Group plc, Oval Limited, deputy chairman of 3i Group plc and was group finance director at Barclays PLC until September 1999. He joined Barclays Merchant Bank in 1979 as head of corporate finance and became managing director in 1984. He joined the Board of BZW at its inception, later becoming finance director. He started his career with Arthur Andersen and later joined NM Rothschild, where he became a director in corporate finance. Oliver's financial, banking and international experience makes him a valuable contributor to the Board. Age 71.

21. Dr Lars Thunell
Non-Executive Director

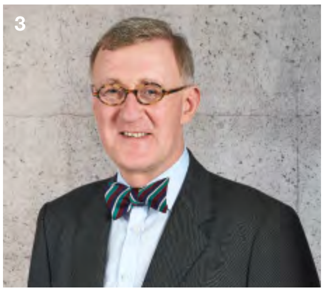
Lars was appointed to the Board in November 2012. He is currently a director of Kosmos Energy and a non-executive director and vice chairman of Sithe Global LLP, an international power development company. He is also an advisor to the board of ACE Insurance Group, senior adviser to the Center for Strategic and International Studies, a US foreign policy think tank, and a board member of the Middle East Investment Initiative, an independent non-profit organisation. Until June 2012, Lars was chief executive officer and executive vice president of the International Finance Corporation (IFC), a member of the World Bank Group. In this role, Lars led the IFC's overall strategic direction in its mission to promote sustainable private sector development. From 1997 to 2005, Lars was chief executive officer of SEB, Sweden's leading corporate bank. From 1994 to 1997 he was chief executive officer of Trygg-Hansa and from 1992 to 1994, president and chief executive officer of Securum. His previous non-executive directorships include Statoil AS (Norway), AkzoNobel N.V. (Netherlands), Nobel Biotech, SCA, Astra AB and chairman of the Swedish Bankers Association. Age 64.

22. Annemarie Durbin
Group Company Secretary

Annemarie joined Standard Chartered in 1995. She has held senior roles in Wholesale Banking, including Head of Financial Institutions for Europe and Africa, and had global responsibility for the Development Organisation client segment. Annemarie has held Consumer Banking head roles in the Philippines and Thailand and has been Chief Executive Officer in both countries. Since returning to the UK in 2006, Annemarie has held a number of group support function roles including Head of Resourcing and Reward (within Human Resources) and Group Head of Corporate Affairs. Annemarie was appointed Group Company Secretary and Group Head of Secretariat in 2007. In February 2012 this role expanded to cover the Group's Corporate Real Estate Services function. With effect from 1 April 2013 she will also assume administrative oversight of the Group's Internal Audit function. Annemarie is a non-executive director of WH Smith PLC, is a qualified lawyer and has an MSc in executive coaching. Age 49.

Senior management

The Court of Standard Chartered Bank as at 5 March 2013 comprises the executive directors of Standard Chartered PLC and the following senior executives:



1. Tracy Clarke

Tracy joined Standard Chartered in 1985 and was appointed a Director of Standard Chartered Bank in January 2013. She is Group Head of Human Resources and Communications and a diversity and inclusion ambassador. On 1 April 2013 she will assume responsibility for the Legal and Compliance functions in addition to her current responsibilities for Human Resources and Corporate Affairs. She has previously held the positions of Group Head of Corporate Affairs, Head of the Group Chief Executive's Office and other banking roles in the UK and Hong Kong. She is a non-executive director of British Sky Broadcasting Group plc and also became a trustee of WORKing for YOUth, a charitable fund established in May 2012 aimed at tackling youth unemployment. She is a fellow of the Chartered Institute of Personnel Development and a member of the Institute of Financial Services. Tracy also holds an MBA from Henley Management College and Brunel University. Age 46.

2. Richard Goulding

Richard joined Standard Chartered in 2002 and was appointed a Director of Standard Chartered Bank in January 2013. Richard is Group Chief Risk Officer and is responsible for managing Credit, Market and Operational Risk across the Group. He was previously the Chief Operating Officer of Wholesale Banking. Prior to joining the Group he was at Old Mutual Group, where he was chief operating officer of the global financial services division based in London and Boston. Prior to that, he was a member of the global executive board investment banking division of UBS, chaired the operating committee and took responsibility for programme and regional management. Richard qualified as a chartered accountant with Arthur Andersen, having previously obtained a Bachelor of Commerce degree and a postgraduate degree in finance from the University of Natal in South Africa. Age 53.

3. Tim Miller

Tim joined Standard Chartered in 2000 and was appointed a Director of Standard Chartered Bank in December 2004. He is responsible for Corporate Real Estate, Corporate Secretariat, Legal, Compliance and Assurance, Internal Audit and Global Research functions, collectively known as Property, Research and Assurance. He was previously Group Head of Human Resources. He is Chairman of Standard Chartered Bank Korea Limited and Standard Chartered Korea Limited. Tim will be standing down as a Director of Standard Chartered Bank with effect from 1 April 2013. Tim is also a non-executive director of PageGroup and chairman of Optitune PLC and the Governing Body of the School of Oriental and African Studies. He has a Bachelors degree in History and Economics, a Master of Letters degree and an MBA from the University of Stirling. In 2007, he completed a Doctorate in Business Administration from Nottingham Business School. Age 55.

4. Jan Verplancke

Jan joined Standard Chartered in 2004 and was appointed a Director of Standard Chartered Bank in January 2013. He is Chief Information Officer and Group Head of Technology and Operations and is responsible for all systems development, technology support and banking operations. He is non-executive director of Scope International Private Limited and Standard Chartered Bank (China) Limited. Prior to joining Standard Chartered, Jan was Chief Information Officer – EMEA at Dell. As well as having overall systems responsibility for EMEA, he was responsible for the expansion of Dell's business in terms of new markets and consolidation of back-office operations. Jan was previously a non-executive director of Monitise Plc. Age 49.

Corporate governance

High standards of corporate governance are a key contributor to the long-term success of a company

Sir John Peace
Chairman

"Effective governance is achieved through a combination of strong processes, underpinned by the right values and culture."

Dear Shareholder

Over the course of 2012, despite challenging circumstances, we have endeavoured to hold true to our values and to the spirit of Here for good. We continue to take a long-term view, striving to do the right thing for our stakeholders through both stable and difficult times. We recognise that our strong culture and values are now even more important than previously.

In 2012, we launched the Chairman's Here for good Awards, which were designed to recognise Standard Chartered employees who live and breathe our brand promise, Here for good. This Award recognises individuals and teams who deliver on our brand promise through their decisions, actions and behaviour. They reward those who have demonstrated a commitment to working together to build long-term relationships with clients, customers and each other. These are the people who embody our brand promise and serve as inspiring role models for the rest of us.

Our brand promise captures our genuine commitment to our clients and customers, our staff and the communities in which we operate. Reaffirming the fundamental role that banks play in society – through helping companies set up, expand and trade, helping people buy homes and grow their wealth – is essential in rebuilding trust in the industry, and ensuring that regulatory reform enables banks to support economies as they grow and develop.

In 2012, Standard Chartered entered into settlement agreements with the US authorities[1] relating to US sanctions compliance over the period 2001 to 2007. Further details regarding this are contained on page 136. As you would expect, during the year, the Board devoted significant time and focus on this matter. We believe that the Board acted in the best interests of shareholders and other stakeholders by reaching settlements with each of the relevant US authorities. In discussions with major shareholders and shareholder bodies, their feedback supported this view and several have commented on the strength and cohesiveness of the Board throughout this time.

1 The US authorities comprise The New York Department of Financial Services (DFS), the Office of Foreign Assets Control (OFAC), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Federal Reserve (NYFED)

In last year's report, we outlined our multi-year Board succession plan. We have taken a long-term, strategic, forward-looking approach to refreshing the Board, balancing our need both to maintain longevity and stability on the Board whilst regularly refreshing its composition. As part of this plan, during 2012 we announced the appointment of four new independent non-executive directors: Om Bhatt, Louis Cheung, Margaret Ewing and Lars Thunell. This first phase of appointments has added significant banking, financial and risk management experience to the Board, as well as increasing its diversity. The new independent non-executive directors bring with them a wealth of experience from some of our largest markets including India, Hong Kong, China and Taiwan. With these appointments, we are balancing the need to maintain a core of directors with longstanding and deep knowledge of the Group alongside new directors who bring fresh perspectives and diverse experiences to the Board.

Throughout the transition period, we are mindful to ensure that the overall Board size remains at an effective and manageable level although we recognise that it is likely to be slightly larger than usual over the next two years.

The Board would like to thank Val Gooding and Richard Delbridge who will both be stepping down from the Board with effect from 1 May 2013. They have each made a valuable contribution to the Board over the past eight and three years respectively.

As part of our ongoing succession planning, Rudy Markham will be stepping down from the Board by our May 2014 Annual General Meeting.

In 2012, we refreshed our Group philosophy on diversity and inclusion making it clear that this applied throughout the organisation, including at Board level. We appreciate and encourage diversity and inclusion in all its forms, including gender, age and ethnicity underpinned by a strong ethos of meritocracy. It is important that our employees and leadership teams are representative of our markets, stakeholders and client profile. Although not in favour of quotas, in formulating our Board succession plan we have been mindful to ensure that we continue to enhance the Board's diversity through future appointments.

Sir John Peace
Chairman
5 March 2013

Corporate governance continued

High standards of corporate governance are a key contributor to the long-term success of a company, creating trust and engagement between the company and its stakeholders. Striving to deliver exemplary governance is a core aspect of the Group's strategic intent. We have clear, well-understood governance policies, procedures and practices throughout the Group.

However, we recognise that this alone is not sufficient to ensure effective governance. Effective governance is achieved through a combination of strong processes, underpinned by the right values and culture. These must be embedded across the Group through the behaviours displayed by our employees every day. For many years, we have measured and rewarded performance both in terms of what employees achieve and the values they display. We believe this makes a difference to how well our culture and values are embedded across the Group.

Our approach to corporate governance disclosures

We aim for the highest standards of corporate governance and apply the provisions of the UK Corporate Code (the Code) and the Hong Kong Corporate Governance Code as set out in Appendix 14 of The Stock Exchange of Hong Kong Listing Rules (HK Listing Rules). Throughout this Corporate governance section we have provided a narrative statement as to how the principles as set out in the HK Listing Rules have been applied to enable evaluation of their application. Copies of the Code and the HK Listing Rules can be found at www.frc.org.uk/corporate/ukcgcode and www.hkex.com.hk/eng/rulesreg/listrules/mbrules/documents/appendix_14.pdf respectively.

The directors confirm that, throughout the year, the Company has complied with the Code set out in the Corporate Governance Code contained in Appendix 14 of the HK Listing Rules. Specifically, the Company complied with the Code provisions of the previous Appendix 14 during the period from 1 January 2012 to 31 March 2012 and the Code provisions of the revised Appendix 14 during the period 1 April 2012 to 31 December 2012. The directors also confirm that the announcements of these results have been reviewed by the Company's Audit Committee.

For a number of years, we have adopted an open, informal and discursive approach to corporate governance reporting. This approach has been recognised in the ICSA Hermes Transparency in Governance awards for the last two years, being granted the award for the Best FTSE100 Annual Report for our 2010 Annual Report and shortlisted for the award for the Best FTSE100 Board Disclosure for our 2011 Annual Report.

Who is on our Board

The Board is responsible for providing leadership through oversight, review and by providing guidance whilst setting the strategic direction and delivering value to shareholders and other stakeholders over the longer-term. The Board is accountable for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. The Board is not involved in the Group's day-to-day operations. It does have a formal schedule of matters reserved for its own decision that are available together with the board committees' terms of reference at www.standardchartered.com

We believe in the importance of having a unitary board, with broad representation from executives who represent the key aspects of the business and markets in which we operate. We believe that this allows shareholders to have direct line of sight to these executives and that there is greater accountability for these individuals as directors distinct from their executive responsibilities.

During the majority of 2012, we had 17 members on our Board. Given our philosophy on executive representation and the complexity of international banking, we believe that a board size of 16 to 18 is optimal. This allows us to have a spread of independent non-executive directors on the Board displaying the necessary skills, expertise, experience and knowledge matched to the Group's current and anticipated strategic direction. It also allows for a core of independent non-executive directors with sufficient time commitment to devote to the Board and its committees (both in stable and difficult times) and for individuals who offer a broad range of diverse perspectives including through geographic or gender diversity lenses.

We have made a conscious decision as part of our multi-year succession plan (see next section) to allow fluctuation in our Board size during the transition period. In November 2012, the appointment of Margaret Ewing and Lars Thunell increased the size of our Board to 19, and it was increased again in January 2013 with the appointment of Om Bhatt and Louis Cheung. This has brought the total size of our Board to 21; the Chairman, six executive directors and 14 independent non-executive directors. However, Richard Delbridge and Val Gooding will step down from our Board with effect from 1 May 2013, meaning that the Board will revert to 19 members from that date. A list of individual directors and their biographies are set out on pages 124 to 128. Details of board committee membership are set out on page 141 of this report.

We continuously refresh our Board membership to ensure that it retains the right dynamics. Since 2005, 16 directors have joined our Board and, by May 2013, 12 directors will have left the Board.

Delivery of the first phase of our multi-year Board succession plan

For the past two years we have focused heavily on the future nature, shape and composition of the Board to 2016 and beyond, putting in place a multi-year succession plan that we believe will maintain the Board's current high level of effectiveness. As part of this plan there have been several changes to the Board's composition. Margaret Ewing and Lars Thunell joined our Board as independent non-executive directors with effect from 1 November 2012. Margaret brings accounting, finance, risk and regulatory development experience to the Board. As a career banker, Lars has a wealth of financial services and banking experience. Om Bhatt and Louis Cheung joined our Board as independent non-executive directors with effect from 1 January 2013. Om has extensive banking and financial services expertise, with deep knowledge and experience across India, one of our largest markets. Louis has very strong general financial services and investor relations credentials, particularly in a Greater China context.

In January 2013 we announced that Richard Delbridge and Val Gooding would be stepping down from the Board with effect from 1 May 2013. Val and Richard have been independent non-executive directors of the Company since 2005 and 2010 respectively and over this time they have both made an outstanding contribution to our Board.

We are now moving into the second phase of this multi-year board succession plan with a view to making more changes in 2014. We have several relatively long-standing Board directors on our Board, particularly those who chair our committees. Given the complexity of international banking, the volatile macroeconomic environment, and the changing regulatory landscape, we believe that it is important to retain a core of directors with long-standing knowledge of Standard Chartered throughout the Board transition period. The intention is that, following the transition, the overall size of the Board will return to between 16 and 18 members.

The Board's commitment to Diversity and Inclusion

Standard Chartered with its distinct footprint, firmly believes in the importance of diverse board membership. Currently, we have a diverse mix of ethnicity, gender and experience on our Board including three women and six different nationalities. There are nine directors who have lived and worked across Asia, Africa and/or the Middle East. Diversity lies at the heart of our values, and is a distinctive element of our brand. We believe that all board appointments should be based on meritocracy and that diversity in all its aspects, including geographic diversity, gender diversity, diversity of skills and experience amongst other strands, is important.

More broadly within Standard Chartered, our employees represent 127 nationalities. We believe that diversity, including gender diversity, is a very important factor impacting the Group's performance and wider operational effectiveness.

Standard Chartered will continue to focus on the work that has been under way for some time to ensure that we continue to have an inclusive environment for our people, valuing our employees for who they are and what they bring to the Group. We have achieved this through a number of programmes, further details of which can be found in the People section on pages 22 to 25.

We will continue to focus on diversity in all its aspects in our succession planning. During 2012, we refreshed our diversity and inclusion philosophy, which applies throughout the Group, including at Board level. Our approach to diversity does not involved quotas or positive discrimination. Our philosophy and related initiatives support the Group's meritocratic, collaborative and performance-based culture. Further details can be found in the People section on pages 22 to 25.

External directorships

The Board's executive directors are permitted to hold only one independent non-executive directorship of a FTSE 100 company. Details of the directors' other directorships can be found in their biographies on pages 124 to 128. We closely monitor the outside business interests of the independent non-executive directors. Before taking on an additional role, both executive and independent non-executive directors will confirm that no conflict arises from that role and provide assurance that the appointment will have no adverse impact on the ability to continue to fulfil his/her role as a director of the Company. Committee chairs are particularly mindful of their obligations. Whenever needed during the year, directors have consistently demonstrated their ability to provide any additional time commitment needed.

Re-election of directors

In line with the UK Financial Reporting Council's UK Corporate Governance Code, for the last two years we have adopted the practice of proposing all of our directors for annual re-election at the Company's Annual General Meeting (AGM), and will do so again in 2013. All of the directors on the Board at the date of our AGM on 9 May 2012 attended the AGM and were re-elected. Having moved to annual re-election we have continued the practice of rigorously reviewing all directors' performance, and this will be used as the basis for recommending re-election of directors to shareholders. Further details are provided on page 138.

Assessment of director independence

The Board is satisfied that all of our non-executive directors are independent. As an integral part of the Board's multi-year succession plan, we have made a conscious decision to balance the appointment of four new directors with maintaining sufficient stability for the Board as a whole. The Board had a discussion regarding the four directors who are reaching or have exceeded nine-year tenures on the Board; Rudy Markham, Ruth Markland, Jamie Dundas and Paul Skinner. The individuals concerned were recused from the conversation. In relation to each relevant individual, Board members identified numerous specific examples of how that individual had displayed independence of thought, mindset and judgment over the past year. On that basis, and combined with the significant refresh of the Board's composition that is under way the Board unanimously agreed that Rudy, Ruth, Jamie and Paul remained independent.

Directors' securities transactions

The Company confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by Appendix 10 of the HK Listing Rules and that the directors of the Company have complied with this code of conduct throughout the year.

Corporate governance continued

How the Board has spent its time

At Standard Chartered, we believe that our open, challenging yet cohesive and collaborative culture whereby all directors have unfettered access to management and information has enabled us to achieve high standards of corporate governance. Our independent non-executive directors travel extensively to our markets and have the opportunity to validate our strategy and gain an on-the-ground understanding of the opportunities and risks that we face. To support this, it was notable that our independent non-executive directors made 60 visits to countries across our footprint in 2012 (compared with 59 in 2011, 40 in 2010 and 23 in 2009).

During 2012, we estimate that each independent director spent at least 30 days on board related duties and for those who sat on multiple committees, up to 100 days or more.

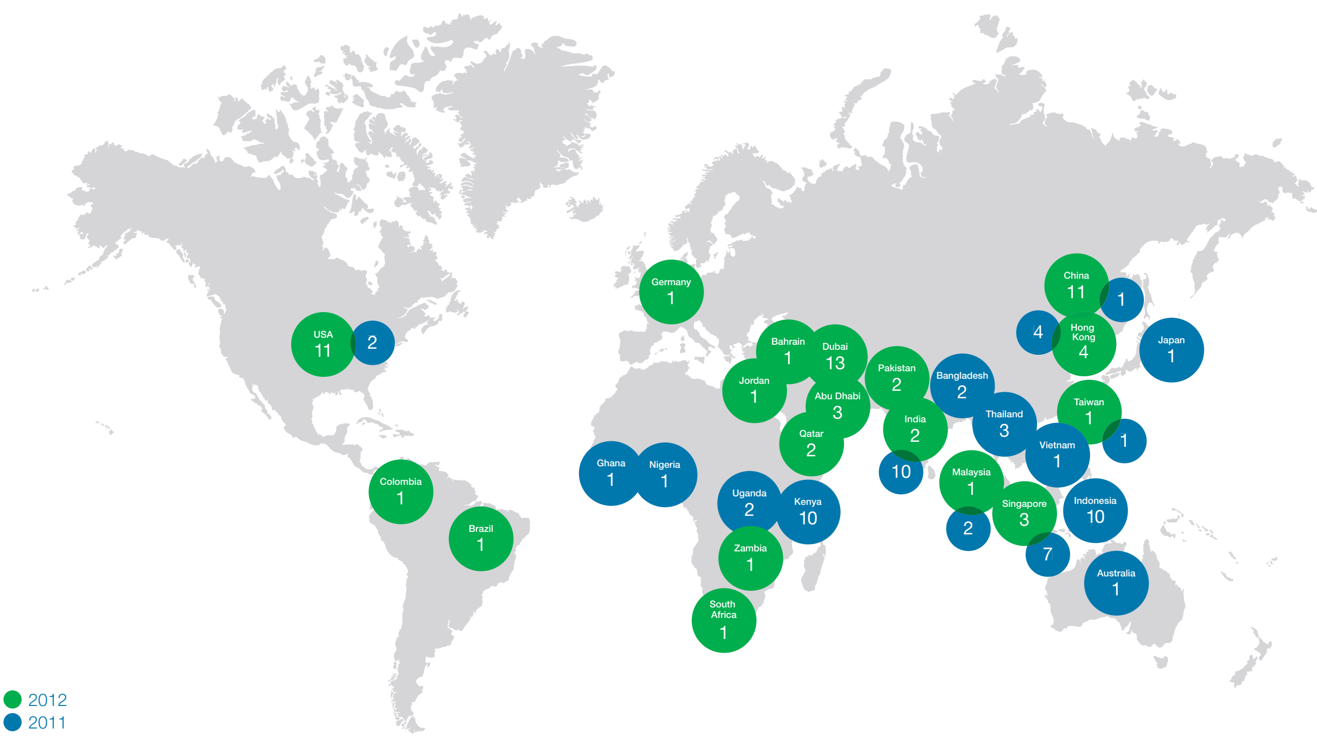
The overseas Board visits in 2012 were to Shanghai, New York and Dubai, where comprehensive strategy reviews were undertaken. As has been the case for previous overseas Board visits, these visits enable our independent non-executive directors to gain a better understanding of these markets and our operations.

In addition to attending the overseas Board meetings, Sir John Peace, as Chairman visited Brazil, Hong Kong, Ghana, India, Malaysia, Singapore, Abu Dhabi, the USA and Taiwan, where he met with clients, employees, shareholders, and regulators. Other independent non-executive directors also undertook visits in addition to scheduled overseas Board visits. For example, Rudy Markham visited India, Pakistan, Singapore and Colombia and John Paynter visited Hong Kong and Bahrain.

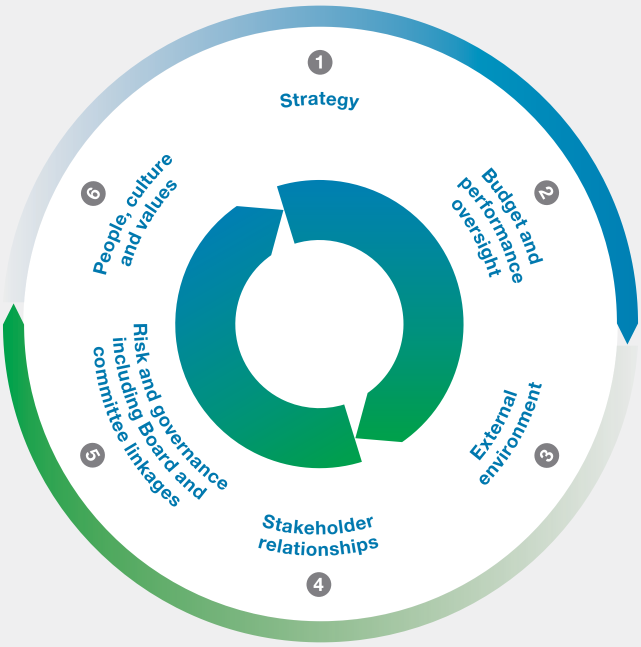
During the year, the Board has covered a wide range of topics across the external and competitive environment, specific business unit strategies and major geographical and regional reviews. In order to make space to focus heavily on these key strategic issues, the Board had consciously chosen to delegate broad responsibilities to its committees. The effective functioning of these committees is a critical element in the Board's overall effectiveness and we describe the role of the committees on pages 140 to 159.

The diagram on page 135 gives an overview of how the Board as a whole (rather than the committees) spent its time in 2012.

Number of independent non-executive directors visiting our markets



How the Board spent its time in 2012



Strategy

- Held our annual two-day strategy offsite, including the implications for the long-term sustainability and shape of our client-centred business and organisational model
- Discussed our strategy in key geographies and regions as part of the Board's overseas visits
- Reviewed our current commodities business and its future strategic direction, focusing on oil and gas, mining and metals and agriculture
- Focused on how the Group keeps pace with technological change and innovation
- Considered the Group's property portfolio and its future strategic priorities
- Approved the entry into new geographical territories for the Group, e.g. Myanmar and Mozambique
- Discussed key elements of our inorganic strategy (as part of our Strategy Board meeting)
- Approved the five-year plan and the 2013 budget
- Assessed the strategic value and importance of operating as One Bank and its future priorities and aspirations

2
Budget and performance oversight

- Maintained oversight of the Group's performance in line with market expectations
- Focused on key parts of the Group's franchise where the external environment and banking market have grown more challenging
- Periodically reviewed the company's share price performance metrics, register activity and institutional investor and analyst perception
- Reviewed the performance of certain business segments and investments

3
External environment

- Assessed the challenges faced/posed by some of our competitors and the implications for the Group
- Reviewed the major trends and future shape of the banking industry globally
- Debated the developing macroeconomic environment with internal and external input
- Considered the appropriate responses to the key regulatory changes faced by the Group and industry as a whole
- Explored the impact of the changes in the external environment of our specific business strategies and the trajectory of the Group as a whole

4
Stakeholder relationships (investors, clients, customers, regulators and communities)

- Commissioned a survey to gauge investor perception (undertaken by J.P. Morgan Cazenove)
- Engaged with our retail shareholders at the Annual General Meeting
- Debated Consumer Banking's high value segments under the new umbrella – High Value Client Coverage (HVCC) and the value created from collaboration and synergies across HVCC and with Wholesale Banking
- Engaged with key clients and customers as part of the Board's overseas visits
- Discussed the quality of regulatory relationships and met with regulators across the Group
- Focused on the settlement with the US Authorities
- Considered the findings of the FSA's Advanced Risk Response Operating Framework (ARROW)
- Approved the Group's Recovery and Resolution Plan for submission to the Financial Services Authority
- Participated in community activities as part of the Board's overseas visits, including Seeing is Believing, our community investment project that eliminates avoidable blindness

5
Risk and governance including Board and committee linkages

- Approved the Board's Risk Appetite Statement and satisfied itself that the 2013 budget is aligned to this
- Received assurance during the year that the Group continued to operate within its approved risk appetite
- Ensured key risk associated with each aspect of the strategy discussed at Board level were identified and discussed in an integrated fashion
- Continued to focus on the effective linkages between the Board and its committees
- Refreshed our approach to the interfaces between the main Board and the boards of our banking subsidiaries across our network

6
People, culture and values

- Examined the key external influences that are shaping our people agenda
- Discussed some of the key people challenges we face over the next five years and how our thinking on people strategy is evolving
- Discussed the importance of ensuring the values and cultures of the Group are embedded across the network, delegating further oversight to the Brand and Values Committee
- Approved the appointment of four new independent non-executive directors as part of our multi-year Board succession plan
- Continued to focus on the overall effectiveness of the Board and individual directors

The full schedule of matters reserved for the Board together with the board committees' terms of reference are available on www.standardchartered.com

Corporate governance continued

Settlements with the US authorities[1] relating to US sanctions compliance in the period 2001 to 2007

The Group takes its responsibilities very seriously, and seeks to comply at all times with the relevant laws and regulations. We remain committed to ensuring exemplary governance and ethics in all our markets, and to co-operate fully with law enforcement agencies across our network to detect and stop financial crime.

During 2012, the Group concluded settlement agreements with five US authorities. As part of these settlements, the Group paid civil monetary penalties totalling $667 million (the US settlements) and agreed to provisions that impose certain co-operation, monitoring, reporting and other obligations on the Group. As part of these settlements, the Group accepts and acknowledges responsibility for the violations specified in the settlement agreements. As you would expect, the Board has focused heavily on the process that resulted in the settlements. Set out below is an outline of the governance practices followed by the Board in relation to these matters.

Background and context

During the period 2001 to 2007 the Group undertook business relating to Iran. In late 2006, the Group decided to cease all new US dollar business for Iranian entities, and by August 2007 had decided to stop all new business for Iranian entities in all currencies. The Group continues to wind down the legacy business.

In January 2010, we contacted the US authorities informing them that, in early 2009, we had initiated a review of our US dollar transactions over the period January 2001 to December 2007 relating to US sanctions compliance (the Review). This Review covered all countries subject to US sanctions during that period.

Governance arrangements relating to the Review

The Review was conducted by US and UK external counsel and external consultants. The factual outcome of the Review was submitted to the US authorities in 32 detailed reports.

Throughout the Review, the US authorities were regularly updated, as was our lead UK regulator the Financial Services Authority (FSA), our Board and the Audit Committee. Given the nature of the Review, additional oversight was provided by a Board Oversight Group (BOG) consisting of our Group Chairman, our Group Chief Executive and our Senior Independent Director.

During the Review, the Project Steering Committee (PSC) met periodically and updated the BOG at key milestones. A senior representative from our external counsel attended the majority of the BOG meetings as did the Group Company Secretary. The Audit Committee and the Board were updated regularly.

Regular disclosures regarding the Review

We have reported since 2010 that we were conducting the Review. The disclosure appears in our Half Year and Annual Report and Accounts disclosures of 2010, 2011 and again most recently in the 2012 Half Year Results in the Risk review section on page 61 under Regulatory changes and compliance. Our disclosures were made in consultation with our US and UK legal advisers and consistent with the findings of the Review.

Governance arrangements following receipt of DFS Order on 6 August 2012

In response to the DFS order, the Group issued a statement on 6 August 2012. After negotiations, the Group entered a settlement agreement on 21 September 2012 paying a civil monetary penalty of $340 million. On 6 December 2012, the Group concluded settlement negotiations with the other US authorities, as a result of which a further civil monetary penalty of $327 million was paid. As part of these settlements, the Group has agreed to various remediation actions including the appointment of monitors in our New York branch. A dedicated project team has been established to ensure compliance with these remediation activities. The Audit Committee will provide oversight and receive assurance that the remediation programme is being conducted effectively.

The Board met on seven occasions during the settlement period (from 6 August to 10 December 2012) to discuss the situation and decide what action to take in the best interests of shareholders. A specific Board Oversight Committee (BOC) was established on 13 August 2012 with delegated authority from the Board to oversee negotiations. This BOC was similar in constitution to the previous BOG, with the addition of the Chairman of our Board Risk Committee as an alternate member.

Throughout the Review and settlement period, the Board sought to act in the best interests of our shareholders, clients and staff in order to bring this matter to a conclusion. In consultation with our US and UK legal advisers, the Board assessed that the potential consequences of not reaching settlements with the US authorities significantly outweighed the costs of settling. We have engaged extensively with our institutional shareholders regarding the circumstances surrounding the US settlements and they have supported our approach.

1 The US authorities comprise The New York Department of Financial Services (DFS), the Office of Foreign Assets Control (OFAC), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Federal Reserve (NYFED)

Number of Board meetings held in 2012

Board members	Scheduled meetings 9	Ad hoc 4
Sir John Peace (Chairman)	9/9	4/4
P A Sands	9/9	4/4
R H P Markham	9/9	4/4
R H Meddings	9/9	4/4
S P Bertamini	8/9	3/4
J S Bindra	9/9	3/4
R Delbridge	9/9	4/4
J F T Dundas	9/9	4/4
M Ewing	2/2*	0/0*
V F Gooding	9/9	3/4
Dr Han Seung-soo	9/9	4/4
S J Lowth	9/9	4/4
R Markland	9/9	3/4
J G H Paynter	9/9	4/4
A M G Rees	9/9	4/4
V Shankar	9/9	3/3
P D Skinner	9/9	4/4
O H J Stocken	9/9	3/4
Dr L H Thunell	2/2*	0/0*

*Appointed to the Board on 1 November 2012

Key elements of the Board's effectiveness

The role of the Chairman

The Chairman plays a critical role in ensuring the Board's overall effectiveness. As part of the Board's annual effectiveness review feedback, all Directors commented on the Chairman's highly effective, engaging style stating that he is thoughtful and encourages open dialogue enabling all members to contribute effectively. The Chairman and the Board as a whole are important role models for the Group's culture and values, setting the right tone from the top of the organisation. Also, alongside the Chairman, the Group Company Secretary has a key role in influencing the effectiveness of the Board.

As our Senior Independent Director, Rudy Markham plays an important role as the sounding board for the Chairman.

Engagement with shareholders

We have a proactive engagement strategy with shareholders across our footprint. Our Board receives regular updates on the views of our institutional shareholders and stakeholders and Board members openly seek the views of our shareholders. During 2012, a combination of our Group Chairman, Group Chief Executive Officer and Group Finance Director met with 21 of our top 25 investors. Sir John also hosted a dinner attended by corporate governance representatives of our largest shareholders and over the course of the year met with 34 individual investors and investor bodies. We run an annual programme of planned road shows and we also attend key industry conferences. As such, we ensure that we see our top 50 shareholders at least once a year, and many of these we see more frequently. The Board is mindful of its responsibility to take account of wider stakeholders. A part of the overseas visits, Board members will meet with local regulators and clients and participate in community activities. As a Board, we acknowledge the relevance of considering long-term factors including relevant environmental, social and governance issues, and the reputation of the company for high standards of business conduct in fulfilling our duty to promote the success of the company.

Corporate governance continued

Induction and ongoing engagement plans

We have very extensive, robust, tailor-made director induction and ongoing development programmes for which records are maintained. This has continued to evolve over the last five years. Each engagement plan typically consists of a mix of briefings on specialist topics, attendance at key management meetings and additional visits to our markets. In addition to overseas Board meetings, independent non-executive directors will undertake one or two additional overseas visits during the year. The importance of these plans is heightened in 2013 given that there are four new directors who have recently joined the Board.

More broadly, the independent non-executive directors are supported by dedicated corporate secretariat resources and avail of specialist advice on corporate governance matters.

2012 Board effectiveness review and outcomes

This year, the Board has used a 'free-style' approach to assessing its effectiveness. Directors were invited to express their 'top of mind' thoughts and feelings on any aspects of the Board's effectiveness. They were also requested to provide their views on two areas specified by the FSA. These were the balance between informal and formal governance at Board level; and the balance between information provided and risk discussions held at Board level against those held at the Board Risk Committee.

Overall, directors felt that the balance between informal and formal governance at Board level was appropriate and that the combination of informal and formal Board sessions promotes discursive debate, a healthy environment and good engagement between the independent non-executive and the executive directors. Many of our Board commented on the effectiveness of regular Board lunches and dinners at which specific strategic topics are debated. Other directors commented on the value gained when the Board met overseas, allowing for more interaction outside of the formal Board meetings. One director commented that "the overseas Board meetings are useful in giving the independent non-executives a feel for our businesses", and that "equally they give our executives in our markets the opportunity to interact with the independent non-executives on our Board".

Although it is felt that our Board is highly effective, there was a strong sense that the Board is mindful that there is no room for complacency, and that the difficult issues that the Board faced during the year served as a good reminder of this point. We will continue to explore methods to enable us to continuously enhance our Board's effectiveness. A summary of the key themes identified in the 2012 review are set out on pages 139 and 140. For 2013, our current intention is to conduct an externally facilitated board effectiveness review.

Individual director and Chairman effectiveness reviews

In addition to reviewing the Board's overall effectiveness each director discussed his or her self assessment with the Chairman on a one-to-one basis. These discussions included details of time commitment including (where relevant) the potential impact of outside interests held by each director, engagement plan implementation and other broader contributions to the Board. In relation to the executive directors, there was a particular focus on their role as Board members as distinct from senior executives.

Part of Rudy Markham's role as Senior Independent Director is to provide the Board's feedback on Sir John's performance as part of the Board's evaluation process. Details of the process followed together with the Board's feedback can be found on page 159.

Summary of the themes identified in the 2012 board effectiveness review and actions taken/to be taken

2012 Theme/action identified	2012 Actions taken/to be taken	2011 Theme/action identified	2011 Actions taken
Ensure that the Board continues to make space to focus on the key strategic issues	**Senior management will continue to engage with directors individually and the Board collectively in shaping the Board's strategic agenda** **As part of the 2013 Strategy Board meeting the Board will focus on the challenges facing the Group** **Guarding against complacency will continue to be a focus for the Board and its committees**	The Board recognises the criticality of maintaining constructive regulatory relationships. In 2012 we explored further opportunities for the Board to receive input from more external sources (e.g. macroeconomic /geo-political environment, competitive environment and legal/regulatory landscape)	Over the course of the year, the Board has received regular updates on the changing regulatory landscape, details of which can be found on page 135. This will remain a key focus for 2013
Ensure the Board remains effective during its transition	**Induction programmes for new directors are being tailored to enable them to contribute effectively** **All things being equal, we will appoint an external facilitator to support the Board's review of its own effectiveness in 2013**	It was recognised that the existing Board composition results in a highly effective Board. Within this context, it was commented that the diversity of the Board might be further enhanced with greater representation from our geographical footprint and possibly through more female representation	During 2012, Board composition and executive succession have been key areas of focus for the Nomination Committee (see pages 158 and 159) and the Board as a whole (see pages 132 and 133)
Continue to ensure the right balance between the nature of risk information and discussions occurring at Board level versus those conducted at the Board Risk Committee	**In addition to the regular risk information provided to the Board, periodically the Group Chief Risk Officer will facilitate Board sessions focusing on the Group's performance in the context of the risk appetite approved by the Board**	In 2011, it was recognised that Board papers could be more concise, whilst balancing this with the need to ensure that directors receive all the information necessary to fulfil their duties effectively	Opportunities for further refinement have been identified and implemented in 2012, including one-page executive summaries for all core strategic papers, providing a roadmap for the issues discussed in more depth in the body of the paper. Further progress has been made in distinguishing more rigorously between information Directors must have in order to fulfil their duties and other optional information for those Directors with an appetite to delve more deeply into a particular topic

Corporate governance continued

Board committees

Our Board has made a conscious decision to delegate a broader range of issues to the board committees. As a result, it is important to ensure effective linkages exist between the Board and its committees whilst being mindful of the need to guard against the danger of unnecessarily duplicating effort. The linkages between the committees and the Board are critical given that it is impractical for all independent non-executive directors to be members of all the committees. We have ensured that there is some common membership across our committees. For example, the chairmen of the Audit and Board Risk Committees sit on each other's committees, and there are two further common members. There is also some common membership between the Board Risk Committee and the Remuneration Committee.

Inevitably some issues are relevant to more than one committee. In this case our practice is for the relevant committee chairs to discuss and agree which committee will lead in covering that particular issue. This helps to guard against the risks of gaps and unnecessary duplication of effort between the committees.

Group board committee structure

Standard Chartered PLC Board

- **Primary Committees**
  - **Audit**
    Oversight and review of financial, audit and internal control issues
  - **Risk**
    Oversight and review of fundamental prudential risks including credit, market, capital liquidity, operational risk, country cross-border risk and pension risk
  - **Brand and Values**
    Oversight and review of brand positioning, treating customers fairly, reputational risk, ethics and sustainability issues
  - **Remuneration**
    Oversight and review of remuneration, share plans and other incentives
- **Enabling Committees**
  - **Nomination**
    Oversight and review of board and executive succession
  - **Governance**
    Oversight of overall board effectiveness and governance issues

Membership of the board committees as at 5 March 2013

	Audit Committee	Board Risk Committee	Brand and Values Committee	Governance Committee	Nomination Committee	Remuneration Committee
R Delbridge	Member	Member				
J F T Dundas	Member	Chairman	Member		Member	
M Ewing	Member					
V F Gooding			Member			Member
Dr Han Seung-soo			Member			
S J Lowth		Member				
R H P Markham	Chairman	Member		Member	Member	
R Markland	Member	Member			Member	Chairman
J G H Paynter	Member					Member
Sir John Peace			Member	Chairman	Chairman	Member
P A Sands			Member*	Member	Member*	
P D Skinner		Member	Chairman		Member	Member
O H J Stocken		Member				
Dr L H Thunell		Member**				

Chairman Member *Was a Committee member until 18 September 2012 **Joined the Committee with effect from 1 February 2013

Audit Committee

Dear Shareholder

During 2012, the Audit Committee has deepened its focus on the effectiveness of internal controls, compliance, assurance and internal audit functions, and the work undertaken and the challenges provided by our Group statutory auditors, KPMG Audit Plc.

The Committee has taken detailed note of the latest UK Corporate Governance Code (the Code) recommendations. We have always strived to achieve the aims of the Code and the best practice recommendations of other corporate governance bodies, and have welcomed the further enhancement by the UK Financial Reporting Council. We have reflected the new requirements in the Committee's terms of reference.

In carrying out its work the Committee has focused on the thoroughness by which the Group's standards are implemented and embedded and has sought, and been provided with, evidence of their effectiveness. Where Group Internal Audit has identified inconsistency in management supervision and failed audits (where practices were found to have fallen below the Group's standards), the Committee has looked to see if root causes and common themes have been identified. We have considered management's responses and the action plans developed to address the issues. The Committee has been encouraged by the rigour of the approach taken by management when issues are identified and have challenged the proposed solutions to ensure that they are both strategic and sustainable. We have considered the quality of the financial disclosures, the status of the Group's internal controls and the oversight of regulation provided by the Compliance function across the Group's footprint.

The Committee has scrutinised and advised on financial governance issues. The qualifications and expertise of our Committee members have been targeted to meet the requirements set out in the Committee's terms of reference. We have a mix of individuals, expertise and qualifications relevant to the maturity of the Committee and to the nature of Standard Chartered. In November 2012, Margaret Ewing joined the Committee bringing significant accounting, finance, risk and regulatory expertise from her 30 years' experience as a chartered accountant.

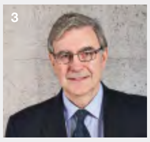
Richard Delbridge will be stepping down from the Committee on 1 May 2013. I would like to pay tribute to Richard for his valuable contribution to the Committee during the last three years.

Away from its formal Committee meetings, the Committee has continued to have a number of sessions on particular topics. These sessions are held in conjunction with the Board Risk Committee and have proven to be beneficial in enabling both on-going development and understanding and more in-depth discussion on the causes of issues reported at Committee meetings. In 2012, the topics included the Group's customer due diligence and anti-money laundering programme; the Group's process for compliance with the Foreign Account Tax and Compliance Act; the infrastructure implications for the Group arising from commodities strategy; market risk and market risk management; an update on significant IT projects (including operational resilience around our country and hubbed service centres and technology resilience/information security); an update on the Group's sanctions programme; the operational risk transformation programme and an update on the changes to accounting standards.

I can confirm that over the course of the year the information that the Committee has received has been balanced, appropriate and timely and has enabled the Committee to fulfil its remit.

Rudy Markham
Chairman of the Audit Committee






Other attendees at Committee meetings include:
Group Chairman; Group Chief Executive Officer; Group Finance Director; Group Chief Risk Officer; Group Head of Internal Audit; Group Head of Compliance; Director, Property, Research and Assurance; Group Company Secretary; Group statutory auditors.

Audit Committee Members

	Scheduled meetings: 7
R H P Markham (Chairman) (1)	7/7
J F T Dundas (2)	7/7
R Delbridge (3)	7/7
M Ewing* (4)	1/1
R Markland (5)	7/7
J G H Paynter (6)	6/7

*Appointed 1 November 2012

As part of, and in addition to, each formal Committee meeting, the Committee has private members only meetings.

Key areas of focus in 2012

- Ensured that the Group's financial systems, processes and controls are operating effectively and consistently in line with the Group's growth and complexity and in response to changes in regulatory requirements
- Continued to scrutinise the internal audit process to ensure satisfaction with the quality and coverage of the work performed by Group Internal Audit
- Continued to ensure that we are satisfied that our Group statutory auditor is effective, has allocated sufficient and experienced resources to address heightened risks, and provides required scepticism
- Focused on the root causes of control failure compliance and weaknesses
- Continued to focus on the effective linkages between the Committee, the Board and other board committees
- Close engagement with subsidiary board audit committees to ensure greater and more detailed oversight of key areas of concern

Our priorities for 2013

- Ensuring that the Committee is exercising its assurance oversight role in the best possible way
- Continue to monitor the delivery of the Group's finance transformation project
- Consider significant accounting issues and ensure appropriate disclosure
- Continue to scrutinise key accounting judgments used for credit, goodwill and tax
- Provide oversight and receive assurance regarding the remediation programme as part of the settlements with the US authorities[1]
- Monitor changes in the external regulatory environment to make sure that we continue to have appropriate financial, compliance and internal controls in place
- Continue to ensure that our Group statutory auditor has allocated sufficient additional and experienced resources to match the growing size and complexity of the Group
- Consider the findings of investigations designed to identify the causes of breaches of control or breakdown in processes

The Committee's role

The role of the Audit Committee is fundamental to ensuring the financial integrity and accuracy of Standard Chartered's financial reporting.

Good, open relationships between the Committee, the Group Finance Director, our Group Internal Audit Function and KPMG Audit Plc (KPMG), our Group statutory auditors, are essential to adding value to the organisation. This is encouraged by holding management to account for the implementation of all audit recommendations (internal and external); inviting appropriate business heads to meetings to explain how they are delivering their agreed actions for which they are responsible; and holding separate meetings between the Committee chairman, independent non-executives, and internal and external auditors to help committee members establish open working relationships.

The Committee is aware of balancing the requirement that the information received is concise whilst ensuring it receives all of the information necessary to fulfil its duties effectively. One of the ways in which this is achieved is through meetings held throughout the year between the Committee Chairman, the Group statutory auditors, and the Group Finance Director to discuss areas for the meeting agendas and papers that should be provided.

As well as providing assurance within the governance and accountability structures of Standard Chartered, it is essential that the Committee contributes, delivers results and adds value to the Group.

Financial reporting

Over the course of the year, the Committee has considered the financial control framework within the Group. We have discussed and sought assurance that the effects on the Group's business of the continued volatility in financial markets remains closely monitored. The Committee has discussed with KPMG the key areas of judgment in the Group's financial reporting. Particular areas for discussion have been loan provisioning and impairment and goodwill impairment. We are satisfied that we have considered for disclosure all material relevant issues that have concerned management and the Group statutory auditors during the year.

1 The US authorities comprise The New York Department of Financial Services (DFS), the Office of Foreign Assets Control (OFAC), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Federal Reserve (NYFED)

Corporate governance continued

We have reviewed and monitored the appropriateness and completeness of the published financial statements and circulars to shareholders of the Company and any formal announcements relating to the Group's financial performance, including significant financial reporting judgments and estimates made by the Group.

The Committee has considered management's recommendations in respect of provisions for bad and doubtful debts and any other provisioning for losses and charges as reported in the Group's half year and full year results. We also considered management's assessment in determining that the going concern basis for preparing those financial statements continues to be appropriate.

In light of the revised Corporate Governance Code issued by the UK Financial Reporting Council in September 2012, the Group's existing processes and procedures, designed to ensure that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, have been reviewed. Whilst we do not believe that any substantial change is required, it was felt that there were some enhancements that could be made. The Committee has satisfied itself that processes and procedures in place are appropriate and support the fair, balanced and understandable criteria.

The Group continues to face a steady flow of developments in new accounting standards and interpretations and we have considered the anticipated impact these future accounting developments will have on the Group.

Given the increasing requirements from regulators across jurisdictions and more complex and growing demands from the business, the Group has been changing the evolution, shape, resourcing and competence of its finance function. The Committee has discussed the business and functional issues being addressed by this transformation programme together with the programme's structure, the expected outcomes, programme governance, and the risks and issues identified.

Control environment

Our activities included the consideration of reports in respect of the control environment in a number of our markets. From time to time, the Committee invites senior executives and management from across the Group to discuss developments and issues that have arisen in their jurisdiction.

In 2012, our Group Internal Audit function conducted 205 risk based audits (compared with 175 in 2011), eight of which were graded as failed audits (compared with 10 in 2011). We have reviewed and monitored management's responses to Group Internal Audit's findings and recommendations.

The issues map, contained within the Group Internal Audit reports to the Committee, enables focused discussion on specific areas of concern and root causes and to track remediation progress over time. Areas of focus in 2012 have been our anti-money laundering processes and procedures, foreign exchange monitoring and risk controls in a number of the Group's geographies. 'Lessons learned' reviews are conducted following the resolution of matters raised by Group Internal Audit, the findings of which have been discussed by the Committee. The Committee has sought and received assurance regarding the appropriateness of the Group's sanctions compliance programme, which is subject to regular review through robust audit and assurance processes to support continuous improvement.

Group statutory auditor

We have continued to strengthen our oversight of the work undertaken by the Group statutory auditor, KPMG. Throughout the year local audit partners from Hong Kong, Singapore and the UAE have attended Committee meetings that have provided the Committee with the opportunity to gain greater insight as to the challenges faced in the Group's markets from a statutory audit perspective. In addition, Committee members have met with local audit partners in China, the UAE, Hong Kong, Pakistan, Taiwan, New York and Zambia.

We have discussed with KPMG the consistency and balance of management judgment, and business and financial risks, and have sought assurance that these risks have been properly addressed in the audit strategy plan that has been reviewed by the Committee. We are satisfied that KPMG has allocated sufficient additional and experienced resources to address heightened risks. We have sought assurance and are comfortable that no undue pressure has been asserted on the level of audit fees so as to ensure that there is no risk to audit work being conducted effectively.

During the year, we approved the re-appointment, remuneration and engagement letter of KPMG as our Group statutory auditor. In line with the UK Financial Reporting Council's recent recommendations, the Committee will be putting the Group's statutory audit work out to tender in 2013.

We conducted a review of the performance and effectiveness of KPMG that included an assessment of its independence and objectivity. In conducting the review, the Committee sought to gain assurance that KPMG had conducted a comprehensive, appropriate and effective audit. As in previous years, the review was performed jointly by Group Internal Audit and Group Finance by way of a structured questionnaire. The questionnaire was sent to country Chief Financial Officers, members of our Finance Leadership Team, country Chief Executive Officers and our Business Leadership Team covering all of our major markets. The questionnaire considered KPMG's value add to the Group, the level of engagement, its ability to demonstrate an understanding of Standard Chartered and our risk environment and the demonstration of appreciation of the issues faced by country Chief Executive Officers, Chief Financial Officers and Business Heads, together with its objectivity, independence and effectiveness. Over the course of the year, the Committee has scrutinised the audit process and the quality and experience of the audit partners engaged in the audit. The 2012 Group Audit Plan considered by the Committee provided details of the number of years KPMG partners and senior team members have been involved in the Group's audit. KPMG's lead audit partner for Standard Chartered (the position of lead audit partner was last rotated in 2010) has a background in auditing banks and understands the markets in which we operate.

Non-audit services

In 2012, the Group spent $4.2 million in non-audit services provided by KPMG and $28.1 million in non-audit services with other audit firms. Further details can be found in note 8 on pages 219 and 220.

The Group's policy on the award of non-audit services to auditors (the Policy) states that the Group's statutory auditor should not be regarded as the automatic or first audit firm of choice for non-audit services and consideration should always be given to the use of other firms. If the Group's statutory auditor is appointed to provide non-audit services, the primary consideration is to ensure that the independence and objectivity of the audit firm is not (or could not be perceived to be) compromised by the appointment.

In addition, the non-audit services work to be undertaken must not have the potential to significantly impact the operations of any financial reporting area of the Group and there must not be any reputational issues arising from the work to be undertaken. The Policy clearly sets out the criteria for when the Committee's prior written approval is required.

Note 8 on pages 219 and 220 describes the types of non-audit services provided by KPMG.

As disclosed in 2011, KPMG was engaged as a skilled person for the purposes of preparation of a Section 166 report on the Group's Liquidity Reporting. While the majority of this work was completed during 2011, the engagement concluded in 2012. Fees of $331,000 were paid for this engagement in 2012, in addition to the $542,000 paid in 2011.

Group Internal Audit and Group Compliance

We have reviewed the resourcing and proposed work plans for both the Group Internal Audit and Group Compliance functions and are satisfied that both the work plans and resources are appropriate in terms of proposed areas of focus and the expertise and skill that exist within both functions given the current regulatory environment.

In order to maximise the effectiveness of the Group's Internal Audit function, and also to ensure that any conflicts that might arise between the international nature of the Group and the growing emphasis on national interest banking at a regulatory level are adequately addressed, the Committee was provided with an overview of a project designed to consider any changes and provided feedback on these.

Regulators in many of our footprint countries have increased their level of supervision, with a more local focus, leading to specific challenges over the perceived independence of local Audit and Assurance functions; in conjunction with the need for senior Compliance management to focus on a more challenging regulatory world.

As a result of this review the Committee is comfortable that the independence of the Group Internal Audit function has been reinforced.

Corporate governance continued

We have reviewed and approved Group Internal Audit's Charter, its annual audit plan and its monitoring of post-audit actions. We have considered the resourcing requirements of the function. Our remit also includes the consideration of the appointment, resignation or removal of our Head of Internal Audit.

In addition to considering how comfortable the Committee is with the scope, remit and quality of the work undertaken by Group Internal Audit and whether there are areas for improvement, as part of the continued scrutiny undertaken by the Committee of the Group's audit process, the Committee has considered a number of aspects including (but not limited to) whether Group Internal Audit places enough emphasis on big picture and systemic issues; whether management is given sufficient opportunity to comment on audit issues and their resolution; the clarity of Audit reporting and the follow up of audit issues; and Group Internal Audit's ability to identify areas of concern in the context of the banking industry.

Interaction with management

The Committee meets separately with our Group statutory auditor, KPMG, the Group Finance Director, Group Head of Internal Audit and Group Head of Compliance on a regular basis. These meetings allow Committee members to discuss freely matters relating to the auditor's remit and issues arising from the audit. During the year, the Committee also met privately with Group Internal Audit's senior management team.

Linkages between the Committee and subsidiary board audit committees

As has been the practice for a number of years, in 2012 Rudy Markham hosted a call with the chairmen of our subsidiary audit committees. These calls provide the opportunity for Rudy to share what the Committee has been focusing on over the previous year together with the priorities for the forthcoming year and the rationale for these. There has also been a programme whereby the subsidiary audit chairmen are invited to attend Audit Committee meetings. We have documented principles defining the linkages between the Audit Committee and the audit committees of subsidiary companies.

Ongoing training and development

In addition to other ongoing training and development activities in each independent non-executive director's engagement or induction plan, four half-day informal sessions were held in conjunction with the Board Risk Committee over the course of the year. All independent non-executive directors were invited to these sessions.

Speaking Up

The Committee reviewed the Group's Speaking Up Policy, which allows our employees to raise, in confidence, any concerns that they may have about possible improprieties in matters of financial reporting or other areas. The Committee considered the type and nature of the activity reported together with the resolution and consequence to ensure that any matters of concern were investigated appropriately.

Summary of the themes identified in the 2012 Committee effectiveness review and actions taken/to be taken

2012		2011	
Observations	**Actions taken/to be taken**	Observations	Actions taken
Continue to provide assurance to the Board that controls and compliance culture fully support the Group's strategy	**We will reflect on the 'hindsight' judgments to come in the future, so that the Committee can be satisfied that the compliance culture is aligned with regulatory expectation**	Continue to focus on the effective linkages between the Committee, and subsidiary board audit committees	We will continue to look for ways to evolve ways in which the Committee gains greater insight into the role of the Group's subsidiary audit committees
Whilst it was felt that the Committee sets clear expectations for and appropriately challenges Group Internal Audit, it was agreed that these could be enhanced	**The Committee's expectations for Group Internal Audit will be more expressly stated in Group Internal Audit's Charter**	There is a need to explore ways to ensure that the Committee is able to focus on the root cause of issues, new business areas and any issues arising as the Group grows	We have mirrored the approach taken by the Board by moving towards distinguishing more rigorously between information the Committee must have in order to fulfil its duties and other optional information for those Committee members with an appetite to delve more deeply into a particular topic. Over the course of the year we have held informal sessions to enable the Committee to reflect on issues being brought to its attention, consider 'bigger picture' issues and focus more on root causes

Committee membership

The Nomination Committee has reviewed the Committee's composition during the year and is satisfied that the Committee has the expertise and resources to effectively fulfil its responsibilities including those relating to internal finance controls and the Group's internal control systems. The Nomination Committee found that the Committee's members possess the necessary accounting, financial, legal, banking and investment knowledge and skills that are needed. As part of the Board and Committee succession planning programme, Richard Delbridge will be stepping down from the Committee with effect from 1 May 2013. Margaret Ewing joined the Committee in November 2012 bringing significant accounting, finance, risk and regulatory expertise from her 30 years' experience as a chartered accountant.

Rudy Markham has been on the Board for 12 years and as a result, his continued independence is the subject of particular scrutiny by the Nomination Committee and the Board.

The Committee's effectiveness continues to be enhanced through the existence of synergies in membership. It was a deliberate decision to have a strong overlap with other board committees as it is one of the ways in which we have enabled appropriate linkages to exist between Committees. For instance, Jamie Dundas is both a member of the Audit Committee and Chairman of the Board Risk Committee, Ruth Markland is Chairman and John Paynter is a member of the Remuneration Committee. These synergies have ensured that the interplay of risk, remuneration and the financial outcome are considered from different perspectives but result in a consistent view and treatment of performance within the Group.

Details of our Committee members' experience can be found in their biographies on pages 124 to 128. All of the Committee members are independent. The Board is satisfied that both Margaret Ewing and Rudy Markham as Chairman have recent and relevant financial experience and that all other Committee members have broad experience and knowledge of financial reporting and international businesses. The Board and the Committee members believe that Rudy is an excellent chairman who reacts with balance to issues and ensures that all Committee members are included in discussions.

Board Risk Committee

Key areas of focus in 2012

- Continued to ensure that the right balance is being struck between strategic forward-looking oversight of the Group's risks and a more detailed review of management information and risk management processes across the full spectrum of risk types
- Reviewed and recommended updates to the Group's risk appetite statement
- Continued to evolve how the Committee tracks over time the Group's utilisation of risk capacity and our exposure to key risk types over time
- Increased focus on how risk is changing in our markets
- Continued to evolve the linkages between the Committee and the Board, board committees and management committees

Our priorities for 2013

- Continue to optimise and enhance the Committee's effectiveness through striking the right balance between regular monitoring of risk information; discussions concerning significant issues; regulatory-driven responsibilities; and horizon scanning
- Maintain and continue focus on capital and liquidity stress testing and models, especially against Group risk appetite
- Continue to evolve the means by which the Board is provided with visibility of key elements of the Committee's work
- Maintain our programme of focused detailed reviews into selected areas of risk

Dear Shareholder

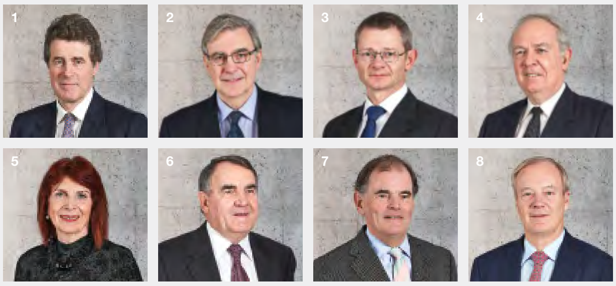
Through 2012, the overarching objective of the Board Risk Committee has been to provide the Board with assurance that the Group has continued to remain within the Board approved risk appetite. It has also overseen that the Group's risk management function is of the highest possible quality, authoritative and effective in identifying and managing current and future risk.

Challenging macroeconomic conditions, the eurozone crisis, slowing growth in some Eastern economies and unresolved issues in Western banking systems presented a difficult context for risk management in 2012. The pace, variety and complexity of regulatory initiatives, especially regarding capital and liquidity, has also been challenging. Against this backdrop, I am pleased to say that the Committee was satisfied that throughout 2012 the Group was operating within the Board approved risk appetite, with strong capital and liquidity positions. These were shown to be resilient to stress with risks to future earnings held well within carefully defined levels of tolerance.

The Committee's work and activities underpinning that statement are described in some detail in the paragraphs that follow. I would draw out the following highlights:

- We have built on our experience in prior years to refine the detailed risk information we receive to ensure it continues to be well focused and forward-looking. We have enhanced our focus on data that would identify any possible concentrations of risk, and on the mix of our portfolios between assets that are more or less resilient to stress
- We have spent much time on the Group's stress-testing programme and the application of models, challenging assumptions and drawing conclusions from findings
- We have conducted focused detailed reviews into credit, liquidity and market risk across the Group's businesses and principal geographies, and we have monitored and strongly supported the Group's implementation of its operational risk transformation programme

Very importantly, we have maintained a rolling assessment of the effectiveness, resourcing and independence of judgment of the Group's risk management function. In addition to close interaction at formal Committee meetings, this has involved regular training sessions and a number of visits by members of the Committee to operating centres across the Group's geographic footprint.



Other attendees at Committee meetings include:
Group Chairman; Group Chief Executive Officer; Group Finance Director; Group Chief Risk Officer; Group Head of Internal Audit; Group Company Secretary; Group Treasurer; Group statutory auditors.

Board Risk Committee Members

	Scheduled meetings: 6
J F T Dundas (Chairman) (1)	6/6
R Delbridge (2)	6/6
S J Lowth (3)	3/6
R H P Markham (4)	5/6
R Markland (5)	6/6
P D Skinner (6)	5/6
O H J Stocken (7)	6/6
Dr L H Thunell[1] (8)	0/0

1 Appointed 1 February 2013

As part of and in addition to each formal Committee meeting, the Committee has private members only meetings.

In all aspects of its work, the Committee has sought to ensure that the Group's risk management framework is effective and fully aligned to the Board's approved strategy, and thus an active contributor to sustainable performance and shareholder value.

Since our last report, Lars Thunell has joined the Committee. Lars brings significant banking and risk management experience to the Committee. As already announced, Richard Delbridge will be stepping down at this year's Annual General Meeting. I am very grateful for all his contribution right from the establishment of the Committee.

Jamie Dundas
Chairman of the Board Risk Committee

The Committee's role

Risk appetite
It is the Committee's role to recommend to the Board where risk appetite should be set. It also satisfies itself that the Group has been and plans to operate within that risk appetite, with a strong capital and liquidity position that can be shown to be resilient to stress. Risks to future earnings are demonstrated to be held well within carefully defined levels of tolerance.

In 2012, as every year, the Committee has paid careful attention to the formulation of the Group's risk appetite statement, in order to assure itself that it is effective in setting appropriate boundaries in respect of all main risk types. It also satisfies itself that there is good alignment between risk appetite, Board approved strategy and performance objectives for the delivery of shareholder value. The resulting Board risk appetite statement is underpinned by a range of tools and metrics that are used to manage risk throughout the Group. The Committee seeks and has received at each of its scheduled meetings confirmation that the Group remains within the Board approved risk appetite. During 2012, the Committee worked closely with the Group's risk function to develop the data to support this confirmation. These data highlight matters such as portfolio changes that could alter our resilience to stress or show evidence of concentration of risk. All directors receive a summary of the risk information report for each Board meeting and minutes of Committee meetings.

Capital and liquidity
The Committee considers and discusses the Group's capital and liquidity position and the regulatory environment and expectations. Both the Group Chief Risk Officer and the Group Treasurer are present at every scheduled meeting.

With regard to capital, the Committee has reviewed and discussed in detail the Group's Internal Capital Adequacy Assessment in order to satisfy itself that the Group's approach to capital planning is comprehensive, rigorous and consistent both with current regulatory requirements and with future developments under Basel III or other likely regulatory initiatives. Liquidity is a key focus for the Committee. The Group conducts a range of liquidity-related stress analyses, both for internal and regulatory purposes. The Committee has considered the liquidity risk stress-testing framework and assumptions used in this analysis. As liquidity risk is multi-dimensional, it is valuable to run different scenarios considering acute, chronic, name-specific and market-wide stresses as well as any of these in combination. Given that the Group operates in a large number of countries, it is also appropriate to consider stress scenarios in each country as well as in groups of countries.

Following the financial crisis, our lead UK regulator, the FSA, launched a recovery and resolution planning pilot exercise with the six largest UK banking entities, including Standard Chartered. Further details can be found in the Liquidity risk section on page 103. We have considered the Funding Crisis Response and Recovery Plan, the Group's proposed governance framework for addressing liquidity and solvency crises. This encompasses recovery planning, namely preparation for taking extreme measures to address severe crises with the potential to impact the Group's franchise.

Stress testing
In addition, to its work regarding liquidity stress tests, the Committee has maintained oversight of the Group's overall stress-testing programme, reviewing the design, key assumptions and the outcomes of the principal tests. Key tests at Group level, such as the regular stress testing of overall compliance with risk appetite or for the FSA Mandated Reverse Stress Test, are individually discussed by the Committee. Where it has felt necessary, the Committee has called for additional or more severe tests to be carried out.

Risk information provided to the Committee
One of the findings of the 2011 Committee effectiveness review was the need for the Committee to be vigilant against being overwhelmed with information whilst ensuring that it had appropriate coverage of all the key data necessary to fulfil its terms of reference. In 2012, the Committee refined the detailed risk information it received through the evolution of the Committee's forward-looking agenda. Subjects that were previously covered by individual components of regular reports submitted to the Committee have been incorporated into the Committee's forward-looking agenda items, thereby enabling

Corporate governance continued

each subject to receive specific scheduled attention as appropriate. Reports containing much deeper and granular information are available as a resource for Committee members to draw upon. Committee papers have evolved to enable further exploration of the bigger trends in terms of risk capacity and utilisation in the markets and to be able to increase the Committee's focus on where risk is changing. Examples include focused detailed reviews at Committee meetings into Wholesale and Consumer Banking credit risk, market risk, credit concentrations and the early alert process for accounts, including the oversight, governance, strategy for and management of such accounts.

Given the ongoing economic uncertainty in the eurozone, the Committee has requested and received updates on the current state of the eurozone and the limited exposure of the Group and the Group's response planning for any material crisis experienced in the eurozone.

Over the course of the year, the Committee has received updates on the impact that the challenging business environment in India has had on our top large corporate exposures in India.

Risk management disclosures

The Committee has reviewed the risk disclosures in the Annual and Half Year Reports and has reviewed and approved this disclosure on the work of the Committee. In addition, a sub-committee of the Committee and the Audit Committee reviewed the Basel II Pillar 3 annual disclosure.

Regulatory considerations

On behalf of the Board, the Committee considered the prudential and risk matters discussed in the Risk Assessment letter issued by the FSA in May 2012 in respect of its risk assessment of the Group. This risk assessment had been conducted by the FSA at the end of 2011 and at the beginning of 2012 under its Advanced, Risk Responsive, Operating Framework.

At its June meeting, the Committee received a paper on the FSA proposal for a revised Individual Capital Guidance and an Interim Capital Planning Buffer (CPB). The Committee considered the contents of the FSA's Internal Capital Guidance letter and confirmed the appropriateness of the Group's proposed response.

The Committee reviewed the 2012 Group Internal Capital Adequacy Assessment Process document, which included examining the thoroughness of the analysis and processes adopted to formulate the conclusions that had been made. As part of this review, the Committee noted the stress test containing three scenarios that would be used by the FSA to inform the Group's CPB.

Qualification of Risk Committee members

We believe that it is essential for the Committee to have both representation from members with deep and broad banking risk experience and members with risk perspectives from other industries and professions. The Committee's effectiveness is also supported by overlapping membership and close linkages with the other main board committees, which ensure that risk-related perspectives from the Audit, Remuneration or Brand and Values Committees are able to be aired at the Risk Committee.

Summary of the themes identified in the 2012 Committee effectiveness review and actions taken/to be taken

2012		2011	
Observations	**Actions taken/to be taken**	Observations	Actions taken
Continue to ensure that the right balance is being struck between strategic forward-looking oversight of the Group's risk and deeper dives into significant issues, regulatory driven responsibilities and horizon scanning	**Opportunities for further refinement of agendas and papers have been identified and will be implemented in 2013**	The Committee has benefited from further informal sessions into selected topics over the course of the year	Four informal sessions were held in 2012 in conjunction with the Audit Committee. The subjects covered in depth were: ▪ The Group's customer due diligence and anti-money laundering programme ▪ The Group's process for compliance with the Foreign Account Tax and Compliance Act ▪ The infrastructure implications for the Group arising from commodities strategy, market risk and market risk management ▪ An update on significant IT projects (including operational resilience around country) ▪ Our hubbed service centres and technology resilience /information security ▪ Updates on the Group's sanctions programme ▪ Operational risk transformation programme ▪ Changes to accounting standards
The balance between the work undertaken by the Committee regarding risk appetite and the information provided and risk discussions at Board meetings could be enhanced	**We plan to increase formal periodic risk reporting to the Board, especially around the Committee's quarterly assessment against the Group's risk appetite statement**	In the course of reviewing its effectiveness, the Committee gave careful attention to the risk metrics it regularly receives to ensure it has appropriate coverage of all the key data necessary to fulfil its terms of reference without being overwhelmed with information	The detail of the risk information which the Committee receives has been refined to ensure it continues to be well focused and forward looking
		There is a need for the Committee to further explore the bigger trends in terms of risk capacity and utilisation in the market and an increased focus on where risk is changing	This has been achieved through the enhancement of Committee papers and agenda management to enable such discussions at Committee meetings, and will continue to be an area of focus

Brand and Values Committee

Key areas of focus in 2012

- Significant progress made in terms of brand development, active tracking of brand metrics to maximise the effectiveness of brand spend, and continued use of the brand funnel tool[1] to inform investment decisions
- Ongoing review of Here for good to ensure that it continues to embed and resonate well throughout the organisation
- Reviewed the progress made in delivering client and customer-focused strategies in Wholesale Banking and Consumer Banking, in line with Here for good and management's approach to Treating Customers Fairly[2]
- Continued to review our community investment and environmental strategies, programmes and processes for measuring and monitoring our environmental impact
- Ensured that we protect and develop our culture and values during a period of continued growth for the Group
- Reviewed the quality and effectiveness of government and regulatory relationships in our major markets

Our priorities for 2013

- Continue to monitor strategic priorities for our brand whilst ensuring that brand investment is fully leveraged
- Continue to oversee our culture and values as the Group continues to grow and develop, to ensure that it remains a source of competitive advantage that is hard to replicate and remains a prominent feature of our governance
- Continue to drive maximum value from our brand investment programmes
- Oversee the approach to identifying and managing the material reputational risks affecting the Group
- Oversee the Group's approach to enhancing the quality of our government and regulatory relationships in major markets in an increasingly complex regulatory landscape
- Review the Group's environmental strategy in terms of both internal direct impacts and external contribution
- Continue to review the progress being made against the Group's Diversity and Inclusion priorities

1 Brand funnel is a consumer-focused marketing model that visually presents the customer journey from awareness via preference towards the purchase of a product or service
2 Treating Customers Fairly is a key Financial Services Authority principle for the management of customer relationships

Dear Shareholder

The Brand and Values Committee has completed its third year of operation and continues to make good progress on our key priority areas including, but not limited to, brand, reputational risk, culture and values, sustainability and environment.

I am pleased to report further significant progress on the development of our brand. The Committee now has clearer oversight of brand development, metrics and governance as a result of the more developed and granular level of information being provided to the Committee. Our brand investment programmes have provided good platforms to further strengthen our brand position.

This year, the Committee has enquired extensively into the area of reputational risk management, carefully scrutinising the Group's processes of identifying and managing reputational risk. We continue to review how senior management across the Group is made sufficiently aware of its key responsibility to identify reputational risks that could be of importance to the Group, and probe how well the focus on reputational risk is embedded. We continue to learn from individual cases as they develop.

The Committee is strongly supportive of the work carried out across the Group to reinforce our culture as a source of competitive advantage and to understand how this resonates with our Here for good brand promise and the way this is operationalised. Preserving our culture and values during a period of fast growth continues to be of fundamental importance to the Group, as is our broader contribution to society.

During 2012, the Committee has reviewed the progress being made in advancing a broad environmental agenda. We have assessed the Group's direct and indirect impacts on the environment and can report good progress in many areas, from reducing paper usage to the energy efficiency of our buildings. We continue to oversee how the Group improves its disciplines in seeking to minimise its environmental impact.

Val Gooding will be stepping down from the Committee on 1 May 2013. I would like to thank Val for her valuable contribution to the Committee and previously to the Sustainability and Responsibility Committee over the last eight years.

The work carried out by the Committee this year has reinforced the significance of its purpose, remit and agenda. Nevertheless, we have taken proactive steps to evaluate the progress that the Committee has made over the last 12 months and have carefully examined suggestions for improvement going forward to enhance the Committee's effectiveness. We continue to engage with executive management on how the Committee can add value and reduce risk in the business. As Chairman, I see this as an important and ongoing priority.

Paul Skinner
Chairman of the Brand and Values Committee

Other regular attendees at Committee meetings include: the Group Chief Executive, Group Head of Human Resources and Communications, Group Head, Corporate Affairs, Director, Property, Research and Assurance, Group Company Secretary and Special Adviser to the Directorate.

Brand and Values Committee Members

	Scheduled meetings: 5
P D Skinner (Chairman) (1)	5/5
J F T Dundas (2)	5/5
V F Gooding (3)	4/5
Dr Han Seung-soo (4)	4/5
J W Peace (5)	5/5
P A Sands[1] (6)	3/4

1 Stood down as a Committee member with effect from 18 September 2012, becoming a permanent invitee

The Committee's role

The Committee's remit includes oversight of the Group's brand positioning, reputational risk, client/customer focused strategies including Treating Customers Fairly, regulatory relationships, sustainability issues and our culture and values.

Brand

Enhancements in the information being provided to the Committee has enabled a clearer level of oversight of the development of our brand. The quality of data from brand tracker surveys has allowed the Committee to understand how the brand is developing in key markets and to identify issues and evolving trends.

The Committee has reviewed stakeholder reactions to Here for good and was encouraged to note the initiatives being used to increase internal brand engagement such as the launch of the Brand Story. This is a simple overview to help managers explain how to deliver Here for good in decision making and day-to-day activities.

The Committee also received a report on the Chairman's Here for good Awards, a programme for Group employees to reward the team and individual who best represents Here for good. In particular, the Awards programme resulted in 42 per cent of the Group's employees voting, underlying the interest this campaign has created across the Group.

As our brand strategy evolves, the Committee has reviewed a number of priorities such as specific Consumer Banking brand campaigns, our marathon sponsorships and the use of digital media. The Committee is strongly supportive of the strategic priorities in place for 2013.

Reputational risk

The Committee has reviewed the Group's processes for identifying and managing reputational risk. At each Committee meeting, the most material reputational risks facing the Group are reviewed. The Committee regularly seeks assurance from management that the mechanisms in place for identifying and managing reputational risks remain robust and are sufficiently forward looking. At each meeting the Committee is provided with information concerning material risks from the perspective of external and internal stakeholders. Any differences are discussed to ensure that any potential impacts to the Group are fully considered. The Committee has sought and received assurance from management that the focus on reputational risk is well embedded within the Group. The Committee regularly assesses the continued appropriateness of the reputational aspects of the Group risk appetite statement.

The reputational impact on the Group's brand arising from the settlements with the US authorities[1] was assessed in September 2012, and the results were reported to the Committee. The Committee will continue to track the reputational impact on the Group through future surveys.

Further details concerning reputational risk can be found on page 112 of the Risk review.

Culture and values

The Committee is fully supportive of sustained focus on understanding the Group's culture and values and how they reinforce Here for good. This priority is more important now than ever. In December 2012, the Committee reviewed the external and internal influences on culture, acknowledging that the focus on culture and values in the banking industry was of increasing public interest.

The Committee received an update on the Group's primary employee engagement measurement tool (the Q^{12} engagement survey) reviewing the countries, businesses and support functions that had significant changes in engagement levels, noting the actions to be taken by management in response.

We reviewed the way in which the Group's culture is evolving, reflecting on how Here for good offers a significant opportunity to demonstrate leadership in our industry and how it is operationalised as a key factor in decision making throughout the Group.

Whilst the Group has been actively strengthening its culture for a number of years, the Committee acknowledges that the Group is entering an important phase for culture and values. In a challenging external environment for the banking industry, it is critical that the Group differentiates itself by a strong and continuing commitment to its culture, brand and values. This remains a basis for cohesion and alignment for our people. The Committee will continue to monitor how the Group's culture and values are evolving throughout 2013.

1 The US authorities comprise The New York Department of Financial Services (DFS), the Office of Foreign Assets Control (OFAC), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Federal Reserve (NYFED)

Corporate governance continued

Sustainability/environment

Minimising operational impact and effective management of environmental and social risk in financing remain fundamentally important to the Group. The bar is continually being raised in this important area and it is essential to ensure that all business practices have environmentally sound foundations.

Further details of the Group's approach to sustainability can be found on our website.

During the year, the Committee has reviewed the Group's strategic approach to the environment and assessed its direct and indirect impacts. Good progress has been made. For example, since 2011 the Group has improved the efficiency of water used across its properties by 6 per cent and energy by 8 per cent. The Committee reviewed the proposed launch of a supplier code of conduct and the use and development of the Group's position statements (externally focused expressions of our commitment and aspiration to financing in environmentally and socially sensitive sectors). It will continue to monitor how these tools are developed and used within the business. The Committee was pleased to note that the Group is in the early stages of developing its approach to 'green leasing' and is working with major landlords to agree minimum and negotiable terms for inclusion in leases. The Committee has reviewed the robustness of its measurement of direct environmental impacts.

PwC has been engaged to provide assurance of our Scope 1[1] and 2 emissions[2] to international audit standards from 2011 onwards.

In 2012, the Group was included in the 2012 Dow Jones Sustainability World Index for the third time. We continue to be listed on the FTSE4Good and GS Sustain and are members of the Carbon Disclosure Project. In 2012, we were named Sustainable Global Bank of the Year by the Financial Times and International Finance Corporation. Further details can be found in our 2012 Sustainability Review on our website. These recognitions provide important endorsement for our approach.

The Committee reviews community investment expenditure against a set criteria and budget. During the year, the Committee reviewed the Group's approach to community investment, with particular emphasis on our Seeing is Believing programme.

1 Scope 1 emissions: Direct carbon emissions occurring from sources owned or controlled by the Group. These sources include emissions from combustion of all types of fuel in properties over 10,000 square feet, classified as our GEMS properties

2 Scope 2 emissions: Indirect emissions from the Group's consumption of purchased electricity, heat or steam in GEMS buildings. Indirect carbon emissions are those emissions that are a consequence of the activities of the Group but occur at sources owned or controlled by another entity

Client and customer focus and Treating Customers Fairly

On behalf of the Board, we have continued to have oversight of our client focused strategy in Wholesale Banking and the delivery of our customer focused strategy in Consumer Banking. For the annual review of the customer focused strategy in Consumer Banking, an in-depth analysis into the Hong Kong market provided a practical illustration of how the strategy is embedded in the business.

The Committee has conducted two in-depth reviews into Treating Customers Fairly (TCF) this year, with a specific focus on the progress being made in Hong Kong and an insight into how Consumer Banking is building on TCF to promote broader cultural initiatives aligned with Here for good.

Government and regulatory relationships

The Committee has continued to oversee the Group's approach to its main government and regulatory relationships in major markets. As background to this important area, we performed an in-depth analysis into government and regulatory relationships in Indonesia, which allowed the Committee to gain a fuller appreciation of the Indonesian government policies and regulatory context.

Committee membership

The qualifications and expertise of our Committee members have been targeted to meet the requirements as set out in the Committee's terms of reference. Paul Skinner has extensive experience of branded, customer facing businesses on a global scale, sustainability/environmental issues arising in the natural resources industry and government relationships. Jamie Dundas was previously chairman of the Sustainability and Responsibility Committee and has extensive international experience. Val Gooding has long experience of customer facing businesses, branding/marketing and the development of strong customer franchises. Dr Han has deep experience of geo-political issues, multilateral agencies and sustainability/environmental policies. The Committee's effectiveness is enhanced through the existence of synergies in membership. For example, Paul is Chairman of the Brand and Values Committee and a member of the Board Risk Committee and the Remuneration Committee. Jamie is a member of the Brand and Values Committee and Chairman of the Board Risk Committee. As part of our multi-year Board succession plan, it is likely that there will be further appointments to the Committee in 2013.

Committee effectiveness review

This year, the Committee has undertaken an internally facilitated effectiveness review with input from executive management. Proactive steps have been taken to consolidate the progress the Committee has made over the last 12 months and to adopt suggestions to improve effectiveness going forward.

Summary of the themes identified in the 2012 Committee effectiveness review and actions taken/to be taken

2012		2011	
Observations	**Actions taken/to be taken**	Observations	Actions taken
The Committee could provide a forum for a best practice discussion on the Group's management of reputational risk	**The Committee plans to engage with executive management with a view to organising a focused discussion, using a leading external practitioner to inform its approach**	Wider senior management exposure to the Committee could assist with discussions at Committee meetings bringing colour and depth to agenda items	A broader representation of senior leaders have attended Committee meetings in 2012
The Committee should probe how Here for good is operationalised in decision making	**Committee papers could include periodic examples of how Here for good is factored into decision making with relevant case studies and/or focused detailed reviews, as appropriate**	Committee effectiveness could be enhanced by the use of more focused detailed reviews to gain a greater understanding of how issues are managed in practice	A number of deep dives have been used in 2012 to demonstrate how certain issues are being managed on the ground
The Committee should further develop its approach to reviewing brand development	**Existing brand metrics, supported by brand tracker surveys and the brand funnel tool will be refined. Findings from an external brand audit will be reviewed**	There is a need to continue to ensure that the right balance is struck in the provision of information to the Committee to enable it to discharge its role without over-engaging in detailed operational issues	This is an ongoing action as Committee papers are reviewed
A broader attendance of business leaders at Committee meetings is desirable in 2013	**Attendance by broader business leaders at Committee meetings will continue in 2013**	Senior management would benefit from greater engagement with Committee members outside of formal meetings	The Committee Chairman continues to meet with senior management presenters outside of formal Committee meetings, and a number of Committee members have attended Brand Council meetings during the year



Other attendees at Committee meetings include: the Group Company Secretary. The Regional Governance Chief Executive Officers are invited to attend on an occasional basis.

Governance Committee Members

	Scheduled meetings: 3
J W Peace (Chairman) (1)	3/3
R H P Markham (2)	3/3
P A Sands (3)	3/3

Key areas of focus in 2012

- Reviewed the Group's geographical governance framework, particularly the subsidiary governance philosophy and linkages in place
- Monitored the progress of actions arising from the 2011 Board effectiveness review and carried out a substantive review of the feedback arising from the 2012 Board effectiveness review, ahead of consideration by the Board
- Considered the FSA's findings in respect of the Core Prudential Programme governance review for recommendation to the Board
- Continued to monitor corporate governance best practices to enable recommendations to be made to the Board concerning the adoption of enhanced practices
- Oversight of the approach to determine and implement lessons learned arising from the settlements with the US authorities[1]

Our priorities for 2013

- Ensure sufficient agenda space to deal with ad hoc governance issues as they arise
- Continue to review the philosophy underpinning our approach to subsidiary governance and linkages
- Continue to have oversight of the approach of reviewing the effectiveness of our Board, board committees, individual directors and Group Chairman, including the proposed 2013 independent facilitated Board effectiveness review
- Continue to review governance trends across the Group's footprint

The Committee's role

The Committee is an enabling body to provide a dedicated forum for the Group Chairman, Group Chief Executive and Senior Independent Director (SID) to consider key corporate governance issues. In addition to providing oversight of all material corporate governance issues affecting the Group and making recommendations to the Board, the Committee also monitors developments and emerging best practice in corporate governance across our markets. Our remit also covers oversight of the process by which the Board, each Board Committee and individual directors assess their effectiveness and reviews the geographical governance that is applied across the Group.

Emerging trends and their impact on our approach to subsidiary governance

During the year, the Committee carried out a review into the Group's geographical governance framework and the philosophy underpinning the Group's approach to subsidiary governance. As part of this review, the Committee received an overview of emerging trends and developments impacting the Group's approach to subsidiary governance, and a comprehensive outline of the linkages that are in place between the Board and its banking subsidiary boards and committees. This review also covered proposed enhancements to our subsidiary governance philosophy, to ensure that the Group remains abreast of the changing demands of the global business environment and local regulatory developments in corporate governance codes and standards.

There are multiple linkages in place that enable the Group to have an integrated approach to the governance of our banking subsidiaries. These linkages work through both formal and informal channels of communication. There are two-way information flows between the Board and its banking subsidiaries. For example, the annual calls hosted by the Group Chairman, Group Chief Executive Officer and the Audit Committee Chairman are particularly important channels of communication, and provide our subsidiary independent non-executive directors with an opportunity to interact and receive an overview of the Group's key priorities and issues. Feedback indicates that these calls bring real value to the subsidiary independent non-executive directors and contribute to ensuring continued alignment across the banking subsidiaries, between the Group's overall strategic directions and country priorities. In addition, when directors travel across our network they often meet with directors of our banking subsidiary boards.

In 2012, the chairmen of 11 of our banking subsidiaries across Africa met in China, which resulted in them gaining a much better appreciation of the Group's ability to capture and support trade flows between China and Africa.

1 The US authorities comprise The New York Department of Financial Services (DFS), the Office of Foreign Assets Control (OFAC), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Federal Reserve (NYFED)

In addition during 2012, our banking subsidiary boards from mainland China, Hong Kong and Taiwan met to discuss Greater China strategic opportunities. The Group Chairman participated in this event. These are just some examples to illustrate the focus that we place on ensuring appropriate and effective linkages between the Board and the boards of the Group's banking subsidiaries.

Board, committee, individual directors and chairman effectiveness

In 2012, the Committee maintained oversight of progress to address actions arising from the 2011 Board effectiveness review. It also conducted a thorough review of the feedback arising from the 2012 Board effectiveness review, ahead of the Board's discussion.

As part of its discussions, the Committee received an update from the Group Chairman on his one-on-one meetings with each director to discuss their individual performance. The SID also updated the Committee on the process he undertook to review the effectiveness of the Group Chairman. Further details on this can be found under the report by the Nomination Committee on page 158.

The Committee has also considered the approach to be followed for the next Board effectiveness review.

Corporate governance trends and emerging best practice

Throughout the year, the Committee received regular updates on key developments in the corporate governance environment and trends faced across the Group's footprint. For example, the Committee has considered the growing trend for more independent directors on banking subsidiary boards, more local nationals on boards and the trend towards more subsidiary board committees.

Emerging best practice

During 2012, there continued to be a steady stream of corporate governance publications and consultations. The Committee maintained oversight of the approach that has been taken in responding to these.

Oversight of the lessons learned arising from the settlements with the US authorities[1]

The Committee is fulfilling a significant role in overseeing the approach taken in relation to lessons learned from the settlements with the US authorities. Governance oversight for actions has been divided between the Board as a whole (for those actions with strategic implications) and the various board committees. For example, the Audit Committee will, in the ordinary course of its activities, retain oversight of the remediation programme agreed as part of the settlements with the US authorities. The Brand and Values Committee will continue to oversee any impact on the Group's reputation. The remuneration-related matters arising from the settlements with the US authorities were discussed by the Remuneration Committee.

2012 Committee effectiveness review

The Committee discussed its effectiveness at the end of 2012 and agreed that over the last three years it had provided a useful forum to focus on and discuss key corporate governance issues of significance to the Group.

Other attendees at Committee meetings include:
Group Head of Human Resources and Communications and the Group Company Secretary.

Nomination Committee Members

	Scheduled meetings: 2	Ad hoc meetings: 1
J W Peace (Chairman) (1)	2/2	1/1
J F T Dundas (2)	2/2	1/1
R H P Markham (3)	2/2	1/1
R Markland (4)	2/2	1/1
P A Sands[1] (5)	1/1	1/1
P D Skinner (6)	2/2	1/1

1 Stepped down as a Committee member with effect from 18 September 2012, becoming a permanent invitee

Key areas of focus in 2012

- Completion of the first phase of our multi-year Board succession plan (the Plan)
- Commenced the second phase of the Plan, focusing on the next wave of potential appointments including the composition of the board committees
- Continued strong focus on executive succession planning, both in the near and medium term

Our priorities for 2013

- Delivery of the second phase of our Board succession Plan, focusing on successors to Committee Chairs and the next wave of independent non-executive appointments
- Ensure new directors settle into the Board well and that the Board's strong effectiveness is maintained
- Continue to focus on succession plans and development of the executive team

The Committee's role

The Nomination Committee is an enabling committee consisting of the Chairman and the chairs of each of the other board committees. Our remit covers the review of the structure, size and composition of the Board.

The Committee is responsible for overseeing the Board's succession planning requirements. It also oversees the identification and assessment of potential Board candidates and makes nominations to the Board for its approval as appropriate. In addition, on behalf of the Board, the Committee considers any potential conflicts of interest declared by our Board members.

We also keep under review the leadership needs of, and succession planning for, the Group in relation to both directors and other senior executives, and consider recommendations made by the Group Chief Executive or the Committee for changes to the executive membership of the Board.

Our remit also covers the making of recommendations for the appointment or removal of the Group Chairman, Group Chief Executive or any director and the terms associated with such recommendations.

Succession planning

In 2012, the Committee focused heavily on the first phase of our multi-year Board succession plan. We have taken a long-term, strategic, forward-looking approach to refreshing the Board, balancing our need both to maintain longevity and stability on the Board whilst regularly refreshing its composition. We intend that, by the end of 2016, there will have been a fundamental refresh of the Board's independent non-executive directors. Details of progress made can be found on pages 132 and 133.

We conducted a thorough and comprehensive review of the skills and experience of our existing Board members and considered these against our multi-year succession plan to ensure that we have the right balance to support the future development of our business. This approach enabled us to develop a role profile to set out the various criteria being sought for future independent non-executive director appointments, including diversity, time commitment and length of tenure.

We engaged the services of two external search firms (Ridgeway Partners and Lygon Group), both of whom are independent and have signed up to the voluntary Code of Conduct on gender diversity and best practice. With their support, we compared our role profile against a broad and diverse pool of candidates. From this, we agreed a shortlist of potential candidates for initial interview by our Group Chairman, Group Chief Executive, Group Head of Human Resources and Communications and Group Company Secretary. For those candidates with relevant finance and accounting experience, our Group Finance Director was also involved in the interview process. On the basis of the initial interviews, we identified a more defined list of potential candidates for interview by each of the Committee members. Throughout the selection process diversity, in all its aspects, was considered.

During the year, the Committee also focused on executive succession plans for the Group's senior management. This covered our regional and country Chief Executive Officers and all business and functional roles that reported to the Group Management Committee, (from January 2013 the Executive Management Group).

In addition, the Chairman and the independent non-executive directors met on several occasions where one of the main topics of conversation was executive succession. One outcome of this was a number of executive changes announced in January 2013 including the appointment of Tracy Clarke, Richard Goulding and Jan Verplancke as directors of Standard Chartered Bank.

Annual re-election of directors

Each year, we review the performance of each of the directors seeking annual re-election at our Annual General Meeting. As part of this process, our Chairman reports to the Committee on the outcome of his performance evaluation of each individual director.

As required by the UK Corporate Governance Code, we conducted a more rigorous assessment of those independent non-executive directors who have served on the board for nine or more years. This assessment included Jamie Dundas, Rudy Markham, Ruth Markland and Paul Skinner and was conducted by the Board as a whole. The relevant directors recused themselves from this conversation. It was confirmed that each of the directors remain independent. Further details of the basis for this conclusion are provided on page 133.

Rudy Markham as Senior Independent Director conducted a rigorous review in relation to our Group Chairman's performance. This involved a meeting between the independent non-executive directors and the feedback provided by the Board as a whole as part of the Board effectiveness review process. The comments from the Board were set against a backdrop of continued solid business development, reduced economic growth worldwide, and significant increases in public, political and regulatory scrutiny. The Board was unanimous in its respect and praise of Sir John's leadership throughout these challenges, and he continues to have the full and unequivocal support of the Board. Following this meeting, Rudy wrote to the Group Chairman summarising the feedback and shared a copy of his letter with the Board.

Committee effectiveness review

When reviewing our effectiveness, we considered whether the Committee composition was appropriate and agreed that the composition comprising our Chairman and the Chairmen of each of our board committees remained appropriate. We also considered the quality and volume of the information we receive and the mechanisms used to ensure that the Board as a whole is kept up to date regarding both executive and independent non-executive succession planning. In both cases, we satisfied ourselves that these were appropriate and should continue to be an area of focus going forward.

Situational conflicts

As part of our remit, the Committee re-appraised the authorisations that had previously been provided to directors for those situations in which he/she had, or potentially could have in the future, a direct or indirect interest that conflicts with the interests of the Company.

The conclusion of the Committee's review was that there were no circumstances that would necessitate the authorisation given previously being revoked or amended.

Executive mentoring and development

We continue to support the programme whereby a number of independent non-executive directors mentor senior leaders. This programme was first introduced in 2010 with the aim of providing development support to a number of our most senior high potential leaders. It also allows our independent non-executive directors to gain a more in-depth perspective of the strengths and capabilities of these individuals. In 2012, the programme involved five independent non-executive directors and five senior leaders.

Directors' remuneration report
Committed to long-term shareholder value

Ruth Markland
Chairman of the Remuneration Committee

"Decisions on pay in 2012 are strongly based on differentiation both for sustained performance and for behaviours – we do not reward failure."

2013 priorities
The Committee's key areas of focus will be:

- Supporting the Group strategy
- Ensuring compliance with the dynamic regulatory environment including the new European Union remuneration rules
- Ongoing review of sales incentive practices
- Continued focus on ensuring that the Group's policies remain aligned to best practice and competitive with our peers
- Adoption of a new all employee Sharesave plan
- Continued review of the approach to determining performance awards for executive directors

Dear Shareholder

Our performance, reward and benefits arrangements support and drive our business strategy and reinforce our values in the context of a clearly articulated risk appetite and One Bank framework. We reward sustained performance over time and decisions on pay in 2012 are strongly based on differentiation both for sustained performance and for behaviours – we do not reward failure.

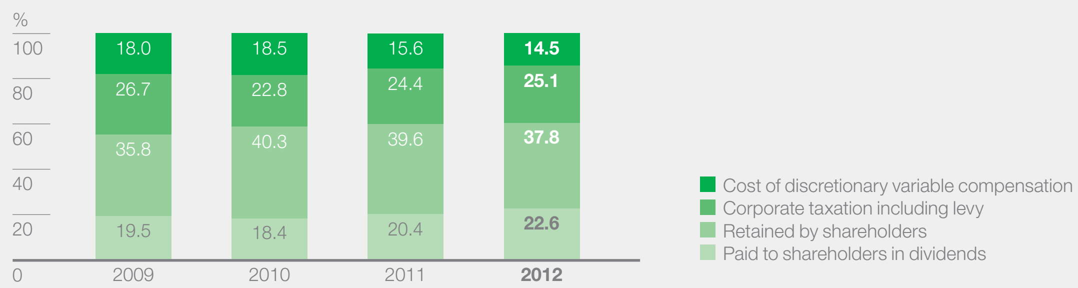
Challenges of applying regulation globally
The Remuneration Committee (the Committee), together with input from the Board, has continued to focus on ensuring that the Group's policies remain aligned to best practice and competitive with our peers. Whilst being sensitive to the broader issues surrounding executive compensation and, in addition, in meeting the specific requirements of regulators' guidelines, we take a global approach on remuneration, as at least 97 per cent of our employees are based outside the UK. It is vital we pay our people for their performance across our footprint of Asia, Africa and the Middle East – many labour markets remain buoyant and highly competitive.

This unlevel playing field continues to add challenges to how we respond in competitive environments across our footprint. As in previous years, we continue to support remuneration practices that encourage financial stability, strong risk management processes and demonstration of our desired behaviours.

Clearer and more transparent disclosure and reporting
Within Europe and the UK in particular, we have seen the evolution of new guidelines and further consultation in relation to remuneration structures and disclosure. Although both the UK Department of Business Innovation and Skills and European Union disclosure requirements have yet to be formally introduced, we are taking the opportunity to adopt a number of the proposals now. In addition to our greater transparency on the remuneration of executives (through the adoption of new tables), we have also split the report into the following sections:

- A report outlining how our remuneration policies have been implemented in 2012, including decisions on the global variable compensation pool and executive remuneration outcomes
- A policy report with a forward-looking statement outlining our performance and reward approach and practices
- Other remuneration disclosures (required by existing regulation)

Allocation of the Group's earnings between stakeholders



Conduct and its impact on performance and reward

For many years, the Group has had a performance and reward policy that is designed to support a One Bank performance-orientated culture, ensuring that individual rewards and incentives relate to the Group's overall performance, the relevant business unit and individual employee performance. However, the Group places equal importance on 'how' employees have conducted themselves and achieved their performance objectives, as well as 'what' has been achieved. The measurement of values, conduct and behaviour remains an integral component of our performance management assessment process through our distinctive five-point values rating scale with reward decisions directly impacted by the level of adherence to the Group's values.

Settlements with the US authorities

During the year, the Committee discussed the remuneration related matters arising from the settlements with the US authorities. The settlements related to issues between 2001 and 2007, during which time the majority of current employees were not part of the Group. Further details of the settlements with the US authorities can be found on page 136. The Committee determined that the impact of these settlements should be reflected in the 2012 decisions on Total Variable Compensation (TVC) along with all other relevant financial and non-financial factors.

The Committee also carefully considered whether the circumstances were appropriate to exercise the claw-back of past awards, in respect of 2001 to 2007. We concluded that it was not. In reaching this conclusion, the Committee also noted that income and profits from the matters that were the subject of the settlements were immaterial, and therefore did not inflate any prior bonus payout in any material manner.

Context to year-end compensation decisions

The Committee recognised that 2012 was another year of good financial performance, acknowledging that this success was part of a long-term and sustained performance in which the Group has generated substantial value for shareholders. Since the end of 2007:

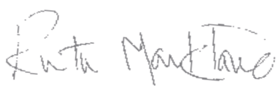
- The Group's operating profit has risen by 66.8 per cent, equivalent to compound annual growth of 10.8 per cent, compared with average staff cost growth over the same period of 30.3 per cent
- Total shareholder return has grown by 19 per cent relative to a decline of 35.6 per cent in our peer group
- We have maintained our dividend per share policy, with a growth rate of 40.8 per cent
- We have maintained strong capital and liquidity positions and have delivered returns above the cost of capital

However, as in previous years, the Committee carefully considered the balance of all stakeholders' interests including the value delivered to shareholders before finalising the size of the TVC pool and any executive remuneration decisions. Indeed, the cost of variable compensation has fallen in relative terms to the value paid to shareholders as dividends and this pattern has continued in 2012. The approved TVC pool for 2012 is 7 per cent lower year-on-year.

The Group has managed aggregate staff costs carefully in 2012. The staff cost to income ratio is down from 37.6 to 34.5 per cent and average staff costs have decreased year-on-year by 3.1 per cent to $73,930 despite an increase in the number of employees.

Consequently, the Committee believed it was appropriate to make variable compensation awards to those that contributed to the Group's continued success including the executive directors. These awards were at a level that balanced the good financial performance with both the external context, significant events during the year and the competitive markets in which we operate.

The Directors' remuneration report has been prepared by the Committee and approved by the Board as a whole. On behalf of the Committee, I encourage you to vote in favour of our report at the Company's 2013 Annual General Meeting and, in the meantime, welcome any feedback that you may have.



Ruth Markland
Chairman of the Remuneration Committee





Other attendees at Committee meetings include:
Group Chief Executive Officer; Group Head, Human Resources and Communications; Group Chief Risk Officer; Group Head, Performance, Reward and Benefits; Group Company Secretary and the Committee's independent remuneration advisor. As part of each formal Committee meeting, the Committee has private members only meetings.

Remuneration Committee

The following independent non-executive directors were members of the Committee during 2012:

	Scheduled meetings: 5	Ad hoc meetings: 1
R Markland (Chairman) (1)	5/5	1/1
V F Gooding (2)	5/5	1/1
J G H Paynter (3)	5/5	1/1
J W Peace (4)	5/5	1/1
P D Skinner (5)	5/5	1/1

The ad hoc meeting of the Committee took place on 7 November 2012

As Val Gooding will be stepping down from the Board with effect from 1 May 2013, a new independent non-executive director will become a member of the Committee during the second half of 2013.

Implementation report: 2012 remuneration outcomes

The Committee's governance and approach

Remuneration advisers

The Committee retained Towers Watson as its independent adviser for a further 12 months to advise on a range of executive remuneration-related issues. Towers Watson also provides pensions, actuarial and human resources advisory services to companies in the Group. We are satisfied that the consultants advising the Committee are significantly independent of other Towers Watson activities in the Group. The engagement with Towers Watson observes the code of conduct for remuneration consultants in the UK.

Towers Watson provided formal reward survey data to the Committee. Clifford Chance LLP advised on the design and operation of our share plans and also advised on issues relating to executive and non-executive directors' contracts.

Committee role and focus

The Committee has oversight of all reward policies for Standard Chartered employees. It is responsible for setting the principles and governance framework for all compensation decisions. In particular, the Committee:

- Determines and agrees the remuneration of the senior executives and employees with the potential to have a material impact on the risk profile of the Group
- Approves any proposal to award a high remuneration package to new recruits or a high level individual performance award to a Group employee
- Ensures that the remuneration policy is appropriate and consistent with effective risk management, with the Group Chief Risk Officer attending key meetings of the Committee during the year
- Approves the overall Total Variable Compensation (TVC) paid globally on an annual basis

Our activities during 2012 in addition to the Committee's regular activities

- Reviewed remuneration policy in line with peer banks' approaches in more detail
- Participated in national and global discussions with regulators and other stakeholders on what future remuneration structures and reporting should look like
- Undertook an initial review of the approach to determining performance awards for executive directors and enhanced disclosure of how performance award decisions are reported
- Enhanced the Group's claw-back policy to strengthen compliance with the Financial Services Authority's (FSA) rules
- Reviewed the effectiveness of the new share plan and associated performance conditions

2012 Group variable compensation pool

Total remuneration is typically delivered via a combination of base salary and benefits plus variable compensation. Consistent with our pay for performance culture, our annual performance awards (APAs) and variable incentives play an integral role in enabling us to recognise and reward superior performance and behaviour that support our values.

TVC comprises both discretionary APAs (which may be in the form of cash or shares) and performance shares. TVC spend is calculated after sufficient profit has been accrued to accord shareholders an appropriate risk-adjusted return and in the context of the forward-looking capital plan. See page 178 for more detail. The Committee also considers as part of its deliberations on the aggregate TVC pool factors such as returns to investors, external sentiment on remuneration and achievement relative to peers.

Income statement charge for the approved total variable compensation pool (audited)

	2012 $million	2011 $million
Annual performance awards	**1,364**	1,477
Non-deferred cash awards[1]	**1,105**	1,166
Deferred cash and share awards	**259**	311
Other long-term incentive awards[2]	**61**	58
Total approved variable compensation pool	**1,425**	1,535
Less: deferral of charge for amounts awarded for current year[3]	**(233)**	(255)
Plus: current year charge for amounts deferred from prior years	**255**	203
Income statement charge for variable compensation	**1,447**	1,483

	Actual		Expected	
Year in which income statement is expected to reflect deferred variable compensation[4]	2011 $million	**2012 $million**	2013 $million	2014 and beyond $million
Variable compensation deferred from 2010 and earlier	203	**136**	67	10
Variable compensation deferred from 2011	100	**119**	90	70
Variable compensation deferred from 2012	–	**87**	102	131
Total	303	**341**	259	211

1 This includes up-front shares delivered to designated code staff employees under the FSA's Remuneration Code
2 This includes the expected value of performance share awards
3 In line with best practice guidance, the vesting period for deferred awards granted in 2012 and 2013 in respect of the 2011 and 2012 performance years respectively was determined to have started on 1 January 2011 and 2012 respectively with the charge recognised from that date
4 Based on International Finance Reporting Standards 2 (IFRS 2)

Directors' remuneration report continued

Performance and reward outcomes for executive directors

Each executive director has documented objectives that are presented to the Committee at the start of the financial year and assessed at the year-end. These objectives are based on a broad range of factors including both financial and non-financial measures. The importance of each executive director's individual performance and that of Standard Chartered as a determinant in their compensation is reflected in the variation of APAs made in recent years. Comparisons with market compensation are typically made against our international banking peers and the FTSE 20. These two groupings have business characteristics, such as an international scope of operations, complexity and size that are similar to ours, representing organisations with which we compete for talent.

Total compensation for each executive director is structured to provide an appropriate mix of fixed versus variable compensation with the potential to earn upper-quartile total compensation relative to peers for upper-quartile performance.

Process

In 2012, the following process was trialled:

1 Performance management

Group objectives were determined and aligned to the Group's strategic goals. Each executive director agreed with the Group Chief Executive individual priorities around the Group objectives according to the business in which the executive director works and their role. The Group Chief Executive agreed his objectives with the Chairman.

Objective setting

January – February

- Personal objectives agreed with manager
- Objectives shared with the Committee
- In addition, 'collective agendas' were shared with the Committee that were aligned to Group's strategic goals and also reflected function, geography or business priorities
- Objectives cover quantifiable financial as well as role-based metrics

Interim review

July

- Mid-year discussion on performance to date against objectives

Final review

December – January

- Self appraisals prepared and performance discussion held with manager
- Group Chief Executive/Chairman provided the Committee with performance updates on both delivery against objectives and also on conduct and behaviours
- Feedback from Risk and other control functions was taken into account

2 Compensation outcomes

Set out below is the process the Committee went through this year in trialling the new framework referred to under 'target APAs and base salaries'.

Step 1: Eligibility for an award

- Prior to any APA decisions being made for the executive directors, the Committee considered whether i) the Group's financial performance in 2012 had been achieved within the Group's risk appetite; and ii) in light of the Group's current and forward-looking capital position, there was anything that should prevent the Committee from approving any awards
- In relation to each individual executive director, the Committee then considered i) whether he had achieved a minimum standard in terms of living the Group's values and associated behaviours; and ii) whether the level of financial performance achieved in his particular area of responsibility warranted payment of any APA

Step 2: Initial determination of awards

- The Committee considered the headline Group financial performance together with the progress against the collective agenda, and how this might, all other things being equal, translate into an award outcome

Step 3: Finalising individual awards

- Award levels were then differentiated based on personal and relevant business performance, individual conduct and behaviour, as well as other individual circumstances such as market competitiveness
- The Committee shared the recommendations with other non-executive directors

Target APAs and base salaries

Executive directors have target annual performance awards (TAPAs) that are set with reference to the nature of the role and the desired balance between fixed and variable remuneration.

The Committee reviewed its approach to determining executive directors' APAs during 2012. This involved trialling a new framework with a view to developing a more transparent and explicit link between the TAPA and levels of financial performance and achievements against the Group's collective agenda. Drawing on its experience during this review, the Committee proposes to develop a refreshed framework in 2013 that will take account of developing regulatory requirements particularly in the European Union (EU), and will be subject to engagement with shareholders. As part of developing this framework, the Committee will review selective target award levels to ascertain if further changes are appropriate.

The TAPAs and base salaries of executive directors agreed by the Committee for the 2013 performance year (subject to the development of the refreshed framework and EU regulatory requirements) are shown in the table below.

Year-end decisions on total variable compensation

The Committee followed a three-step process for determining APAs.

Step 1 – Eligibility for an award

The Committee concluded that, for the executive directors as a whole, the Group's financial performance had been achieved within the Group's risk appetite and, from a forward-looking capital position, there was nothing that prevented the Committee from approving any awards. In addition, each executive director had achieved a minimum standard in terms of living the Group's values and there was no reason why the financial performance in any part of the Group should prevent payment of any APA.

Step 2 – Initial determination of awards

In assessing the Group's broader financial and non-financial performance in aggregate under the framework, the Committee noted the following achievements:

- Financial performance in 2012 was good, even after taking into account the cost of the settlements with the US authorities. Income grew by 8 per cent, with growth in both businesses. Costs were carefully managed through tight discipline and investment prioritisation
- Maintained strong focus on the fundamentals of the business during 2012 – strong capital and liquidity positions. The Core Tier 1 capital ratio at 11.7 per cent, improved from 2011 and the advances-to-deposits ratio continues to be healthy at 74.1 per cent
- Dividend per share improved 10.5 per cent. The normalised return on ordinary shareholders' equity improved to 12.8 per cent (2011: 12.2 per cent). Total Shareholder Return continues to rank very strongly relative to international peers over a three-year and five-year period (albeit performance over a one-year period is less strong)
- Very good progress was made on the Group's collective agenda by remaining disciplined in the execution of its strategy, deepening its client and customer relationships, building on its strong brand and franchise. Both businesses have had notable successes in the use of technology to provide innovative solutions for customers including in Hong Kong, Breeze Home – Asia's first property search application
- Employee engagement scores increased again from a grand mean of 4.23 to 4.26. Exceptional progress against our target to raise $100m for Seeing is Believing with more than half of this already achieved. Employee volunteering increased 30 per cent year-on-year to more than 85,000 volunteering days

	Target annual performance award		Annual base salary		
	2012	2013	1 January 2012	1 January 2013	1 April 2013
P A Sands	$2,000,000	$2,000,000	GBP1,075,000	GBP1,075,000	GBP1,075,000
S P Bertamini	$1,500,000	$1,500,000	USD1,000,000	USD1,000,000	USD1,000,000
J S Bindra[1]	$1,500,000	$1,500,000	GBP525,000	GBP525,000	HKD6,500,000
R H Meddings	$1,750,000	$1,750,000	GBP800,000	GBP800,000	GBP800,000
A M G Rees	$10,000,000	$10,000,000	GBP735,000	GBP735,000	GBP735,000
V Shankar	$1,500,000	$1,500,000	AED3,200,000	AED3,200,000	AED3,200,000

1 With effect from 1 April 2013, Jaspal Bindra's base salary will be set in Hong Kong dollars. His existing GBP salary has been converted using an average exchange rate for 2012

Directors' remuneration report continued

Step 3 – Finalising individual awards

The combination of Group, business and individual performance assessment is reflected in both the APA and in the absolute level of performance shares, which together comprise TVC.

The following brief commentary gives some additional insight into the decisions made by the Committee.

- **Peter Sands:** As Group Chief Executive Officer, Peter has led the Group to its tenth year of record income and profits. During 2012, the Group made very good progress against its collective agenda with a focus on embedding Here for good in the businesses and deepening client and customer relationships. Peter's total compensation is set in the context of Group operating income and normalised earnings per share growth of 8 and 14 per cent respectively, although profit growth was impacted by the cost of the settlements with the US authorities. TVC decreased by 10 per cent as a consequence of a lower APA and performance share grant, both of which are down 10 per cent year-on-year
- **Richard Meddings:** Richard continued to provide strong management of the Group's capital and liquidity position and enforced tight discipline on costs during 2012. In addition to his core role, Richard led the Group's Seeing is Believing initiatives, which raised a further $8m in 2012. Similar to the rationale for Peter Sands, his TVC was down 10 per cent year-on-year as a result of a lower APA and a performance share grant, both of which are down 10 per cent
- **Steve Bertamini:** A good performance by Consumer Banking (CB) against the collective agenda – the Group won a number of awards in the digital space. Our next generation markets are performing well and innovation has enabled us to meet customer needs better, for example through turnaround times. In terms of financials, headline profits grew by 8 per cent. However, underlying profit fell by 1 per cent. Steve's TVC decreased by 7 per cent
- **Mike Rees:** A strong performance in challenging market conditions by Wholesale Banking (WB) where income grew by 9 per cent in 2012 and, excluding the impact of the cost of the settlements with the US authorities, profit by 11 per cent. In 2012, there was good progress on a number of non-financial priorities, for example, we strengthened our support on the internationalisation of the renminbi globally and refined our client coverage model to further deepen relationships. Given actual profit growth in 2012 (a reduction of 2 per cent), Mike's TVC decreased by 10 per cent year-on-year, including a 10 per cent fall in the APA
- **Jaspal Bindra:** In contrast to the respective heads of CB and WB whose compensation is more directly linked to their respective business and therefore inclined to fluctuate significantly year-on-year based on performance, movement in variable compensation for the governance heads tends to be less volatile, linked to broader and sustained Group performance. Jaspal's TVC is down by 3 per cent year-on-year. There were good performances in China, Indonesia and Hong Kong, one of the Group's largest markets, where operating profit rose by 7 per cent, against weaker year-on-year performance in India and Singapore. In terms of non-financial measures, Jaspal, amongst other things, personally oversaw the Group's diversity and inclusion agenda in 2012, which made good progress
- **V Shankar:** There was strong underlying growth across Shankar's region with good performances in Africa (operating profit up 23 per cent), and Americas, UK & Europe (where operating income grew by 30 per cent) against weaker year-on-year performance in the Middle East and North Africa, where the ongoing regional unrest has suppressed confidence and contained overall economic activity. Since moving out of WB and taking on his existing governance portfolio, the Committee has been resetting as well as rebalancing Shankar's compensation

The Committee believes that these TVC outcomes strike the right balance in aligning reward with the Group's overall profit performance (both in absolute and relative terms), income growth, risk management and, in particular, returns to shareholders. The Committee also believes that the individual recommendations appropriately reward contribution to the financial performance of the Group and the Group's collective agenda and take appropriate account of personal performance against a range of non-financial metrics.

Remuneration of executive directors (audited)

2012

Executive directors	Fixed: Salary/fees $000	Fixed: Benefits $000[1]	Annual performance award: Cash bonus $000	Annual performance award: Up-front shares $000[5]	Annual performance award: Deferred bonus $000[6]	Sub total	PSA $000[7]	Total $000
P A Sands[2]	1,703	385	630	630	1,890	3,150	2,456	7,694
S P Bertamini[3, 8]	1,387	1,500	350	350	1,050	1,750	1,375	6,012
J S Bindra[3, 9]	832	1,067	350	350	1,050	1,750	1,328	4,977
R H Meddings	1,268	96	432	432	1,296	2,160	1,671	5,195
A M G Rees	1,165	85	1,800	1,800	5,400	9,000	1,983	12,233
V Shankar[8]	1,220	477	390	390	1,170	1,950	1,410	5,057
Sub total	**7,575**	**3,610**	**3,952**	**3,952**	**11,856**	**19,760**	**10,223**	**41,168**

Total variable compensation comprises the annual performance award (cash bonus, up-front shares, deferred bonus, sub total) and PSA.

2011

Executive directors	Fixed: Salary/fees $000	Fixed: Benefits $000[1]	Annual performance award: Cash bonus $000	Annual performance award: Up-front shares $000[5]	Annual performance award: Deferred bonus $000[6]	Sub total	PSA $000[7]	Total $000
P A Sands	1,693	132	700	700	2,100	3,500	2,726	8,051
S P Bertamini[3, 8]	1,316	1,389	380	380	1,140	1,900	1,457	6,062
J S Bindra[3, 9]	831	747	360	360	1,080	1,800	1,363	4,741
R H Meddings	1,262	79	480	480	1,440	2,400	1,857	5,598
A M G Rees	1,124	67	2,000	2,000	6,000	10,000	2,197	13,388
V Shankar[4, 8]	–	–	–	–	–	–	–	–
Sub total	6,226	2,414	3,920	3,920	11,760	19,600	9,600	37,840

1 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

2 In 2012, a contract settlement of $213,244 was made with UK HM Revenue and Customs for an internal error in respect of the calculation of taxation and national insurance contributions due on the company car benefit received by Peter Sands between 2006 and 2012

3 Amounts shown in the benefits column will vary year-on-year where tax equalisation is applicable 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 $110,689 and for Jaspal Bindra by $319,933 for 2012

4 With effect from 1 January 2012, V Shankar was appointed as a Group executive director

5 The amounts shown in the up-front shares column includes the proportion of APA that is not deferred but is required under the FSA Remuneration Code to be delivered in shares. This portion equates to 20 per cent of the total APA for each executive director. The amount shown is the gross amount and the net amount (post any withholding taxation requirements) has been transferred to a trust and used to acquire shares that are beneficially allocated to the employee

6 The amounts shown in the deferred bonus column include the proportion of the APA deferred into restricted shares or deferred cash

7 The expected value of any performance share award is based on an initial value adjusted for factors such as performance conditions, forfeiture risk and lack of dividends

8 Steve Bertamini and V Shankar received cash pension allowances of $387,499 (2011: $341,246) and $348,489 and this is reflected above, as part of salary/fees

9 In 2011, Jaspal Bindra waived $249,231 of the cash element of his APA into his pension arrangement. In 2012, Jaspal waived $764,422 (2011: $711,912) of his base salary into his pension arrangement

Directors' remuneration report continued

Retirement benefits

Executive directors appointed prior to 1 January 2012, who have been building up pension benefits on a defined benefit basis, retain their accrued entitlements and may continue to build up benefits in their existing arrangements, with the Committee continuing to take into account the value of such benefits as part of total compensation. Since 1 January 2012, those with a defined benefit promise have had the option to give up part or all of their future pension accrual and have it replaced with an individually costed pension allowance. This allowance has been determined on a cost-neutral basis to the Group, reflecting the level of benefit given up and the individual executive director's age as at 1 January 2012. To date, no executive director has elected to switch to a cash supplement in full or part.

Executive directors retain any existing opportunity to waive a proportion of the cash element of any potential APA or their annual base salary to enhance their unapproved retirement benefits. Any amounts waived in respect of this year are shown in the executive directors' retirement benefits table.

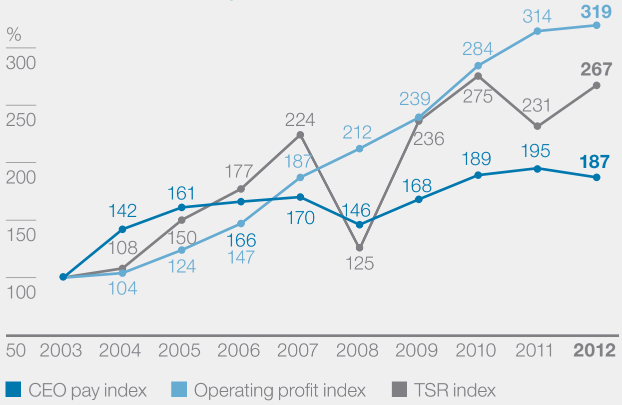
Defined benefit pension provision continues to be made through a combination of the Standard Chartered Pension Fund, an approved non-contributory plan, and an unapproved retirement benefit plan. The unapproved plan is unfunded and the benefits accrued are secured by a charge, in the name of an independent trustee, over specific assets. The unapproved unfunded retirement benefit plan provides the part of the executive's benefit that exceeds the UK Government's lifetime allowance. In other respects the terms of the unapproved plan 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.

Steve Bertamini and V Shankar have pension allowances equal to 40 per cent of base salary.

Alignment of performance and reward

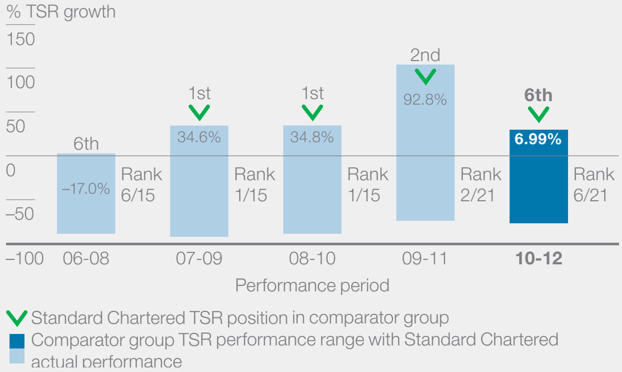
The graph above shows a comparison of the overall company performance in a particular year and the annual pay of the relevant CEO (including salary, benefits, annual performance award and the expected value of any performance share award). The CEO's total remuneration is aligned to the disclosures in the relevant directors' remuneration report (meaning that the awards that have been granted in a particular year have been included rather than those that are vesting).

CEO compensation versus total shareholder return and operating profit



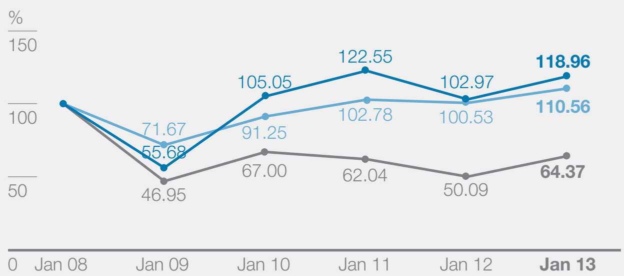
The graph below illustrates the Group's total shareholder return (TSR) position against the relative comparator group for performance share awards vesting between 2008 and 2013. In relation to the performance share awards granted in 2010 and that vest depending on performance over three years ending 31 December 2012, half the award was dependent upon our TSR performance compared with a defined peer group and the balance was subject to earnings per share (EPS) performance. The Committee reviewed the performance measures and the total that vested was 94.17 per cent (formed of 44.17 per cent for TSR and 50 per cent for EPS).

Assessing TSR performance under the performance share plan



The graph on the right shows our TSR performance on a cumulative basis over the last five years alongside that of the FTSE 100. The FTSE 100 provides a broad comparison group against which our shareholders may measure their relative returns. Standard Chartered is a constituent member of the FTSE 100 Index and the London Stock Exchange is the principal exchange for our shares. For illustrative purposes we have also shown our TSR performance against the peer banks that were part of our performance share award comparator group in a particular year.

Percentage change in TSR over a five-year period



Data provided by Thomson Reuters

Executive directors' contracts of employment

	Effective date	Notice period from the Company	Potential payment in lieu of notice
P A Sands	31 December 2003	12 months	12 months' base salary, pension contributions/ entitlement and certain benefits and allowances (such as life assurance and car allowance). Any annual performance award payable is determined by the Committee.
S P Bertamini	22 April 2008		
J S Bindra	1 March 2008		
R H Meddings	12 December 2003		
A M G Rees	7 January 2010		
V Shankar	14 April 2010		

Details of non-executive directorships held by the executive directors

Certain executive directors serve as non-executive directors of other companies. Details of these directorships are contained on pages 125 to 128. The executive directors are permitted to hold a maximum of one non-executive directorship with a listed company on the basis that there is no conflict of interest. Details of non-executive fees of the executive directors are shown below.

Name	Organisation	Current annual fee retained by the executive director
P A Sands	The Institute of International Finance, inc	–
	The Department of Health	–
J S Bindra	Vital Voices Global Partnership	–
R H Meddings	3i Group Plc	GBP80,000
V Shankar	Majid Al Futtaim Holding LLC	USD300,000
	Inland Revenue Authority of Singapore	SGD22,500

Directors' remuneration report continued

Reward arrangements for the Chairman and non-executive directors

The non-executive directors are appointed for a period of one year unless terminated earlier by and at the discretion of either party upon giving three months' written notice. Their appointment and any subsequent re-appointment are subject to the provisions of the Company's Articles of Association and to the usual (re)election by the shareholders of the Company.

Non-executive directors' remuneration

Fees for non-executive directors are determined by the Chairman and were last reviewed in March 2011. Fees are set to reflect the international nature of the roles, the experience of the individuals required to fill those roles and the time commitment expected of them.

Fees are paid in GBP and are non-pensionable. UK-based non-executive directors are able to take up to 100 per cent of their monthly post-tax base fees to acquire shares in Standard Chartered. Non-executive directors have no service contract and do not participate in any performance related remuneration arrangements.

Chairman's remuneration

Sir John's contract (effective 2 July 2009 and last amended on 1 March 2011) contains a 12 month notice period.

Sir John's compensation as Chairman comprises two key parts. He receives an annual base fee, part delivered in cash $1,029,925 (£650,000) and part delivered in restricted shares (£500,000 granted in two equal tranches annually). This structure aligns his interests with those of shareholders and demonstrates the Chairman's commitment and confidence in our future. This is Sir John's primary employment where his duties take priority over any existing or new outside interests. The arrangements ensure that Sir John is appropriately compensated for his contribution and reflects the increased demands placed on the Chairman's role over recent years. This is expected to continue in the foreseeable future. Sir John is also entitled to a car and driver, which he does not currently utilise, and is provided with private healthcare. He is not eligible to receive discretionary performance share awards or to participate in either our annual performance award or retirement plans. There are no additional fees for membership of any board committees.

Remuneration of Group Chairman and non-executive directors (audited)

	Chairman	Senior Independent Director	Board Member	Audit Committee	Board Risk Committee	Nomination Committee	Remuneration Committee	Brand and Values Committee	Governance Committee	Benefits	**Total 2012**	Total 2011
Current Fees	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**			
Annual Fee	1,050	30	100	–	–	–	–	–	–	–	**–**	–
Chair	–	–	–	65	65	N/A	50	50	No fees	–	**–**	–
Committee Member	–	–	–	30	30	15	25	25	No fees	–	**–**	–
Fees for 2012										**$000**	**$000**	**$000**
Chairman												
Sir John Peace	C	–	–	–	–	C	M	M	C	3	**1,834**	1,820
Non-executive directors												
R Delbridge	–	–	M	M	M	–	–	–	–	–	**254**	256
J F T Dundas	–	–	M	M	C	M	–	M	–	–	**372**	377
M Ewing[1]	–	–	M	M	–	–	–	–	–	–	**34**	–
V F Gooding	–	–	M	–	–	–	M	M	–	–	**238**	240
S J Lowth	–	–	M	–	M	–	–	–	–	–	**206**	168
R H P Markham	–	SID	M	C	M	M	–	–	M	–	**380**	385
R Markland	–	–	M	M	M	M	C	–	–	–	**357**	361
J G H Paynter	–	–	M	M	–	–	M	–	–	–	**246**	248
Dr Han Seung-soo, KBE	–	–	M	–	–	–	–	M	–	179	**377**	318
P D Skinner	–	–	M	–	M	M	M	C	–	–	**349**	353
O H J Stocken	–	–	M	–	M	–	–	–	–	–	**206**	208
Dr L H Thunell[1]	–	–	M	–	–	–	–	–	–	–	**26**	–

1 Dr Lars Henrik Thunell and Mrs Margaret Ewing were appointed as independent Non-Executive Directors from 1 November 2012
C: Chair; M: Committee member; SID: Senior Independent Director

Policy report: a forward-looking statement on our performance and reward practices

Our approach to performance and reward for executive directors

Our performance, reward and benefits approach supports and drives our business strategy and reinforces our values in the context of a clearly articulated risk appetite and a Group-wide framework, under which we apply a consistent approach to reward for all employees.

Our approach:

- Supports a strong performance-oriented culture, ensuring that individual reward and incentives are aligned with: (i) the performance and behaviour of the individual; (ii) the performance of the business; and (iii) the interests of shareholders
- Ensures a competitive reward package that reflects our international nature and enables us to attract, retain and motivate our employees
- Reflects the fact that many of our employees bring international experience and expertise and that we recruit from a global marketplace
- Encourages an appropriate mix of fixed and variable compensation based on (i) the individual's accountability and (ii) the individual's and business' risk profile

The table below summarises the Group's key remuneration policies and structures for executive directors as they were applied during 2012 and are intended to be applied in 2013.

Remuneration policies and structures

	Purpose and link to strategy	Operation	Performance metrics	Other information
Base salary	▪ To attract and retain talent by ensuring that salaries are competitive with the relevant market in which the individual is employed ▪ To ensure that fixed compensation is sufficient to allow a truly flexible variable compensation policy	▪ Cash ▪ Typically only base pay element is pensionable ▪ Reviewed annually and only amended as appropriate taking account of the latest available market data. Off-cycle reviews take place where there is a particular need to ensure market competitiveness	▪ None, although the overall performance of the individual is one of the considerations when determining salary increases	▪ Set at an appropriate level taking in to consideration the size and scope of the role, the individual's skills, experience and positioning against peers ▪ The Group adopts a prudent approach to increases in fixed compensation across the Group

Directors' remuneration report continued

Remuneration policies and structures continued

	Purpose and link to strategy	Operation	Performance metrics	Other information
Pensions and benefits	▪ Core benefits are provided to support and be consistent with our values ▪ Sharesave is provided to engage employees (including executive directors) in our performance and offer them an opportunity for long-term savings and a share in the financial success that they help to create	▪ Normally includes pension, medical insurance, life assurance and annual leave ▪ Three-year savings contract with an option price set at a discount of up to 20 per cent to the share price at the date of invitation ▪ Within a period of six months after the relevant anniversary, employees may exercise the option and purchase shares	▪ No performance conditions	▪ Reviewed periodically taking account of local regulations and competitive market practice ▪ Where there are securities laws, regulatory or other similar issues, we may offer an equivalent cash plan
Annual performance award	▪ To focus executive directors on the achievement of annual objectives, which align our short-term performance with the sustainable creation of shareholder value ▪ To provide a portion of total reward that is performance related ▪ To ensure that the proportion of variable compensation opportunity (which might be delivered through a cash award and deferred shares/ cash) increases with accountability	▪ Awards are delivered in cash and share components (up-front and deferred) ▪ Awards in excess of $50,000 are subject to our deferral framework, overlaid by any higher deferral requirements of local regulators ▪ Deferred shares and deferred cash vest in equal tranches after one, two and three years, subject to claw-back ▪ Half of any non-deferred annual performance award for an executive director will be delivered in the form of shares ▪ Executive directors may only sell up-front shares and vested deferred shares if shareholding requirement is already satisfied	▪ Annual performance awards are based on both business and individual performance ▪ Each individual has documented objectives that are agreed at the start of the financial year and assessed at the year-end. These are based on a broad range of factors including both financial and non-financial measures ▪ Values, conduct and behaviour are also assessed at the year-end	▪ A maximum opportunity of no more than 250 per cent of each executive directors' target performance award level (150 per cent in the case of Mike Rees) ▪ Deferral levels are reviewed annually, taking into account both regulatory requirements and market practice

	Purpose and link to strategy	Operation	Performance metrics	Other information
Performance share award	▪ To focus participants on meeting and exceeding our long-term performance targets, which are linked to safeguarding shareholder interests ▪ To align the interests of executive directors with shareholders by ensuring that they build and retain an appropriate equity stake in the Group	▪ Award of nil-cost options subject to a three-year performance period, exercisable after the third, but before the tenth anniversary of the date of grant, subject to continued employment and performance conditions being met over the first three years ▪ Awards are subject to claw-back ▪ Part of the total reward package for executive directors	▪ The Committee reviews the performance conditions annually. For awards granted in 2013, the conditions are explained from page 175 ▪ Awards are entirely discretionary and are based on individual performance and contribution to long-term value creation ▪ Awards are subject to performance weighting split equally (one-third of the award depending on the achievement of total shareholder return, earnings per share and return on risk-weighted assets). Each is assessed independently of one another supporting a balanced scorecard approach through equal focus upon financial measures, investor interests and prudent risk taking	▪ Performance share awards for executive directors are currently limited to an overall maximum amount of 400 per cent of base salary in face value terms

Directors' remuneration report continued

Executive directors' service contracts and terminations

For all executive directors, the notice period from the Company is 12 months.

Contracts for executive directors contain payment in lieu of notice (PILON) provisions that can be exercised at the Committee's discretion. The PILON provisions comprise an amount equal to 12 months' base salary, pension contributions/entitlement and certain benefits and allowances (such as life assurance and car allowance). APAs payable as part of PILON are determined by the Committee, after taking into consideration the performance of both the individual and Standard Chartered. Payments under PILON are made in quarterly instalments and are subject to mitigation.

For existing executive directors only, special provisions apply in the event that Standard Chartered terminates an executive director's contract in the 12 months following a change of control without giving notice. Unless the executive director has been summarily dismissed or is serving out their notice, an amount equal to 12 months' base salary, APA, pension contributions/entitlement and certain benefits and allowances will be paid in four equal instalments. In respect of the 12 months following the date of termination, an award equivalent to the executive director's TAPA is payable. The APA payable in respect of the performance period prior to termination is decided by the Committee, taking into account both the performance of the individual and Standard Chartered. A pro-rata target award is payable if this period is less than six months.

Leaver provisions for share plans

When an executive director ceases employment, unless classified as an eligible leaver, any unvested share awards will normally lapse. For an eligible leaver, deferred APAs and performance share awards granted as part of TVC will normally continue to vest over the original vesting period subject to i) there being no breach of relevant non-compete and non-solicit conditions; ii) the Group's claw-back policy; and iii) performance conditions being satisfied.

Restricted share awards granted as incentives or for retention will normally be subject to the original vesting schedule, vesting on a pro-rated basis according to the period of time from the date of grant to the date of cessation of employment subject to the achievement of performance conditions.

The Group's share plans have specific provisions, known as 'good leaver' provisions, setting out the treatment of awards where an employee leaves for designated reasons. The plans also contain general discretionary provisions under which the Board can decide to apply 'good leaver' status in certain cases where awards would usually be forfeited on cessation of employment. The Committee has the discretion to apply 'good leaver' status to executive directors.

Hiring new executive directors

The Group prides itself on a robust hiring process for executive directors and senior management, particularly on establishing the potential 'fit' of a new employee with the Group's culture and desired behaviours. The Committee is responsible for approving the remuneration package for any new executive directors.

When hiring a new executive director, it may be necessary to compensate for forfeited remuneration from the individual's previous employer through a buyout. Buyouts are typically delivered in the form of restricted shares or performance shares. The Group looks to replicate the arrangements being bought out as closely as is reasonably possible.

The Committee recognises that the use of guaranteed variable remuneration remains important in securing key senior talent, albeit it acknowledges that there is a need for appropriate safeguards on how it is composed and delivered. Steps are taken to ensure that the remuneration is not unreasonably generous in either its amount or terms (including any deferral or retention periods) than the variable remuneration awarded or offered by the individual's previous employer in a similar role. Any guarantee is subject to the prevailing deferral mechanism and claw-back policy.

The Group operates a policy of tax equalisation for internationally mobile employees. Tax equalisation is a common approach used by many organisations and is often used where employees move around and live in different geographies so that the employee pays no more or less than they would have paid in their home geography and appropriate tax is paid in the jurisdictions where the employee lives and works.

Newly appointed executive directors are provided with a pension allowance equal to 40 per cent of their base salary to fund personal pension arrangements. The process and methodology by which this figure was determined was set out in the 2011 Directors' remuneration report.

Group Share Plans

2011 Standard Chartered Share Plan (the 2011 Plan)

Approved by shareholders in May 2011 this is the Group's main share plan, applicable to all employees including executive directors with the flexibility to provide a variety of award types. The 2011 Plan is designed to deliver performance shares, deferred awards and restricted shares, giving us sufficient flexibility to meet the challenges of the changing regulatory and competitive environment. Discretionary share awards are a key part of both executive directors' and senior management's variable compensation and their significance as a proportion of potential total remuneration is one of the strongest indicators of our commitment to pay for sustainable performance ensuring that there is an appropriate return for the risk taken and that the measure is aligned with the Group's risk appetite.

Performance share awards

Awards vest after a three-year period and are subject to three equally weighted performance measures; Total Shareholder Return (TSR), Earnings per Share (EPS) and Return on Risk Weighted Assets (RoRWA).

Total shareholder return element

Relative TSR, 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.

The constituents of our comparison peer group for awards made in 2010 (under the 2001 Performance Share Plan) and from 2011 (under the 2011 Standard Chartered Share Plan) are set out in the table opposite. 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 when calculating the position of comparators.

Standard Chartered's TSR is positioned within the comparator group to determine what proportion of the award should vest. 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.

TSR comparators	Awards made in 2011 and going forward[1]	Awards made in 2010[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	■	■
Oversea Chinese Banking Corporation	■	■
Royal Bank of Scotland	■	■
Société Générale	■	
Standard Bank	■	■
State Bank of India	■	■
UniCredito	■	■
United Overseas Bank	■	■
Standard Chartered		■

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 we are ranked median, with full vesting if we are ranked in the upper quintile of our comparison group. Straight-line vesting applies between the two vesting points

2 Awards made in 2010 were granted under the 2001 Performance Share Plan

Directors' remuneration report continued

Earnings per share element

The Committee considers that EPS is an appropriate measure of our underlying financial performance.

One-third of the award will be subject to the Group's growth in normalised EPS over the three-year performance period. The percentage of the award that vests is normally exercisable at the end of the relevant three-year performance period and is as follows:

Increase in EPS over the base EPS	Percentage of award subject to EPS measure exercisable
Less than 15 per cent	Nil
15 per cent	30
15 to 30 per cent	More than 30 but less than 100 (calculated on a straight line basis)
More than 30 per cent	100

Return on risk weighted assets element

One-third of awards will be subject to RoRWA over three financial years calculated by reference to the three-year average normalised post-tax earnings over the average of Risk Weighted Assets (RWA) over that period.

$$\frac{(\text{Earnings in Y1} + \text{Earnings in Y2} + \text{Earnings in Y3}) \div 3}{(\text{end of Y0 RWA} + \text{end of Y1 RWA} + \text{end of Y2 RWA} + \text{end of Y3 RWA}) \div 4}$$

30 per cent of this portion of the award will vest for minimum threshold performance with 100 per cent vesting for higher performance. For awards granted since 2011, threshold vesting will occur for a RoRWA of 1.5 per cent with maximum vesting occurring for a RoRWA outcome of 1.7 per cent.

RoRWA is a key 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. RoRWA is a check on inappropriate pursuit of income, rewarding as much for prudent capital management as pursuing financial management.

The Committee may review RoRWA performance prior to vesting of awards and, if appropriate, adjust for the impact of items under the RoRWA measure that, in its view, is not an accurate reflection of the underlying financial performance of the Group.

Deferred awards

Deferral levels have increased in recent years in response to both FSA requirements and to stay in line with market practice. For the 2012 performance year, elements of the annual performance plan that are deferred will be delivered under the 2011 Plan. These awards will be subject to a three-year deferral period, vesting equally one-third on each of the first, second and third anniversaries. Under the 2011 Plan there is no annual maximum limit on deferred awards to ensure that regulatory requirements relating to deferral levels can be met. Deferred awards are not subject to any further performance criteria, although the claw-back policy will apply. Further details on deferred awards can be found on page 172.

Restricted shares

Awards that are made outside of the annual performance process, as additional incentive or retention mechanisms, are normally provided as restricted shares under the 2011 Plan. These awards vest in equal instalments on the second and third anniversaries of the award date. In line with similar schemes operated by our competitors, our existing restricted share awards are not subject to an annual limit and do not have any performance conditions. Executive directors would not normally receive such awards other than in exceptional circumstances such as part of a buyout on joining.

Dilution limits

All awards vesting under the Group's share plans are satisfied by the transfer of existing shares or, where appropriate, the issuance of new shares. Our share plans contain monitored limits that govern both the aggregate amount of awards that may be granted and the amount of shares that may be issued to satisfy any subsequent exercise of awards. These limits are in line with those stated in the Association of British Insurers' principles of remuneration and the terms of our listing on the Stock Exchange of Hong Kong Limited.

Employee benefit trusts

The Group has two employee benefit trusts that are administered by an independent trustee and that hold ordinary shares to meet various obligations under the Group's share plans (see page 256 in the notes to the financial statements). As each executive director is within the class of beneficiary of these trusts, they are deemed, for the purposes of the Companies Act 2006, to have an interest in the trusts' shares.

Vesting provisions on a change of control

Performance shares do not automatically vest in the event of a change in control. However, the rules do provide that the number of shares subject to the award be pro-rated based on the length of the shortened performance period. The Committee may, at its discretion and acting 'fairly and reasonably', determine the extent to which awards vest having taken into account Standard Chartered's performance since the date of grant.

General

The middle market price of an ordinary share at the close of business on 31 December 2012 was 1,573.50 pence. The share price range over the year was 1,228.50 pence to 1,662.50 pence per share (based on closing middle market prices).

Unless indicated otherwise, the foreign exchange rates used in the Directors' remuneration report are based on average rates throughout the relevant financial year. The rates are \$1: GBP0.6311 (2012) and \$1: GBP0.6239 (2011).

Governance and regulatory requirements

Benchmarking Standard Chartered's compensation arrangements against emerging regulatory best practice.

Regulatory benchmarking

Emerging Regulatory Best Practice	Standard Chartered Practice
Fixed and variable compensation balance	■ Fixed remuneration is set to be at a level that is both appropriate for the role and the market as well as allowing for truly flexible variable remuneration arrangements where, for example, no performance award could be paid ■ There is a single pool from which all discretionary variable compensation irrespective of structure (e.g. cash, deferred shares, performance shares) is funded
Remuneration policy supporting effective risk management processes	■ Risk management is core to all business decisions across the Group and we have a robust process for ensuring that compensation decisions take risk into account
Rewarding for performance and adherence to values	■ Employees are assessed and rewarded on performance against objectives and adherence to Group values. Those individuals modelling our values typically receive an uplift of up to 20 per cent over target variable compensation compared with those who demonstrate the values less frequently ■ A claw-back policy on deferred variable compensation that can be activated by inappropriate behaviours and non-adherence to Group values
Strong, defined link between remuneration and strategy	■ Variable compensation for senior management is driven by collective and individual objectives that are clearly linked to the achievement of business objectives consistent with the Group's risk appetite
Risk and performance alignment	■ The use of a robust risk-adjusted profit metric that takes into account regulatory capital, credit and market risk in the formulation of performance award pools ■ Claw-back can be applied on deferred and performance awards prior to vesting ■ The Group's share plan uses a risk based performance condition to ensure it is aligned to risk ■ The three-year vesting period for share awards is consistent with the tenor of the Group's banking book. For example, within Wholesale Banking, at least 62 per cent of loans and advances are short term (one year) in nature
Meaningful levels of deferral for variable compensation	■ A Group-wide deferral framework with a top rate of 60 per cent deferral of TVC applies to all employees ■ All employees are subject to the higher of any regulatory deferral requirements and the Group deferral framework
Strong internal governance process	■ The Committee oversees all material variable compensation plan spend and reviews the remuneration of the most highly paid and those subject to FSA deferral requirements ■ The Group Chief Risk Officer attends key Committee meetings ■ Control function variable compensation pools are managed separately from the businesses they control ■ A comprehensive set of reward plan committees provide rigorous challenge of variable compensation decisions and allocation of pools ■ Control functions provide input into reward plan committees on any control issues (positive or negative) that should influence compensation and claw-back decisions

Directors' remuneration report continued

Supporting risk management through our remuneration practices

Effective risk management is fundamental to building sustainable performance and is the central tenet of the financial and operational management of the Group. The Risk function ensures management of risk throughout the Group via a robust and rigorous Risk Management Framework. Risk appetite is set in the context of the Group's strategy and the annual Strategy Board meeting sets strategic goals that are translated into financial and business targets and, ultimately, to employees' objectives. The Board also remains involved in all material decisions made regarding performance and reward.

Since performance against these objectives is a significant factor in the determination of an individual's APA, employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities.

The Committee reviews the Group's performance and reward policy on a regular basis against significant regulatory developments in our markets, market practice and shareholder expectations. As part of its review process the Committee receives the following input from Risk:

- The Group Chief Risk Officer (GCRO) attends key Committee meetings that approve pools
- All plan committees are constituted with cross-functional representation and are typically chaired by the representative from a control function (for example risk or compliance)
- Plan committees oversee the formation and allocation of award pools taking all risk issues into consideration
- The Group Reward Plan Committee (GRPC) is made up of the GCRO, the Group Finance Director, the Group Head of human resources and Communications and the Group Chief Executive

Pool funding

The Group operates a single discretionary annual performance plan comprised of a number of pools. Reward issues are governed on a top down basis and our variable compensation awards deliberately do not contain any direct formulaic link between business income and individual reward to avoid the shortcomings of incentive plans that may not allow important factors such as the quality of business written and the external environment to be taken into account.

Although each performance award pool has an initial funding mechanism, the Committee approves the TVC spend, including the amount to be spent on any performance share awards, for the Group taking into account a submission it receives from the GRPC. The Committee exercises its judgment to ensure that the overall payout appropriately reflects Group performance, the control environment, and any other qualitative factors that it considers appropriate including: performance relative to peers, the latest remuneration guidelines, political and investor sentiment on banking compensation and emerging market intelligence on competitor practice.

The Committee then uses this information and exercises discretion to determine the final pool and approve allocations to business and support functions. In arriving at its decision it looks at the proposed aggregate payouts relative to both trading profit and risk-adjusted profit (notably risk capital-adjusted profit (RCAP)). The Committee is also informed by the underlying funding frameworks for individual pools and has oversight for the allocation of the overall Group pool across businesses.

The GRPC is responsible for allocating the approved pools to each business-specific reward plan committee (RPC), which then oversees the allocation of variable compensation spend within its areas. All of our Wholesale Banking and Consumer Banking discretionary variable compensation are delivered under RCAP-based pools.

Governance of reward committees

Reward plan committees play an important role in ensuring that compliance and control environment matters are appropriately taken into account in performance award decision-making. In 2012, we have further strengthened this governance approach by establishing a committee for support functions in addition to those that already exist within the Wholesale and Consumer Banking businesses and the Risk function. RPCs consider such compliance and control matters in relation to both the distribution of the allocated pool and in respect of individual employee performance award decisions. A sub-committee of the GRPC has also been established with the objective of achieving consistent, fair and appropriate decision-making across the Group. In addition to these responsibilities, RPCs will also review individual awards for key populations, anomalies in award allocation and any highly leveraged awards.

Each business-specific RPC involves Risk, Compliance and HR functions in compensation decision making. For each RPC, Risk and Finance representatives jointly oversee the compilation and accuracy of financial data used to underpin award pool funding. In addition, the HR function provides independent input to minimise the risk of conflicts of interest that might arise.

To ensure consistency from an overall Group perspective, the RPCs are governed by the GRPC. The GRPC oversees all reward plans in the Group and ensures that decision making is in accordance with the Group's established performance and reward philosophy. The GRPC acts as a link to the Committee and will provide feedback to the other RPCs as necessary.

Risk adjustment of compensation

The Committee views management of TVC in a holistic way, using a number of levers to determine both the appropriate size of the variable compensation pool and individual recommendations taking account of current and future risks to the Group at the time at which compensation decisions are made.

These levers are used to make ex-ante risk and performance adjustments beginning with the use of RCAP in determining the TVC pool. In addition, the Committee has agreed a number of mechanisms to make ex-post performance adjustments that provide further alignment to actual performance outcomes (see below).

Considerations at the time of award (ex-ante)

Initial pool funding	■ TVC pool determination is based on risk-adjusted profit
Validation of the TVC pool	■ The Committee then reviews the TVC pool and exercises its judgment to ensure that the overall payout appropriately reflects Group performance, the control environment, and any other qualitative risk factors that the Committee considers appropriate

Adjustments after awards made (ex-post)

Balance of up-front and deferred annual performance awards and performance shares	■ The Committee considers the balance of cash, deferral and performance shares to be delivered both at an aggregate level and at an individual level. Ex-post adjustments are only effective if the right people get the appropriate level of deferrals and performance shares ■ In the Group, deferrals start at $50,000. Up to 1,370 employees are eligible to receive performance shares depending on individual performance
Performance adjustment and claw-back	■ This is achieved through multiple lenses ■ Potential diminution in value of deferred award: through share price movement until vesting ■ Claw-back prior to vesting: applied if an individual exhibits inappropriate values or behaviour ■ Claw-back prior to vesting: applied if there is a material event (including a restatement, breach of regulatory guidelines or failure in risk management at a Group or business level) ■ Potential diminution in value of performance shares: through share price movement as well as subsequent testing of performance conditions ■ More employees are receiving performance shares in 2013 (up 30 per cent compared with last year)
Shareholding requirements	■ The Group operates a shareholding requirement policy to align the interests of its executives with its investors. We remain committed to the principles of share ownership by executives with an expectation that such employees build up a shareholding over time ■ Employees subject to the FSA Remuneration Code are required to hold a specified minimum number of vested ordinary shares, which effectively results in a 12-month retention period for vested and up-front share awards ■ Directors are subject to a higher test, being the greater of the above requirement or a specified number of shares (120,000 and 200,000 shares, for executive directors and the Group Chief Executive respectively)

Directors' remuneration report continued

Determining individual variable compensation awards

The Group aims to sustain a high performance culture in which every employee has a clear set of objectives, receives ongoing feedback on their performance and behaviour and is appropriately rewarded for their individual contribution. Further detail on how individual variable compensation awards for executive directors are determined can be found on page 164.

There is no direct formulaic link between business income generated by an individual and that individual's reward. Differentiating performance and values ratings at all levels enables us to target spend towards those who have made the most effective contribution to the Group's performance and unique culture, recognises and aids retention of our highest performers and balances this with affordability considerations.

Application of deferrals and claw-back

APAs above $50,000 are subject to deferral under the Group's standard framework. The deferred portion is delivered entirely in shares for the majority of employees. However, those employees with the highest level of deferrals (a minimum total deferred APA of $85,000) can elect for 50 per cent of their deferred award to be delivered as deferred cash. All deferred awards, shares and cash, vest equally over three years and remain subject to the Group's claw-back policy. Vested deferred share and up-front share awards may only be sold if the employee meets any stated minimum shareholding requirement.

The current deferral thresholds are shown in the following table:

Annual performance award thresholds ($)	Percentage deferred
50,000 or less	No deferral, paid in cash
Above 50,000 and equal to 250,000	25 per cent
Above 250,000 and equal to 500,000	35 per cent
Above 500,000 and equal to 3 million	50 per cent
Above 3 million	65 per cent[1]

1 The net deferral rate will be capped at an aggregate deferral of 60 per cent including an expected value of any performance shares

The Committee has discretion in exceptional circumstances to determine that a whole award may not vest or will only partially vest. Such circumstances (defined as a 'Material Event') may include a material re-statement of the Group's financial statements, the discovery of endemic problems in financial reporting, or where as a result of financial losses a material breach of regulatory guidelines (e.g. in relation to capital holdings or liquidity) or significant failure in risk management at Group or business unit level has occurred or is likely to occur. Where the Group financial statements have been subject to a material restatement or there has been a risk management failure, the Committee may also determine that forfeiture is to be restricted to the award holders in a particular business unit if issues in that unit alone have been the cause of the restatement or the risk management failure.

Individual award holders may also forfeit their awards if it is determined that the employee or former employee or group of employees has, as a result of an appropriate review, been deemed to have (i) caused in full or in part a material loss for the Group as a result of reckless, negligent or wilful actions or (ii) exhibited inappropriate values or behaviour.

Other remuneration disclosures

2004 Deferred Bonus Plan (audited)

	Shares held in trust at 1 January 2012	Shares awarded during the period	Shares vested in the period	Shares held in trust at 31 December 2012
A M G Rees	70,255	70,255	70,255	**70,255**

1 Market value on date of awards (13 March 2012) 1,605 pence
2 Under the 2004 Deferred Bonus Plan (DBP), shares were conditionally awarded as part of the executive director's deferred element of their APA. Mike Rees was granted a final award under the DBP in March 2012 in line with the arrangements put in place to deliver the outstanding deferred elements of his 2009 APA. The shares are held in an employee benefit trust and automatically vest one year after the date of acquisition. No exercise is necessary

Share awards (audited)

Sharesave

Director	Grant date	As at 1 January 2012	Exercise price (pence)	Awarded during the period	Exercised	Lapsed	As at 31 December 2012	Period of exercise
P A Sands	26-Sep-07	1,601	1,048	–	–	–	**1,601**	2012-2013
P A Sands	01-Oct-12	–	1,140	789	–	–	**789**	2015-2016
S P Bertamini	09-Oct-09	1,405	1,104	–	–	–	**1,405**	2014-2015
J S Bindra	09-Oct-09	1,407	1,104	–	–	–	**1,407**	2014-2015
R H Meddings	04-Oct-10	614	1,463	–	–	–	**614**	2013-2014

Other share awards

Chairman or executive director	Plan	Grant date	As at 1 January 2012	Awarded during the period	Exercised	Lapsed	As at 31 December 2012	Period of exercise
J W Peace	RSS	28-Sep-09	43,105	–	–	–	**43,105**	2011-2016
	RSS	21-Sep-10	21,552	–	–	–	**21,552**	2012-2017
	RSA	22-Jun-11	14,863	–	–	–	**14,863**	2013-2018
	RSA	20-Sep-11	18,491	–	–	–	**18,491**	2013-2018
	RSA[1]	13-Mar-12	–	15,974	–	–	**15,974**	2014-2019
	RSA[2]	21-Dec-12	–	15,782	–	–	**15,782**	2014-2019
P A Sands	PSP[3]	11-Mar-09	370,020	–	262,122	107,898	**–**	2012-2019
	PSP	11-Mar-10	193,875	–	–	–	**193,875**	2013-2020
	PSA	06-May-11	211,526	–	–	–	**211,526**	2014-2021
	PSA[1]	13-Mar-12	–	239,127	–	–	**239,127**	2015-2022
	Deferred RSS	11-Mar-09	43,715	–	43,715	–	**–**	2011-2016
	Deferred RSS	11-Mar-10	61,700	–	30,850		**30,850**	2012-2017
	Deferred RSS[1,4]	10-Mar-11	77,240	2,333	26,521		**53,052**	2012-2018
	Deferred RSA[1]	13-Mar-12	–	86,580	–	–	**86,580**	2013-2019

Directors' remuneration report continued

Share awards continued

Chairman or executive director	Plan	Grant date	As at 1 January 2012	Awarded during the period	Exercised	Lapsed	As at 31 December 2012	Period of exercise
S P Bertamini	PSP[3]	11-Mar-09	165,073	–	116,937	48,136	**–**	2012-2019
	PSP	11-Mar-10	104,393	–	–	–	**104,393**	2013-2020
	PSA	06-May-11	113,427	–	–	–	**113,427**	2014-2021
	PSA[1]	13-Mar-12	–	127,809	–	–	**127,809**	2015-2022
	Deferred RSS	11-Mar-09	14,759	–	14,759	–	**–**	2011-2016
	Deferred RSS	11-Mar-10	26,993		13,496	–	**13,497**	2012-2017
	Deferred RSS[1,4]	10-Mar-11	37,516	1,133	12,882	–	**25,767**	2012-2018
	Deferred RSA[1]	13-Mar-12	–	47,000	–	–	**47,000**	2013-2019
J S Bindra	PSP[3]	11-Mar-09	132,149	–	93,614	38,535	**–**	2012-2019
	PSP	11-Mar-10	89,480	–	–	–	**89,480**	2013-2020
	PSA	06-May-11	101,164	–	–	–	**101,164**	2014-2021
	PSA[1]	13-Mar-12	–	119,563	–	–	**119,563**	2015-2022
	Deferred RSS	11-Mar-09	15,892	–	15,892	–	**–**	2011-2016
	Deferred RSS	11-Mar-10	26,993	–	13,496	–	**13,497**	2012-2017
	Deferred RSS[1,4]	10-Mar-11	37,516	1,133	12,882	–	**25,767**	2012-2018
	Deferred RSA[1]	13-Mar-12	–	44,527	–	–	**44,527**	2013-2019
R H Meddings	PSP[3]	11-Mar-09	228,739	–	162,038	66,701	**–**	2012-2019
	PSP	11-Mar-10	119,307	–	–	–	**119,307**	2013-2020
	PSA	06-May-11	144,083	–	–	–	**144,083**	2014-2021
	PSA[1]	13-Mar-12	–	162,854	–	–	**162,854**	2015-2022
	Deferred RSS	11-Mar-09	27,773	–	27,773	–	**–**	2011-2016
	Deferred RSS	11-Mar-10	42,419	–	21,209	–	**21,210**	2012-2017
	Deferred RSS[1,4]	10-Mar-11	52,964	1,600	18,185	–	**36,379**	2012-2018
	Deferred RSA[1]	13-Mar-12	–	59,369	–	–	**59,369**	2013-2019
A M G Rees	PSP[3]	11-Mar-09	128,144	–	90,777	37,367	**–**	2012-2019
	PSP	11-Mar-10	143,169	–	–	–	**143,169**	2013-2020
	PSA	06-May-11	168,608	–	–	–	**168,608**	2014-2021
	PSA[1]	13-Mar-12	–	192,745	–	–	**192,745**	2015-2022
	Deferred RSS	11-Mar-09	44,851	–	44,851	–	**–**	2011-2016
	Deferred SRSS	11-Mar-09	149,957	–	149,957	–	**–**	2011-2016
	Deferred RSS	11-Mar-10	71,584	–	35,792	–	**35,792**	2012-2017
	Deferred RSS[1,4]	10-Mar-11	242,756	7,331	83,353		**166,734**	2012-2018
	Deferred RSA[1]	13-Mar-12	–	247,373	–	–	**247,373**	2013-2019
V Shankar	PSP[3]	11-Mar-09	45,273	–	32,071	13,202	**–**	2012-2019
	PSP	11-Mar-10	59,653	–	–	–	**59,653**	2013-2020
	PSA	06-May-11	76,640	–	–	–	**76,640**	2014-2021
	PSA[1]	13-Mar-12	–	92,764	–	–	**92,764**	2015-2022
	Deferred RSS	11-Mar-09	34,768	–	34,768		**–**	2011-2016
	Deferred RSS	11-Mar-10	37,485	–	18,742		**18,743**	2012-2017
	Deferred RSS[1,4]	10-Mar-11	88,287	2,666	30,310		**60,643**	2012-2018
	Deferred SRSS	11-Mar-09	71,219	–	71,219		**–**	2011-2016
	Deferred RSS	11-Mar-10	83,021	–	41,510		**41,511**	2012-2017
	Deferred RSA[1]	13-Mar-12	–	79,159	–	–	**79,159**	2013-2019

1 Market value on date of award (13 March 2012) was 1,605 pence
2 Market value on date of award (21 December 2012) was 1,580 pence
3 The performance conditions attached to these awards have been partially met and the awards can be exercised, in part, from 13 March 2012. The number of shares lapsed indicates the portion of the award which did not satisfy the performance conditions
4 Notional dividend awarded 13 March 2012, market value on date of award was 1,605 pence

Directors' interests in ordinary shares (audited)

	At 1 January 2012 total interests	Personal interests	Family interests	At 31 December 2012 total interests
Sir John Peace	7,543	**7,543**	–	**7,543**
P A Sands	200,000	**213,852**	–	**213,852**
S P Bertamini	115,276	**123,980**	–	**123,980**
O P Bhatt[1]	–	**2,000**	–	**2,000**
J S Bindra[2]	153,378	**168,142**	–	**168,142**
Dr L C Cheung[1]	–	**2,000**	–	**2,000**
R Delbridge	8,497	**12,035**	–	**12,035**
J F T Dundas	3,141	**3,141**	–	**3,141**
M Ewing[1]	–	**2,000**	–	**2,000**
V F Gooding	3,154	**4,820**	–	**4,820**
S J Lowth	5,687	**8,083**	–	**8,083**
R H P Markham	4,109	**4,248**	–	**4,248**
R Markland	3,722	**3,848**	–	**3,848**
R H Meddings	120,000	**60,776**	**60,776**	**121,552**
J G H Paynter	10,000	**10,000**	–	**10,000**
A M G Rees	137,176	**138,951**	–	**138,951**
Dr Han Seung-soo, KBE	2,334	**2,413**	–	**2,413**
V Shankar	81,766	**151,598**	–	**151,598**
P D Skinner	15,481	**16,005**	–	**16,005**
O H J Stocken	17,915	**17,915**	–	**17,915**
Dr L H Thunell[1]	–	**6,200**	–	**6,200**

1 Margaret Ewing and Dr Lars Thunell joined the Board on 1 November 2012 and Om Prakash Bhatt and Dr Louis Chi-Yan Cheung joined the Board on 1 January 2013. Their interests represent their holding on appointment

2 153,000 of these shares are subject to a charge from 28 December 2011

The beneficial interests of directors and their families in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares

No director had an interest in the Company's preference shares or loan stock, nor the shares or loan stocks of any subsidiary or associated undertaking of the Group

No director had any corporate interests in the Company's ordinary shares

Changes to the directors' interests in ordinary shares since December 2012 are detailed in the 2013 Notice of Annual General Meeting

Directors' remuneration report continued

Executive directors with defined benefit provisions (audited)

Executive director	Accrued pension $000			Transfer value of accrued pension $000			Increase in accrued pension (net of inflation and waiver) during 2012 $000		
	At 1 January 2012	Increase during the year	At 31 December 2012	At 1 January 2012	Increase during the year net of waiver	At 31 December 2012	2012 waiver $000+	Annual pension	Transfer value
P A Sands	494	66	584	7,857	2,390	10,658	–	52	962
J S Bindra[1]	216	71	299	3,573	1,098	5,649	1,019	24	461
R H Meddings	466	52	540	8,021	2,012	10,441	–	39	763
A M G Rees[2]	476	62	561	8,388	2,443	11,266	–	49	1,014

1 Jaspal Bindra made no waiver from his 2012 annual performance award (2011: $249,231) but waived $764,422 of his 2012 base salary (2011: $711,912) to enhance his retirement benefits
2 The figures at 1 January 2012 for Mike Rees have been restated

The accrued pension amounts include benefits arising from transfer payments received in respect of service with previous employers
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 2011 increased by an allowance for inflation of 2.7 per cent (2011: 5.2 per cent) and the accrued pension at the end of 2012 excluding any waiver
The amounts included in the table above as at 1 January and 31 December 2012 are calculated using the exchange rates at the end of 2012 (0.6437) and 2011 (0.6161) respectively. The other entries are calculated using the exchange rates stated earlier in the Directors' remuneration report
In addition to the amounts identified in the table above Standard Chartered made ex-gratia payments of $137,610 (2011: $172,539) in retirement benefits to former executive directors and their dependants

Deferred compensation

In recognition of the substantial elements of deferred compensation and share awards forfeited when he left his previous employer in 2008, 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 in September 2008 (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 second vesting date was reached during the year and $2,653,000 (before tax) was paid to Steve Bertamini.

Ten highest paid employees beneath the Board

The following table sets out, on an anonymised basis, the remuneration of the ten highest paid employees for the year ended 31 December 2012 who are not executive directors. The disclosure is not limited to those discharging executive responsibility (PDMRs).

Employee	Fixed compensation[1] $000	Variable compensation				Total $000
		Non-deferred cash $000	Up-front shares $000	Deferred cash $000	Deferred shares and performance shares[2,3] $000	
1	**856**	**1,711**	**1,711**	**2,202**	**2,954**	**9,434**
2	**691**	**1,213**	**1,213**	**1,537**	**2,101**	**6,755**
3	**542**	**1,162**	**1,162**	**1,532**	**1,955**	**6,353**
4	**542**	**1,093**	**1,093**	**1,427**	**1,850**	**6,005**
5	**599**	**985**	**985**	**1,265**	**1,688**	**5,522**
6	**633**	**926**	**926**	**–**	**2,777**	**5,262**
7	**689**	**841**	**841**	**–**	**2,523**	**4,894**
8	**821**	**805**	**805**	**1,017**	**1,397**	**4,845**
9	**473**	**1,788**	**–**	**–**	**1,948**	**4,209**
10	**542**	**723**	**723**	**–**	**2,169**	**4,157**

1 Includes base salary, benefits and allowances paid in respect of 2012 and where appropriate on a pro rata basis for new joiners
2 Part of any APA for an employee designated as Code Staff under the FSA Remuneration Code is delivered in the form of shares (including the non-deferred element) that must be retained subject to the Group's shareholding requirement policy
3 Includes the deferred share element of annual performance award, the expected value of any performance shares, and if appropriate any distribution from any carried interest plan paid in 2012

Remuneration of the five highest paid individuals and the remuneration of senior management (Stock Exchange of Hong Kong Limited requirement) (audited)

Set out below are details for five individuals (including two executive directors) whose emoluments were the highest in the Group for the year ended 31 December 2012.

	$	
Components of remuneration	**Five highest paid**	**Senior management**
Basic salary, allowances and benefits in kind	5,426,692	14,232,653
Pension contributions	2,111,373	4,724,755
Annual performance awards paid or receivable[1]	30,862,750	25,060,000
Payments made on appointment	–	–
Compensation for loss of office – contractual	–	–
Other	–	–
Total	38,400,815	44,017,408
Total HKD equivalent	297,878,959	341,447,438

1 Excluding any performance awards or commissions linked to profits generated by the individual collectively or with others engaged in similar activities. Includes the deferred element of any APA

For the year ended 31 December 2012, the emoluments of the five highest paid and senior management discharging executive responsibility (PDMRs) are within the following bands:

	Number of employees	
The emoluments were in the following bands:	**Five highest paid**	**Senior management**
HKD (approx. $ equivalent)		
HKD15,500,001 – HKD16,000,000 ($1,998,170 – $2,062,627)	–	1
HKD17,500,001 – HKD18,000,000 ($2,255,998 – $2,320,455)	–	1
HKD19,000,001 – HKD19,500,000 ($2,449,370 – $2,513,827)	–	1
HKD22,000,001 – HKD22,500,000 ($2,836,112 – $2,900,569)	–	1
HKD28,000,001 – HKD28,500,000 ($3,609,597 – $3,674,054)	–	1
HKD31,500,001 – HKD32,000,000 ($4,060,797 – $4,125,253)	–	1
HKD33,000,001 – HKD33,500,000 ($4,254,168 – $4,318,625)	–	1
HKD37,000,001 – HKD37,500,000 ($4,769,824 – $4,834,281)	–	1
HKD45,500,001 – HKD46,000,000 ($5,865,595 – $5,930,052)	1	–
HKD48,000,001 – HKD48,500,000 ($6,187,880 – $6,252,337)	1	1
HKD48,500,001 – HKD49,000,000 ($6,252,337 – $6,316,794)	1	–
HKD67,500,001 – HKD68,000,000 ($8,701,706 – $8,766,163)	1	–
HKD87,000,001 – HKD87,500,000 ($11,215,532 – $11,279,989)	1	1
Total	5	10

The Pillar 3 disclosure reflecting the requirements of the FSA Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) 11.5.18 (1) to (7) can be found on our website.

By order of the Board

Annemarie Durbin
Group Company Secretary
5 March 2013

Report of the directors

The directors have pleasure in submitting their report and the financial statements of the Company and its subsidiaries for the year ended 31 December 2012.

Business review

We are required to present a fair review of our business during the financial year ended 31 December 2012, our position at year-end and a description of the principal risks and uncertainties that we face.

This review enables shareholders to assess how the directors have performed their duty under the Companies Act 2006, to promote the success of the Company.

The information that fulfils the requirements of the Business review can be found in the Chairman's statement on pages 6 and 7, the Group Chief Executive's review on pages 8 to 13, the Consumer Banking and Wholesale Banking sections of the Business review on pages 38 to 53, the Risk review on pages 56 to 115 and the Key performance indicators on pages 14 and 15, all of which are incorporated into this report by reference.

Principal activities

The Company is the holding company for the Group. The Group operates globally and is principally engaged in the business of retail and commercial banking and the provision of other financial services.

Areas of operation

Our Group comprises a network of 1,700 branches and offices in 68 markets. Further details on the branches can be found on our website www.standardchartered.com.

Results and dividends

We recommend a final dividend of 56.77 cents (2011: 51.25 cents) on 5 March 2013 for the year ended 31 December 2012. This, together with the interim dividend already paid, makes a total dividend for 2012 of 84.00 cents (2011: 76.00 cents).

The final dividend, if approved at the 2013 Annual General Meeting (AGM), will be paid in either sterling, Hong Kong dollars or US dollars on 14 May 2013 to shareholders on the UK register of members at the close of business in the UK (10:00pm London time) on 15 March 2013, and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9:00 am Hong Kong time) on 15 March 2013. The final dividend will be paid in Indian rupees on 14 May 2013 to Indian Depository Receipt holders on the Indian register at the close of business in India on 15 March 2013, in accordance with the Deposit Agreement.

It is intended that shareholders on the UK register and Hong Kong branch register will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 28 March 2013. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

Share capital

The issued ordinary share capital of the Company was increased by 28,976,175 during the year. 3,559,652 ordinary shares were issued under the Company's employee share plans at prices between nil and 1,463 pence. 25,416,523 ordinary shares were issued under the Company's share dividend scheme. Further details can be found in note 35 to the financial statements.

The Company has one class of ordinary shares that carries no rights to fixed income. On a show of hands, each member present has the right to one vote at our general meetings. On a poll, each member is entitled to one vote for every $2 nominal value of share capital held.

The issued nominal value of the ordinary shares represents 79.78 per cent of the total issued nominal value of all share capital. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the articles of association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Articles of association

The articles of association may be amended by special resolution of the shareholders.

Authority to purchase own shares

At the AGM held in May 2012, our shareholders renewed the Company's authority to make market purchases of up to 238,461,246 ordinary shares, equivalent to approximately 10 per cent of issued ordinary shares as at 14 March 2012, and up to all of the issued preference share capital. These authorities were not used during the year and remained in force at 31 December 2012.

In accordance with the terms of a waiver granted by The Stock Exchange of Hong Kong Limited (HKSE) on 16 April 2008, which was modified on 30 April 2009 and 25 July 2011, the Company will comply with the applicable law and regulation in the UK in relation to holding of any shares in treasury and with the conditions of the waiver, in connection with any shares it may hold in treasury. Shareholders will be asked to renew these authorities at the forthcoming AGM, and will receive details within the Notice of AGM. No treasury shares were held during the year. Further details can be found in note 35 to the financial statements.

Relevant audit information

As far as the directors are aware, there is no relevant audit information of which the Group statutory auditor (KPMG Audit Plc) is unaware. The directors have taken all reasonable steps to ascertain any relevant audit information and ensure that the Group statutory auditors are aware of such information.

Going concern

Having made appropriate enquiries, we consider that the Company and the Group as a whole have adequate resources to continue operational businesses for the foreseeable future and therefore continued to adopt the going concern basis in preparing the financial statements.

Sufficiency of public float

As at the date of this report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Hong Kong Listing Rules) based on the information publicly available to the Company and within the knowledge of the directors.

Fixed assets

Details of additions to fixed assets are presented in note 26 to the financial statements.

Major interests in shares and voting rights

As far as the directors are aware as at 31 December 2012, Temasek Holdings (Private) Limited (Temasek) is the only shareholder that had an interest of more than 10 per cent in the Company's issued ordinary share capital carrying a right to vote at any general meeting. There have been no changes to the 31 December 2012 figures.

The Company has been notified by the following companies of their interests in the total voting rights of the Company:

Shareholder	Number of ordinary shares	Percentage of voting rights direct	Percentage of voting rights indirect
Temasek Holdings (Private) Limited[1]	438,346,486		18.166%
Aberdeen Asset Management PLC's Fund Management Operating Subsidiaries	186,413,374		7.725%
BlackRock, Inc	154,291,839		6.394%

1 Temasek Holdings (Private) Limited's interests is held indirectly through Dover Investments Pte. Ltd

Loan capital

Details of the loan capital of the Company and its subsidiaries are set out in note 32 to the financial statements.

Board members

The present members of the Board, together with their biographical details, are shown on pages 124 to 128.

Margaret Ewing and Lars Thunell joined the Board as independent non-executive directors on 1 November 2012 and Louis Cheung and Om Bhatt joined the Board as independent non-executive directors on 1 January 2013. Richard Delbridge and Val Gooding will step down from the Board as independent non-executive directors on 1 May 2013.

Re-election of directors

At our AGM to be held on Wednesday 8 May 2013, all of our Board of directors with the exception of Richard Delbridge and Val Gooding will stand for re-election.

Directors' induction and ongoing development

To ensure that directors have the requisite knowledge and understanding to enable them to challenge effectively, we provide them a personalised approach to induction, training and development. Further details can be found in the Corporate governance report on page 138.

Our Board receives regular updates on the views of our institutional shareholders and stakeholders. Our Board openly seeks the views of our shareholders and during the year, the Chairman, Group Chief Executive Officer, Group Finance Director, met with 21 of our top 25 investors.

Rudy Markham is the Senior Independent Director. Shareholders may discuss any issues or concerns with the Senior Independent Director where they have been unable to resolve them through existing channels for investor communications.

Shareholder rights

Under the Companies Act 2006, shareholders holding 5 per cent or more of the fully paid up issued share capital of the Company are able to require the directors to hold a general meeting. A request may be in hard copy or electronic form and must be authenticated by the shareholders making it. Where such a request has been duly lodged with the Company, the directors are obliged to call a general meeting within 21 days of becoming subject to the request and must set a date for the meeting not more than 28 days from the date of the issue of the notice convening the meeting.

Under the Companies Act 2006, shareholders holding 5 per cent or more of the total voting rights at an AGM of the Company, or 100 shareholders entitled to vote at the AGM with an average of at least £100 paid up share capital per shareholder, are entitled to require the Company to circulate a resolution intended to be moved at the Company's next AGM. Such a request must be made not later than six weeks before the AGM to which the request relates or, if later, the time notice is given of the AGM. The request may be in hard copy or electronic form, must identify the resolution of which notice is to be given and must be authenticated by the shareholders making it.

Shareholders are able to put forward proposals to shareholder meetings and enquiries to the Board and/or the Senior Independent Director by using the 'contact us' information on the Company's website http://www.standardchartered.com/en/contact-us/index.html, or by emailing Group Corporate Secretariat at group-corporate.secretariat@sc.com.

Report of the directors continued

Directors' interests

The directors' beneficial interests in the ordinary shares of the Company as at 31 December 2012 are shown in the Directors' remuneration report on page 183.

Confirmation of independence

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Hong Kong Listing Rules and still considers all of the non-executive directors to be independent.

Compensation for loss of office

Details concerning the provisions for providing compensation to directors for loss of office or employment can be found on page 174 of the Directors' remuneration report.

Qualifying third-party indemnities

The Company has granted indemnities to all of its directors on terms consistent with the applicable statutory provisions. Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the financial year ended 31 December 2012, and remain in force at the date of this report.

Risk management

An ongoing process for identifying, evaluating and managing the significant risks that we face is in place. Its objectives, policies and procedures, including the policy for hedging risk, our exposure to credit risk, liquidity risk and market risk, are covered in the Risk review from pages 65 to 110 of this report. Company-only risks are managed as a part of overall Group risks.

Significant contracts and agreements

At no time during the year did any director hold a material interest in any contracts of significance with the Company or any of its subsidiary undertakings. The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company.

Related party transactions

Details of transactions with directors and officers and other related parties are set out in note 46 to the financial statements.

Connected/continuing connected transactions

By virtue of its shareholding of more than 10 per cent in the Company, Temasek and its associates are related parties and connected persons of the Company for the purposes of the UK Listing Rules and the Hong Kong Listing Rules, respectively (together known as the Rules). Neither Temasek nor its associates are related parties for the purposes of IAS 24 *Related Party Disclosures (IAS24).*

The Rules are intended to ensure that there is no favourable treatment to Temasek or its associates (as defined under the Rules) as a result of such shareholding to the detriment of other shareholders in the Company. Unless transactions which the Company and its subsidiaries undertake with Temasek or its associates are specifically exempt under the Rules or are subject to a specific waiver, they may require a combination of announcements, reporting and independent shareholders' approval.

One of the most significant changes to the Hong Kong Listing Rules from the Company's perspective was the introduction on 3 June 2010 of a new exemption (the Passive Investor Exemption) from the connected transaction and continuing transaction requirements for 'transactions with associates of a passive investor' (Rules 14A.31(10) and 14A.33(5)). The Company considers that Temasek meets the criteria for a passive investor under Rule 14A.31(10)(b). Therefore, any connected transactions or continuing connected transactions of a revenue nature in the ordinary and usual course of business and on normal commercial terms with an associate of Temasek are exempt from the announcement, reporting, annual review and independent shareholders' approval requirements of the Hong Kong Listing Rules.

In 2010, HKSE granted the Company a number of waivers from strict compliance with the reporting and annual review requirements in respect of Ongoing Banking Transactions with Temasek associates that the Company has not been able to identify and the requirements to enter into a fixed-term written agreement and set a maximum aggregate annual value in relation to the Ongoing Banking Transactions with Temasek or any of its associates (the Ongoing Banking Transactions Waivers). The independent shareholders approved the Ongoing Banking Transactions Waivers at the 2010 Annual General Meeting for a period of three years until 7 May 2013. Given the availability of the Passive Investor Exemption and the 2011 Waiver as described in the following paragraph, the Ongoing Banking Transaction Waivers have now become largely redundant and have not been relied upon since 2010. The Company has therefore decided not to renew the Ongoing Banking Transactions Waivers after their expiration in 2013.

In 2011, HKSE granted the Company a waiver (the 2011 Waiver) from strict compliance with the reporting and annual review requirements for the years ended 31 December 2011 and 2012 in respect of the Ongoing Banking Transactions between Temasek itself and the Company on the conditions that:

- the nature and magnitude of the Ongoing Banking Transactions with Temasek itself remains insignificant in 2011 and 2012
- the Company will inform HKSE if the transactions are no longer insignificant or there is any significant change in circumstances, at which time HKSE will reassess whether to continue the waiver

By operation of the above exemptions and waivers, the Company confirms that to the best of its knowledge and belief after due inquiry, the Company does not have any transactions with Temasek or its associates that would require announcements, reporting, annual review or independent shareholders' approval in 2012.

If none of the exemptions under the Hong Kong Listing Rules or the waivers obtained from HKSE are applicable in relation to a transaction with Temasek or its associates, the Company will continue to comply with the applicable announcement, reporting, annual review and independent shareholders' approval requirements.

Pursuant to the conditions attached to the 2011 Waiver, the Company will continue to monitor the aggregate amount of the Ongoing Banking Transactions with Temasek itself through the transaction processing systems and notify HKSE if the magnitude increases significantly. The Company intends to renew the 2011 Waiver after its expiration for another three years until the year ending 31 December 2015.

The Group has internal systems, processes and procedures in place to identify and monitor the non-exempt connected and continuing connected transactions. These are reviewed and updated periodically and their adequacy and effectiveness is assessed by Group Internal Audit.

Compliance and regulatory matters

On 28 March 2012 we announced that we had agreed to transfer our banking operations in Afghanistan to a leading local bank, Afghanistan International Bank (AIB). The transfer of operations was effective from 15 September 2012. As part of the arrangement, Standard Chartered will maintain a correspondent banking relationship with AIB, which will enable it to continue to serve its clients doing business in Afghanistan both locally and from offshore, while the local operations will transition to AIB.

In 2012, we entered into settlement agreements with five US authorities relating to US sanctions compliance over the period 2001 to 2007. Further details are given on page 136.

Conflicts of interest

In accordance with the Companies Act 2006, we have established a robust process requiring directors to disclose proposed outside business interests before any are entered into. This enables prior assessment of any conflict or potential conflict of interest and any impact on time commitment. The Nomination Committee reviews actual or potential conflicts of interest, and recommendations on authorisation are made to the Board. Authorisations are reviewed annually by the Nomination Committee to consider if they continue to be appropriate, and also to revisit the terms upon which they were provided.

Internal control

The effectiveness of our internal control system is reviewed regularly by the Board, its committees, the Group Management Committee, and Group Internal Audit. The Audit Committee has reviewed the effectiveness of the Group's system of internal control during the year ended 31 December 2012 and reported on its review to the Board. The Committee's review was supported by an annual business self-certification process, which was managed by Group Internal Audit.

Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group through its programme of business audits. The work of Group Internal Audit is focused on the areas of greatest risk as determined by a risk-based assessment methodology.

Group Internal Audit reports regularly to the Audit Committee, the Chairman and the Group Chief Executive. The findings of all adverse audits are reported to the Audit Committee, the Chairman and the Group Chief Executive where immediate corrective action is required.

The Board Risk Committee has responsibility for overseeing the management of the Company's fundamental prudential risks as well as reviewing the effectiveness of the Company's risk management framework. The Audit Committee monitors the integrity of the Company's financial reporting, compliance and internal control environment.

The Risk review on pages 62 to 64 describes the Group's risk management structure. Our business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk, including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Executive risk committees regularly review the Group's risk profile.

The performance of the Group's businesses is reported regularly to senior line management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are monitored closely. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

Employee policies and engagement

We employ over 89,000 people from 127 nationalities across 68 markets and are committed to creating a workplace that endorses diversity and recognises the differences of our growing multi-generational workforce. We work hard to create an open and collaborative working environment through various means including informal sessions with senior leaders, enabling employees to understand their points of view and share their own ideas. Employees also receive clear and timely communications from senior management to ensure that they understand the financial and economic factors that affect our performance.

Report of the directors continued

Our employment policies are designed to accommodate the significant social, statutory, regulatory and market conditions and practices prevailing in each country in which we operate. We are committed to equality of opportunities and diversity for all regardless of gender, race, age, physical ability, religion or sexual orientation. This applies equally to recruitment and to the promotion, development and training of people whom we already employ. We now provide consistent flexible working arrangements and sabbatical opportunities in ten markets including China, India, Indonesia, Singapore, UAE and the UK.

We recognise our social and statutory duty to employ disabled people and have followed a policy in the United Kingdom of providing, wherever possible, the same employment opportunities for differently-abled people as for others. If employees become differently-abled, every endeavour is made to ensure their employment continues, with appropriate skill-set enhancement where necessary.

As part of our approach to employee engagement, all employees are invited to participate in our Sharesave schemes and share in our success. Individual reward and incentives relate directly to the performance and behaviour of the employee, the performance of the business and the interests of shareholders. Further details of the Sharesave schemes are given in the Directors' remuneration report on page 172 and in note 37 to the financial statements.

We have measured employee engagement for the past 12 years using an annual employee engagement survey (Q[12]). This annual employee engagement survey provides important feedback to managers and teams and internal research has demonstrated a strong relationship between high engagement and increased business performance. In 2012, 95 per cent of employees participated in the survey and this reflects the strong commitment of our employees to voice their opinions and demonstrate trust in the process.

We have an employee relations presence providing employment regulatory advice and support in all our key markets, ensuring greater alignment of our people governance policies and promoting our flexible working agenda.

Major customers

Our five largest customers together accounted for 3 per cent of our total interest income and other operating income in the year ended 31 December 2012.

Creditor payment policy

Operating businesses are responsible for agreeing, and then bringing attention to, terms and conditions with their suppliers in the economies in which they operate. Our policy is to pay creditors in accordance with these agreed terms and conditions, provided the supplier has complied with them.

The Company is a holding company and does not trade. Therefore, it is not considered meaningful to give a number of days' purchases outstanding for the Company as at 31 December 2012. For our operation in the United Kingdom, there were 29 days' purchases outstanding as at 31 December 2012.

Code for Financial Reporting Disclosure

The Group's 2012 financial statements have been prepared in accordance with the principles of the British Bankers' Association Code for Financial Reporting Disclosure.

Group code of conduct

The Board has adopted a Group code of conduct (the code) relating to the lawful and ethical conduct of business and this is supported by the Group's core values. The code has been communicated to all directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates.

Environmental and social responsibilities

The Group follows 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 Board is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. We have established and maintained policies and procedures in relation to environmental and social risks. Details of our environmental, and social risk assessment process can be found on our website.

Through our risk management structure and control framework, the Board receives regular and adequate information to identify and assess significant risks and opportunities arising from environmental and social matters. Specifically, the Brand and Values Committee (BVC), which is appointed by the Board and includes the Chairman and Group Chief Executive, reviews the Group's sustainable business priorities, and oversees the Group's development of and delivery against public commitments regarding which activities and or businesses it will and will not encourage in line with the Here for good brand promise.

The BVC is informed by the Group Risk Committee and Group Head of Corporate Affairs, who is the risk control owner for reputational risk, including those associated with environmental and social matters. At the country level, the Country Head of Corporate Affairs is the risk control owner and the Risk Committee (RC) or, where there is no RC, the Management Committee, is the governance oversight committee. All employees are responsible for day to day identification and management of reputational risk. Quarterly reviews of risks and reporting are carried out at country, regional and Group levels. Where a reputational risk is identified, the risk is escalated in accordance with clearly documented internal reporting procedures.

Key areas of risk are those associated with clients' and customers' operations and their potential impact on the environment and local communities. The Board recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on our business. These risks are explicitly identified in our credit policies, and in the provision of advisory and other financial services in Wholesale Banking and SME Lending. We have published a series of Position Statements covering high impact sectors and key issues, outlining the environmental and social standards we encourage our clients to observe. We have adopted the Equator Principles that set procedures for recognising and mitigating the environmental and social impacts associated with Project Finance and related advisory services. The principles have been embedded in the Group's policy and procedures on Environmental and Social Risk in Project Finance – Application of the Equator Principles.

The Board is not aware of any material exceptions to its policies.

Environment and climate change strategy

The BVC is responsible for overseeing the direction of the Group's environmental agenda, which is implemented by businesses and support functions within the Group as appropriate. We understand that without a stable climate, energy, food and water security become increasingly difficult to achieve which in turn can have a detrimental impact on our business. Our environment and climate change strategy emphasises the interconnectedness of issues around food, energy and water security, against a backdrop of climate change. It was developed in 2009 and focuses on four central themes:

- operational impacts – minimising the direct impact of our operations, including air travel, paper use, water and energy consumption
- commercial opportunities and sustainable finance – managing environmental and social risks in our financing; developing new business in renewable energy and environmental finance
- engagement – ensuring that internal and external stakeholders are fully engaged to embed our strategy
- reporting – enhancing accountability of our actions and ensuring the continual robustness of our environmental data

Further details of our policies can be found on our website.

Community investment

We are committed to building a sustainable business and a more sustainable society. We recognise our responsibility to invest in the communities where we operate and work closely with local partners to deliver programmes that promote positive social and economic outcomes. In 2012, we contributed a total investment of $62.7 million to charities and community organisations. This sum includes direct financial support of $21.4 million and indirect contributions of $41.3 million such as employees' time, the donation of non-monetary goods and fundraising by our employees.

Our community investment activities focus on addressing health, youth and education priorities across our markets. Our global programmes include: Seeing is Believing, our global campaign to tackle avoidable blindness; Goal, our youth development programme that combines sports training with life skills and financial literacy training to empower adolescent girls; and Living with HIV, our workplace and community education initiative. We actively encourage our staff to volunteer their time and core skills to benefit their local communities. Each staff member is entitled to three days of paid volunteering leave per year. Further details of community programmes can be found on page 29.

HIV and AIDS procedures

HIV and AIDS remain a serious challenge in many of the markets where we operate, impacting our staff, their families and the broader community. The HIV and AIDS procedures as part of the Group Equal Opportunities Diversity and Dignity at Work Policy outline our commitment to support our employees. The HIV and AIDS procedures are implemented across all the countries in which we operate and apply to all staff and their families in a manner consistent with existing medical cover. In 2012, we revised our comprehensive HIV and AIDS training toolkit to provide up to date information and resources to our staff and community partners. The HIV and AIDS procedures are available on our website.

Electronic communication

The Board recognises the importance of good communications with all shareholders. Our directors are in regular contact with our institutional shareholders and general presentations are made when we announce our financial results. The AGM presents an opportunity to communicate with all shareholders.

Our shareholders are encouraged to receive our corporate documents electronically. The annual and interim financial statements, Notice of AGM and dividend circulars are all available electronically. If you do not already receive your corporate documents electronically and would like to do so in future please contact our registrars at the address on page 286.

Shareholders are also able to vote electronically on the resolutions being put to the AGM through our registrars' website at www.investorcentre.com

Annual General Meeting

Our AGM will be held at 11.00am (London time) (6.00pm Hong Kong time) on Wednesday 8 May 2013 at etc venues, 200 Aldersgate, St Paul's, London, EC1A 4HD. Details of the business to be conducted are contained in the Notice of AGM.

Report of the directors continued

Non-audit services

The Group's non-audit services policy (the policy) was reviewed and approved by the Audit Committee in 2011. The policy is based on a number of core principles. The overriding principle is to ensure that our Group statutory auditor, KPMG Audit Plc's (KPMG), independence and/or objectivity as the audit firm is not (or could not be seen to be) compromised by the appointment of KPMG to provide particular non-audit services. Subject to this overriding principle, the Audit Committee's view is that KPMG can be of value in a wider range of activities than just financial statement audit, and, where a non-audit service demands these qualities, KPMG should be allowed to tender, subject to the Accounting Practices Board's (APB) ethical standards and the terms of the policy. However, the policy makes it clear that KPMG should not be regarded as the automatic or first firm of choice for non-audit services and consideration should always be given to the use of other firms. The policy requires a conservative approach to be taken to the assessment of requests for KPMG to provide non-audit services.

The APB sets out various threats to audit independence including self-interest, self review, familiarity, taking of a management role or conducting advocacy. In particular, maintaining KPMG's independence from the Group requires them to avoid taking decisions on the Group's behalf. It is also recognised as essential that management retain the decision making capability as to whether to act on advice given by KPMG as part of a non-audit service. This means not just the ability to action the advice given, but to have sufficient knowledge of the subject matter to be able to make a reasoned and independent judgment as to its validity. Accordingly, the Group is required take a conservative approach to interpreting the potential threats to auditor independence and requires commensurately robust safeguards against them, if a non-audit service is to be permitted.

After due consideration, the Audit Committee decided not to reduce the policy to a proscribed list of non-audit services that KPMG are permitted to provide. Rather, each request for KPMG to provide non-audit services will be assessed on its own merits. The Audit Committee believes that such a case-by-case approach best accommodates (i) the need for the appropriate rigour and challenge to be applied to each request for KPMG to provide non audit services whilst (ii) preserving sufficient flexibility for the Group to engage KPMG to provide non-audit services where they are able to deliver particular value to the Group and where the proposed services can be provided without compromising KPMG's objectivity and independence. KPMG's objectivity is of particular value to the Group in the context of providing non-audit services that relate to the provision of an independent view, benchmarked either against external laws, regulations or requirements or the audit firm's own knowledge of best practices. The policy also specifically incorporates the APB's recommended prohibitions and restrictions on the types of non-audit services that are able to be provided by the audit firm.

By way of (non-exhaustive) illustration of the application of the principles set out in the policy the following types of non-audit services are:

- Likely to be permissible under the policy:
- Audit related services as defined by the APB – the Group would also extend this to work on investor circulars in most foreseeable circumstances
- An objective view as to whether the Group has applied external laws and regulations appropriately, such as checks over regulatory compliance
- Testing the robustness of controls infrastructure
- Due diligence over potential purchases or sales
- Not permissible under the policy:
- Any services that are prohibited (or to the extent they are restricted) by the APB's published guidance from time to time
- Aggressive tax or regulatory structuring proposals
- Any services where fees are paid on a contingent basis (in whole or in part)
- Consulting services, which actively assist in running the business in place of management as opposed to providing or validating information, which management then utilises in the operation of the business

Details relating to KPMG's remuneration as the Group statutory auditor and a description of the broad categories of the types of non-audit services provided by KPMG are given in note 8 to the financial statements on pages 219 and 220. There were no significant engagements of KPMG in 2012 for the provision of non-audit services.

Auditor

The Audit Committee reviews the appointment of the Group statutory auditor, its effectiveness and its relationship with the Group, which includes monitoring our use of the auditors for non-audit services and the balance of audit and non-audit fees paid. Following a review of the independence and effectiveness of our Group statutory auditor, a resolution will be proposed at the 2013 Annual General Meeting to reappoint KPMG Audit Plc. Each director believes that there is no relevant information of which our Group statutory auditor is unaware. Each has taken all steps necessary as a director to be aware of any relevant audit information and to establish that KPMG Audit Plc is made aware of any pertinent information.

By order of the Board

Annemarie Durbin
Group Company Secretary
5 March 2013

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report 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 financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 parent company and of their profit or loss for that period. In preparing each of the Group and Company 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
- 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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.

Under applicable law and regulations, the directors are also responsible for preparing a Report of the directors, Directors' remuneration report and Corporate governance statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Report of the directors includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board

Richard Meddings

R H Meddings
Group Finance Director
5 March 2013

Financial statements and notes

China
Standard Chartered has one of the largest foreign bank networks in China, spanning 25 cities with 23 branches, 76 sub-branches and one village bank

Independent Auditor's report to the members of Standard Chartered PLC

We have audited the financial statements of the Group (Standard Chartered PLC and its subsidiaries) and Company (Standard Chartered PLC) (together referred to as the financial statements) for the year ended 31 December 2012 set out on pages 197 to 267.

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 parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company'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 Company'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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 193, 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 Company's affairs as at 31 December 2012 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 Company 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
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006
- The information given in the Report of the directors, which includes information presented in the Chairman's statement, the Group Chief Executive's review and the Financial and Business reviews that are cross referenced from the Report of the directors, for the financial year for which the financial statements are prepared, is consistent with the financial statements
- Information given in the Corporate Governance section set out on pages 130 to 159 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures 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:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us
- The parent company financial statements and the part of the Report of directors' to be audited are not in agreement with the accounting records and returns
- Certain disclosures of directors' remuneration specified by law are not made
- We have not received all the information and explanations we require for our audit
- A Corporate Governance Statement has not been prepared by the company

Under the Listing Rules we are required to review:

- The Report of the directors set out on page 187 in relation to going concern
- The part of the Corporate Governance section pages 130 to 159 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review
- Certain elements of the report to shareholders by the Board on directors' remuneration

John Hughes (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
5 March 2013

Consolidated income statement
For the year ended 31 December 2012

	Notes	2012 $million	2011 $million
Interest income	3	**18,258**	16,584
Interest expense	4	**(7,248)**	(6,431)
Net interest income		**11,010**	10,153
Fees and commission income	5	**4,618**	4,466
Fees and commission expense	5	**(497)**	(420)
Net trading income	6	**2,748**	2,645
Other operating income	7	**1,192**	793
Non-interest income		**8,061**	7,484
Operating income		**19,071**	17,637
Staff costs	8	**(6,584)**	(6,630)
Premises costs	8	**(886)**	(862)
General administrative expenses	8	**(2,758)**	(1,804)
Depreciation and amortisation	9	**(668)**	(621)
Operating expenses		**(10,896)**	(9,917)
Operating profit before impairment losses and taxation		**8,175**	7,720
Impairment losses on loans and advances and other credit risk provisions	10	**(1,221)**	(908)
Other impairment	11	**(194)**	(111)
Profit from associates		**116**	74
Profit before taxation		**6,876**	6,775
Taxation	12	**(1,891)**	(1,842)
Profit for the year		**4,985**	4,933
Profit attributable to:			
Non-controlling interests	36	**98**	84
Parent company shareholders		**4,887**	4,849
Profit for the year		**4,985**	4,933
		cents	cents
Earnings per share:			
Basic earnings per ordinary share	14	**199.7**	200.8
Diluted earnings per ordinary share	14	**197.7**	198.2

The notes on pages 204 to 267 form an integral part of these financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2012

	Notes	2012 $million	2011 $million
Profit for the year		**4,985**	4,933
Other comprehensive income:			
Items that will not be reclassified to Income statement:			
Actuarial losses on retirement benefit obligations	34	**(76)**	(189)
Items that may be reclassified subsequently to income statement:			
Exchange differences on translation of foreign operations:			
Net gains/(losses) taken to equity		**575**	(1,003)
Net (losses)/gains on net investment hedges		**(73)**	5
Share of other comprehensive income from associates		**(2)**	1
Available-for-sale investments:			
Net valuation gains/(losses) taken to equity		**1,056**	(212)
Reclassified to income statement		**(339)**	(267)
Cash flow hedges:			
Net gains taken to equity		**133**	4
Reclassified to income statement		**(20)**	(94)
Taxation relating to components of other comprehensive income	12	**(132)**	98
Other comprehensive income for the year, net of taxation		**1,122**	(1,657)
Total comprehensive income for the year		**6,107**	3,276
Total comprehensive income attributable to:			
Non-controlling interests	36	**84**	56
Parent company shareholders		**6,023**	3,220
		6,107	3,276

The notes on pages 204 to 267 form an integral part of these financial statements.

Consolidated balance sheet
As at 31 December 2012

	Notes	2012 $million	2011[1] $million
Assets			
Cash and balances at central banks	15, 39	**61,043**	47,364
Financial assets held at fair value through profit or loss	15, 16	**27,084**	24,828
Derivative financial instruments	15, 17	**49,496**	58,524
Loans and advances to banks	15, 18	**68,381**	65,981
Loans and advances to customers	15, 19	**283,885**	266,790
Investment securities	15, 21	**99,413**	85,283
Other assets	15, 22	**28,818**	27,286
Current tax assets		**215**	232
Prepayments and accrued income		**2,581**	2,521
Interests in associates	23	**953**	903
Goodwill and intangible assets	25	**7,312**	7,061
Property, plant and equipment	26	**6,646**	5,078
Deferred tax assets	27	**691**	835
Total assets		**636,518**	592,686
Liabilities			
Deposits by banks	15, 28	**36,477**	35,296
Customer accounts	15, 29	**377,639**	345,726
Financial liabilities held at fair value through profit or loss	15, 16	**23,064**	19,599
Derivative financial instruments	15, 17	**47,192**	56,517
Debt securities in issue	15, 30	**55,979**	47,140
Other liabilities	15, 31	**24,504**	23,834
Current tax liabilities		**1,069**	1,005
Accruals and deferred income		**4,860**	4,458
Subordinated liabilities and other borrowed funds	15, 32	**18,799**	16,717
Deferred tax liabilities	27	**161**	131
Provisions for liabilities and charges	33	**215**	369
Retirement benefit obligations	34	**504**	519
Total liabilities		**590,463**	551,311
Equity			
Share capital	35	**1,207**	1,192
Reserves		**44,155**	39,522
Total parent company shareholders' equity		**45,362**	40,714
Non-controlling interests	36	**693**	661
Total equity		**46,055**	41,375
Total equity and liabilities		**636,518**	592,686

1 Amounts have been restated as explained in note 45

The notes on pages 204 to 267 form an integral part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 5 March 2013 and signed on its behalf by:

Sir John Peace
Chairman

P A Sands
Group Chief Executive

R H Meddings
Group Finance Director

Consolidated statement of changes in equity
For the year ended 31 December 2012

	Share capital $million	Share premium account $million	Capital and capital redemption reserve[1] $million	Merger reserve $million	Available-for-sale reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company shareholders equity $million	Non-controlling interests $million	Total $million
At 1 January 2011	1,174	5,386	18	12,421	308	57	(412)	19,260	38,212	653	38,865
Profit for the year	–	–	–	–	–	–	–	4,849	4,849	84	4,933
Other comprehensive income	–	–	–	–	(417)	(70)	(982)	(160)[2]	(1,629)	(28)	(1,657)
Distributions	–	–	–	–	–	–	–	–	–	(69)	(69)
Shares issued, net of expenses	6	58	–	–	–	–	–	–	64	–	64
Net own shares adjustment	–	–	–	–	–	–	–	(64)	(64)	–	(64)
Share option expense, net of taxation	–	–	–	–	–	–	–	434	434	–	434
Capitalised on scrip dividend	12	(12)	–	–	–	–	–	–	–	–	–
Dividends, net of scrip	–	–	–	–	–	–	–	(1,152)	(1,152)	–	(1,152)
Other increases	–	–	–	–	–	–	–	–	–	21	21
At 31 December 2011	**1,192**	**5,432**	**18**	**12,421**	**(109)**	**(13)**	**(1,394)**	**23,167**	**40,714**	**661**	**41,375**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,887**	**4,887**	**98**	**4,985**
Other comprehensive income	**–**	**–**	**–**	**–**	**588**	**94**	**513**	**(59)**[3]	**1,136**	**(14)**	**1,122**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(60)**	**(60)**
Shares issued, net of expenses	**2**	**57**	**–**	**–**	**–**	**–**	**–**	**–**	**59**	**–**	**59**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(386)**	**(386)**	**–**	**(386)**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**359**	**359**	**–**	**359**
Capitalised on scrip dividend	**13**	**(13)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,407)**	**(1,407)**	**–**	**(1,407)**
Other increases	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8**	**8**
At 31 December 2012	**1,207**	**5,476**	**18**	**12,421**	**479**	**81**	**(881)**	**26,561**	**45,362**	**693**	**46,055**

1 Includes capital reserve of $5 million and capital redemption reserve of $13 million

2 Comprises actuarial losses, net of taxation and non-controlling interests, of $161 million and share of comprehensive income from associates of $1 million

3 Comprises actuarial losses, net of taxation and non-controlling interests, of $59 million

Note 35 includes a description of each reserve.

The notes on pages 204 to 267 form an integral part of these financial statements.

Cash flow statement
For the year ended 31 December 2012

	Notes	Group 2012 $million	Group 2011 $million	Company 2012 $million	Company 2011 $million
Cash flows from operating activities					
Profit before taxation		**6,876**	6,775	**1,570**	1,211
Adjustments for:					
Non-cash items included within income statement	38	**2,465**	2,823	**(1,390)**	(841)
Change in operating assets	38	**(15,882)**	(68,011)	**(718)**	24
Change in operating liabilities	38	**26,416**	78,478	**5,104**	524
Contributions to defined benefit schemes	34	**(204)**	(77)	**–**	–
UK and overseas taxes paid		**(1,791)**	(1,618)	**(114)**	–
Net cash from operating activities		**17,880**	18,370	**4,452**	918
Net cash flows from investing activities					
Purchase of property, plant and equipment		**(168)**	(286)	**–**	–
Disposal of property, plant and equipment		**195**	139	**–**	–
Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired		**(63)**	(906)	**(78)**	–
Purchase of investment securities	21	**(157,325)**	(131,260)	**(4,810)**	(1,300)
Disposal and maturity of investment securities		**145,905**	119,831	**–**	–
Dividends received from investment in subsidiaries and associates	23	**14**	10	**1,433**	1,176
Net cash used in investing activities		**(11,442)**	(12,472)	**(3,455)**	(124)
Net cash flows from financing activities					
Issue of ordinary and preference share capital, net of expenses		**59**	64	**59**	64
Purchase of own shares		**(425)**	(146)	**(425)**	(146)
Exercise of share options through ESOP		**39**	57	**39**	57
Interest paid on subordinated liabilities		**(871)**	(842)	**(132)**	(104)
Gross proceeds from issue of subordinated liabilities		**3,390**	929	**3,222**	–
Repayment of subordinated liabilities		**(1,701)**	(540)	**(225)**	–
Interest paid on senior debts		**(867)**	(894)	**(320)**	(356)
Gross proceeds from issue of senior debts		**11,453**	15,594	**–**	3,853
Repayment of senior debts		**(5,938)**	(8,092)	**(807)**	(1,063)
Dividends paid to non-controlling interests and preference shareholders, net of scrip		**(161)**	(170)	**(101)**	(101)
Dividends paid to ordinary shareholders, net of scrip		**(1,306)**	(1,051)	**(1,306)**	(1,051)
Net cash from financing activities		**3,672**	4,909	**4**	1,153
Net increase in cash and cash equivalents		**10,110**	10,807	**1,001**	1,947
Cash and cash equivalents at beginning of year		**70,450**	59,734	**15,878**	13,931
Effect of exchange rate movements on cash and cash equivalents		**40**	(91)	**–**	–
Cash and cash equivalents at end of year	39	**80,600**	70,450	**16,879**	15,878

The notes on pages 204 to 267 form an integral part of these financial statements.

Company balance sheet
As at 31 December 2012

	Notes	2012 $million	2011 $million
Non-current assets			
Investments in subsidiary undertakings	23	**14,369**	14,291
Current assets			
Derivative financial instruments	47	**1,002**	601
Debt securities	47	**8,835**	4,025
Amounts owed by subsidiary undertakings	47	**16,879**	15,878
Taxation		**115**	45
		26,831	20,549
Current liabilities			
Derivative financial instruments	47	**–**	43
Other creditors		**338**	283
Deferred income	46	**18**	18
		356	344
Net current assets		**26,475**	20,205
Total assets less current liabilities		**40,844**	34,496
Non-current liabilities			
Debt securities in issue	47	**14,534**	11,374
Deferred income	46	**36**	54
Subordinated liabilities and other borrowed funds	32, 47	**4,806**	1,728
		19,376	13,156
Total assets less liabilities		**21,468**	21,340
Equity			
Share capital	35	**1,207**	1,192
Reserves		**20,261**	20,148
Total equity		**21,468**	21,340

The notes on pages 204 to 267 form an integral part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 5 March 2013 and signed on its behalf by:

Sir John Peace
Chairman

P A Sands
Group Chief Executive

R H Meddings
Group Finance Director

Company statement of changes in equity
For the year ended 31 December 2012

	Share capital $million	Share premium account $million	Capital and capital redemption reserve[1] $million	Merger reserve $million	Retained earnings $million	Total $million
At 1 January 2011	1,174	5,386	18	12,421	1,909	20,908
Profit for the year	–	–	–	–	1,209	1,209
Shares issued, net of expenses	6	58	–	–	–	64
Net own shares adjustment	–	–	–	–	(64)	(64)
Share option expense	–	–	–	–	375	375
Capitalised on scrip dividend	12	(12)	–	–	–	–
Dividends, net of scrip	–	–	–	–	(1,152)	(1,152)
At 31 December 2011	**1,192**	**5,432**	**18**	**12,421**	**2,277**	**21,340**
Profit for the year	**–**	**–**	**–**	**–**	**1,526**	**1,526**
Shares issued, net of expenses	**2**	**57**	**–**	**–**	**–**	**59**
Net own shares adjustment	**–**	**–**	**–**	**–**	**(386)**	**(386)**
Share option expense	**–**	**–**	**–**	**–**	**336**	**336**
Capitalised on scrip dividend	**13**	**(13)**	**–**	**–**	**–**	**–**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**(1,407)**	**(1,407)**
At 31 December 2012	**1,207**	**5,476**	**18**	**12,421**	**2,346**	**21,468**

1 Includes Capital reserve of $5 million and Capital redemption reserve of $13 million

Note 35 includes a description of each reserve.

The notes on pages 204 to 267 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

(a) Statement of compliance

The Group financial statements consolidate those of Standard Chartered PLC (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 following parts of the Risk review form part of these financial statements: from the start of the 'Risk management' section on page 56 to the end of the 'Liquidity risk' section on page 110, with the exception of the 'Asset backed securities' and 'The impact of Basel III' sections on pages 94, 95 and 103 respectively.

(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 Risk review on page 73)
- Taxation (refer to note 12)
- Fair value of financial instruments (refer to note 15)
- Goodwill impairment (refer to note 25)
- Provisions for liabilities and charges (refer to note 33)
- Retirement benefit obligations (refer to note 34)
- Share based payments (refer to note 37)

(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

The Group adopted the following amendments to existing accounting standards from 1 January 2012. These amendments have been endorsed by the EU and do not have a material impact on the Group.

Amendments to IFRS 7 *Financial Instruments: Disclosure* requires additional disclosures when an asset is transferred but is not derecognised. These amendments also require disclosure of assets that are derecognised but where the entity continues to have a continuing exposure to the asset after sale. Refer to note 15 for the Group's disclosure with respect to transferred assets.

Amendments to IAS 12 *Income Taxes* 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.

The Group has early adopted amendments to IAS 1 *Presentation of Financial Statements* before their mandatory application date of 1 January 2013. These amendments change the grouping of items presented within Other Comprehensive Income (OCI) such that the potential impact that OCI items may have on future profit or loss can be more easily identified. Items that are eligible for reclassification to the income statement at a future point in time (for example, upon derecognition or settlement) are presented separately from items which will never be reclassified. These amendments are required to be applied retrospectively.

(f) Forthcoming accounting standards and interpretations – issued but not effective

At 31 December 2012, a number of accounting standards, interpretations and amendments had been issued by the International Accounting Standards Board, which are not yet effective for the Group or Company financial statements. Those that are expected to have a significant effect on the Group and Company financial statements in future years are discussed below.

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

Accounting standards effective 1 January 2013

The EU has endorsed IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures, for application* from 1 January 2014. Though this is one year later than the mandatory adoption date required by the IASB of 1 January 2013, the EU has permitted early adoption and the Group intends to early apply these five standards from 1 January 2013. IFRS 10 and 11, IAS 27 and 28 require retrospective application while IFRS 12 is applied prospectively.

IFRS 10 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. The application of IFRS 10 is not expected to have a material impact on the Group.

IFRS 11 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. As a result, the Group's joint venture investment in PT Bank Permata Tbk (Permata) which is currently proportionately consolidated, will be accounted for using the equity method under IFRS 11. This change is not expected to have a material impact on the Group and further details on the Group's interest in Permata are provided in note 23.

1. Accounting policies continued

IFRS 12 prescribes additional disclosures around significant judgments 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. These disclosures will be provided in the financial statements for the year ending 31 December 2013.

IFRS 13 *Fair Value Measurement* consolidates the guidance on how to measure fair value, which is presently spread across various IFRSs, 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. IFRS 13 is required to be applied prospectively. The most significant impact of applying IFRS 13 is the mandatory requirement for the fair value of derivative liabilities and other liabilities held at fair value through profit or loss to take into account an adjustment for an entity's own credit risk. The precise impact of this adjustment depends on the market conditions and the Group's holdings of financial instruments at the reporting date. IFRS 13 has been endorsed by the EU.

IAS 19 *Employee Benefits (Revised)*, introduces significant changes in the recognition, presentation and disclosure of defined benefit plans. The most significant impact on the Group as a result of these revisions comes in the form of the rate used to discount the plan assets. Where this rate is presently based on the expected return on each class of pension assets, from 1 January 2013, assets will be measured based on an AA rated corporate bond yield, which aligns to the rate at which the liability is discounted. It also makes changes to termination benefits as well as enhancing disclosure requirements and is required to be applied retrospectively. The effect of these changes on total operating expenses and pre-tax profit is not expected to be material and will depend on market interest rates, rates of return and the actual mix of scheme assets at that time. These revisions to IAS 19 have been endorsed by the EU.

Amendments to IFRS 7 *Financial Instruments: Disclosure*, require disclosure of the effect or potential effect of netting financial assets and financial liabilities on an entity's financial position. This includes financial instruments transacted under enforceable master netting arrangements or other similar agreements. The amendments are required to be applied retrospectively and have been endorsed by the EU.

Accounting standards effective 1 January 2014

Amendment to IAS 32 Financial Instruments: Presentation clarifies the requirements for offsetting financial assets and liabilities and addresses inconsistencies noted in current practice when applying the offsetting criteria in IAS 32. These amendments require retrospective application, can be early adopted and have been endorsed by the EU.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27), requires entities meeting the definition of an investment entity to not consolidate its subsidiaries or apply IFRS 3 Business Combinations when it obtains control of another entity. An investment entity is defined as an entity that:

- obtains funds from one or more investor for the purpose of providing those investor(s) with investment management services
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both
- measures and evaluates the performance of substantially all of its investments on a fair value basis

Entities not meeting the definition of an investment entity, including the parent company of an eligible investment entity, will continue to consolidate all subsidiaries. The investment entity consolidation exemption is not expected to have a material impact on the Group. This exemption had not been endorsed by the EU as at 31 December 2012.

Accounting standards effective 1 January 2015

IFRS 9 *Financial instruments*

IFRS 9 will eventually replace IAS 39 *Financial Instruments: Recognition and Measurement* and introduce new requirements for the classification and measurement of financial assets and financial liabilities. When completed, IFRS 9 will also introduce a new model for recognising loan loss provisions based on expected losses, to replace the current model in IAS 39, which measures loan loss provisions based on incurred losses and provide for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology in addition to now permitting risk components of non-financial items to be hedged. As at 31 December 2012, only the classification and measurement phase of IFRS 9 had been published. The EU has indicated that it would not endorse IFRS 9 for use until all components have been completed. Given the uncertainty that surrounds the final form of IFRS 9, the Group is not in a position to quantify the impact of this accounting standard.

Classification and measurement

IFRS 9 as published operates a binary classification model whereby financial assets and liabilities are classified either at amortised cost or at fair value. 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. In all other cases the financial asset is classified and measured at fair value through profit or loss. Fair value movements on non-trading equity instruments may be presented in other comprehensive income, though these cannot be recycled to the income statement upon disposal of the equity instrument.

Financial liabilities are required to be measured at fair value or amortised cost as is the case under IAS 39, except that the change in fair value relating to own credit is reported within other comprehensive income and not the income statement.

In November 2012, the IASB issued an exposure draft of limited amendments to the classification and measurement requirements of IFRS 9 which proposed introducing a third classification category where, subject to qualifying criteria, fair value changes on debt instruments would be measured through reserves and will be eligible for recycling.

Impairment

The IASB continues to debate proposals around recognising credit losses based on an expected loss approach. Based on its most recent deliberations, the Board has indicated that it will proceed with a methodology whereby either 12 months' expected losses or lifetime expected losses would be measured depending on whether certain criteria for recognising lifetime expected losses are met including whether or not the asset deteriorates below 'investment grade'. The IASB is expected to issue a new exposure draft on impairment for financial assets held at amortised cost in the first quarter of 2013.

Hedge accounting

The IASB has split the hedge accounting phase into two parts: general hedging and macro hedging. The Board issued a review draft of a general hedging standard in September 2012, which seeks to deliver a more principles based standard that aligns hedge accounting more closely with risk management. This includes, amongst others, assessing hedge effectiveness through qualitative, forward-looking assessments rather than using bright lines, and hedging risk components of non-financial items. This part is expected to be completed in the first quarter of 2013. A discussion paper on macro hedging is expected in the first half of 2013.

Notes to the financial statements continued

1. Accounting policies continued

(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 year restatements

Details of prior year restatements are set out in note 45.

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 23.

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
- 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 43.

Associates and jointly controlled entities

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. Details of the Group's interest in associates are provided in note 23.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

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

Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

At each balance sheet date the Group assesses whether there is any objective evidence of impairment in the investment in associates. Evidence of objective evidence is a significant or prolonged decline in the fair value of the Group's investment in an associate below its cost is considered, amongst other factors, in assessing objective evidence of impairment for associates.

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.

Jointly controlled entities

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. Further details on the Group's joint venture investment are provided in note 23.

Goodwill recognised on jointly controlled entities is assessed similar to goodwill arising on consolidation of subsidiaries.

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. Note 24 provides details on business combinations entered into by the Group during 2012.

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 25 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 that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Where a business combination is 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.

1. **Accounting policies** continued

(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
- 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 are recognised within net interest income.

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

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

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. Details of financial assets and liabilities held by the Group are provided in Notes 15, 16 and 17.

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.

Notes to the financial statements continued

1. Accounting policies continued

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 substantially 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.

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 that carry a mandatory coupon that represents a market rate of interest at the issue date, or that 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 data.

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 is 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 that 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 the observable market. In those cases where the initially recognised fair value is based on a valuation model that uses inputs that 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.

1. Accounting policies continued

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 are observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

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

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Further details on collateral held by the Group is discussed in the Risk review on page 72. 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 are set out in the Risk review on pages 56 to 115.

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 reclassified 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

Loan 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.

Notes to the financial statements continued

1. Accounting policies continued

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.

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 repo and reverse-repo transactions entered into by the Group are provided in note 15.

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 that 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 valued 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. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives.

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 forecast 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.

Details of the derivative financial instruments held by the Group, including those held for hedge accounting are provided in note 17.

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 reclassified 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 reclassified to 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.

(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.

1. Accounting policies continued

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 judgment. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments (as set out in note 2) as the Group views its reportable segments on a global basis. Note 25 sets out the major cash-generating units to which goodwill has been allocated.

Acquired intangibles
At the date of acquisition of a subsidiary or associate, intangible assets that 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.

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

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

Current and deferred tax relating to items that 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.

Notes to the financial statements continued

1. Accounting policies continued

(s) Employee benefits

Retirement benefit 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.

Details of the Group's retirement benefit obligations are provided in note 34.

Share-based compensation
The Group operates equity-settled and cash-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the start of the performance period to the vesting date. For example, the expense for awards granted in 2013 in respect of 2012 performance, which vest in 2014-2016, is recognised as an expense over the period from 1 January 2012 to the vesting dates in 2014-2016. For all other awards the expense is recognised over the period from the date of grant to the vesting date.

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

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

Cash-settled awards are revalued at each balance sheet date and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to the income statement.

The Company records the value of the equity settled awards as a deemed investment in subsidiaries. Any revaluation related to cash-settled awards is recorded as an amount due from subsidiary undertakings.

Details of the Group's share-based compensation scheme are set out in note 37.

(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 clients and 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 client and 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, which includes profit before tax, net interest margin and structure of the Group's deposits, 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 arm's 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

	2012					2011				
	Consumer Banking $million	**Wholesale Banking $million**	**Total reportable segments $million**	**Corporate items not allocated[2] $million**	**Total $million**	Consumer Banking $million	Wholesale Banking $million	Total reportable segments $million	Corporate items not allocated[3] $million	Total $million
Internal income	**(16)**	**16**	**–**	**–**	**–**	(44)	44	–	–	–
Net interest income	**4,923**	**6,087**	**11,010**	**–**	**11,010**	4,628	5,525	10,153	–	10,153
Other income	**2,295**	**5,676**	**7,971**	**90**	**8,061**	2,207	5,277	7,484	–	7,484
Operating income	**7,202**	**11,779**	**18,981**	**90**	**19,071**	6,791	10,846	17,637	–	17,637
Operating expenses	**(4,723)**	**(5,999)**	**(10,722)**	**(174)**	**(10,896)**	(4,605)	(5,147)	(9,752)	(165)	(9,917)
Operating profit before impairment losses and taxation	**2,479**	**5,780**	**8,259**	**(84)**	**8,175**	2,186	5,699	7,885	(165)	7,720
Impairment losses on loans and advances and other credit risk provisions	**(697)**	**(524)**	**(1,221)**	**–**	**(1,221)**	(524)	(384)	(908)	–	(908)
Other impairment	**(4)**	**(120)**	**(124)**	**(70)**	**(194)**	(12)	(99)	(111)	–	(111)
Profit from associates	**–**	**–**	**–**	**116**	**116**	–	–	–	74	74
Profit before taxation	**1,778**	**5,136**	**6,914**	**(38)**	**6,876**	1,650	5,216	6,866	(91)	6,775
Total assets employed[4]	**143,250**	**491,409**	**634,659**	**1,859**	**636,518**	135,154	455,562	590,716	1,970	592,686
Total liabilities employed[4]	**189,779**	**399,454**	**589,233**	**1,230**	**590,463**	172,710	377,465	550,175	1,136	551,311
Other segment items:										
Capital expenditure[1]	**210**	**2,042**	**2,252**	**–**	**2,252**	178	1,397	1,575	–	1,575
Depreciation	**148**	**263**	**411**	**–**	**411**	169	199	368	–	368
Investment in associates	**–**	**–**	**–**	**953**	**953**	–	–	–	903	903
Amortisation of intangible assets	**83**	**174**	**257**	**–**	**257**	73	180	253	–	253

1 Includes capital expenditure in Wholesale Banking of $1,788 million in respect of operating lease assets (2011: $1,049 million)

2 Relates to profits realised from repurchase of subordinated liabilities, UK bank levy, impairment of investment in associates and the Group's share of profit from associates

3 Relates to UK bank levy, and the Group's share of profit from associates

4 Amounts have been restated as explained in note 45

Notes to the financial statements continued

2. Segmental Information continued

The following table details entity-wide operating income by product:

	2012 $million	2011 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	**2,707**	2,422
Wealth Management	**1,275**	1,272
Deposits	**1,566**	1,409
Mortgage and Auto Finance	**1,390**	1,478
Other	**264**	210
	7,202	6,791
Wholesale Banking		
Lending and Portfolio Management	**891**	841
Transaction Banking		
Trade	**1,940**	1,595
Cash Management and Custody	**1,731**	1,652
Global Markets		
Financial Markets	**3,663**	3,688
Asset and Liability Management (ALM)	**849**	921
Corporate Finance	**2,222**	1,873
Principal Finance	**483**	276
	7,217	6,758
	11,779	10,846

Entity-wide information

By geography

The Group manages its reportable business segments on a global basis. The operations are based in eight main geographic areas. The UK is the home country of the Company.

	2012								
	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	111	(107)	(85)	93	129	84	60	(285)	–
Net interest income	1,564	1,251	1,421	2,397	920	1,143	917	1,397	11,010
Fees and commissions income, net	830	551	210	719	304	471	416	620	4,121
Net trading income	653	377	147	584	157	448	157	225	2,748
Other operating income	190	131	159	167	75	88	43	339	1,192
Operating income	3,348	2,203	1,852	3,960	1,585	2,234	1,593	2,296	19,071
Operating expenses	(1,572)	(1,169)	(1,081)	(2,432)	(753)	(1,100)	(784)	(2,005)	(10,896)
Operating profit before impairment losses and taxation	1,776	1,034	771	1,528	832	1,134	809	291	8,175
Impairment losses on loans and advances and other credit risk provisions	(109)	(66)	(249)	(246)	(165)	(316)	(38)	(32)	(1,221)
Other impairment	(7)	(2)	(8)	(155)	9	(32)	–	1	(194)
Profit from associates	–	–	–	115	–	–	–	1	116
Profit before taxation	1,660	966	514	1,242	676	786	771	261	6,876
Capital expenditure[2]	1,828	247	23	63	27	19	37	8	2,252

1 Americas UK & Europe includes operating income of $1,187 million in respect of the UK, the Company's country of domicile

2 Includes capital expenditure in Hong Kong of $1,788 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment (note 26) and software related intangibles (note 25) including any post-acquisition additions made by the acquired entities

2. Segmental Information continued

	2011								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[3] $million	India $million	Middle East & Other S Asia $million	Africa[3] $million	Americas UK & Europe[1] $million	Total $million
Internal income	70	(98)	(66)	19	96	51	85	(157)	–
Net interest income	1,532	1,075	1,430	2,169	889	1,146	760	1,152	10,153
Fees and commissions income, net	752	509	197	760	423	443	346	616	4,046
Net trading income	559	571	77	404	275	488	172	99	2,645
Other operating income	136	129	80	159	122	91	19	57	793
Operating income	3,049	2,186	1,718	3,511	1,805	2,219	1,382	1,767	17,637
Operating expenses	(1,395)	(1,105)	(1,335)	(2,065)	(829)	(1,085)	(714)	(1,389)	(9,917)
Operating profit before impairment losses and taxation	1,654	1,081	383	1,446	976	1,134	668	378	7,720
Impairment losses on loans and advances and other credit risk provisions	(103)	(48)	(198)	(135)	(112)	(286)	(24)	(2)	(908)
Other impairment	–	(31)	(13)	31	(60)	(14)	(16)	(8)	(111)
Profit from associates	–	–	–	73	–	–	–	1	74
Profit before taxation	1,551	1,002	172	1,415	804	834	628	369	6,775
Capital expenditure[2]	781	221	25	74	60	20	25	369	1,575

1 Americas UK & Europe includes operating income of $799 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 of $325 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment (note 26) and software related intangibles (note 25) including any post-acquisition additions made by the acquired entities

3 Amounts have been restated as explained in note 45

Net interest margin and yield

	2012 $million	2011 $million
Net interest margin (%)	**2.3**	2.3
Net interest yield (%)	**2.2**	2.2
Average interest earning assets	**488,178**	441,892
Average interest bearing liabilities	**461,480**	410,602

Net interest margin by geography

	2012									
	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**	**Intra-group/ tax assets $million**	**Total $million**
Total assets employed	**130,601**	**107,973**	**62,903**	**117,786**	**36,935**	**46,219**	**20,890**	**179,516**	**(66,305)**	**636,518**
Of which : Loans to customers[2]	**53,330**	**51,318**	**36,165**	**58,977**	**23,994**	**25,200**	**11,304**	**28,575**	**–**	**288,863**
Average interest-earning assets	**106,574**	**76,288**	**54,069**	**105,083**	**29,747**	**36,928**	**18,260**	**113,626**	**(52,397)**	**488,178**
Net interest income	**1,716**	**1,144**	**1,335**	**2,461**	**1,050**	**1,230**	**976**	**1,098**	**–**	**11,010**
Net interest margin (%)	**1.6**	**1.5**	**2.5**	**2.3**	**3.5**	**3.3**	**5.3**	**1.0**	**–**	**2.3**

1 Americas, UK & Europe includes total assets employed of $108,775 million in respect of the UK, the Company's country of domicile

	2011									
	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	Intra-group/ tax assets $million	Total $million
Total assets employed[3]	117,700	104,021	63,134	113,471	42,607	56,223	20,403	148,064	(72,937)	592,686
Of which : Loans to customers[2, 3]	50,996	43,827	38,072	53,979	23,686	23,299	11,231	26,688	–	271,778
Average interest-earning assets	91,923	67,952	57,031	93,333	31,299	33,851	14,569	96,396	(44,462)	441,892
Net interest income	1,631	1,011	1,348	2,185	985	1,202	836	955	–	10,153
Net interest margin (%)	1.8	1.5	2.4	2.3	3.1	3.6	5.7	1.0	–	2.3

1 Americas UK & Europe includes total assets employed of $93,891 million in respect of the UK, the Company's country of domicile

2 The analysis of loans and advances to customers is based on the location of customer rather than booking location of the loan

3 Amounts have been restated as explained in note 45

Notes to the financial statements continued

2. Segmental Information continued

The following tables set out the structure of the Group's deposits by principal geographic areas:

	2012								
	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
Non-interest bearing current and demand accounts	8,178	9,260	49	3,529	2,691	9,223	4,380	4,920	42,230
Interest bearing current accounts and savings deposits	56,261	28,978	21,368	32,519	2,224	4,159	2,392	27,240	175,141
Time deposits	35,224	37,968	16,989	41,370	7,380	12,367	3,318	49,281	203,897
Other deposits	199	242	595	918	1,636	455	163	1,851	6,059
Total	99,862	76,448	39,001	78,336	13,931	26,204	10,253	83,292	427,327
Deposits by banks	1,585	2,005	1,769	5,678	441	1,934	540	23,493	37,445
Customer accounts	98,277	74,443	37,232	72,658	13,490	24,270	9,713	59,799	389,882
	99,862	76,448	39,001	78,336	13,931	26,204	10,253	83,292	427,327
Debt securities in issue:									
Senior debt	1,291	–	4,038	1,485	–	69	6	14,767	21,656
Other debt securities	5	1,903	1,999	3,617	47	–	294	31,719	39,584
Subordinated liabilities and other borrowed funds	1,454	–	871	560	–	29	62	15,823	18,799
Total	102,612	78,351	45,909	83,998	13,978	26,302	10,615	145,601	507,366

The above table includes financial instruments held at fair value (see note 15).

	2011								
	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
Non-interest bearing current and demand accounts	6,956	9,013	66	4,181	2,557	8,813	3,886	3,038	38,510
Interest bearing current accounts and savings deposits[1]	48,543	24,567	19,381	29,172	2,285	3,874	2,985	22,378	153,185
Time deposits	33,951	32,730	19,337	41,806	6,706	10,964	3,094	44,447	193,035
Other deposits	283	295	748	1,682	1,691	352	109	1,342	6,502
Total	89,733	66,605	39,532	76,841	13,239	24,003	10,074	71,205	391,232
Deposits by banks[1]	2,025	2,299	1,603	5,844	175	2,059	569	21,814	36,388
Customer accounts[1]	87,708	64,306	37,929	70,997	13,064	21,944	9,505	49,391	354,844
	89,733	66,605	39,532	76,841	13,239	24,003	10,074	71,205	391,232
Debt securities in issue:									
Senior debt	1,708	–	3,549	955	56	–	13	11,641	17,922
Other debt securities	112	770	4,449	4,546	307	56	215	23,196	33,651
Subordinated liabilities and other borrowed funds	1,687	–	837	601	–	8	41	13,543	16,717
Total	93,240	67,375	48,367	82,943	13,602	24,067	10,343	119,585	459,522

1 Amounts have been restated as explained in note 45

The above table includes financial instruments held at fair value (see note 15).

3. Interest income

	2012 $million	2011 $million
Balances at central banks	**161**	159
Treasury bills	**914**	790
Loans and advances to banks	**1,214**	1,251
Loans and advances to customers	**13,588**	12,296
Listed debt securities	**781**	749
Unlisted debt securities	**1,523**	1,269
Accrued on impaired assets (discount unwind)	**77**	70
	18,258	16,584
Of which from financial instruments held at:		
Amortised cost	**14,777**	13,419
Available-for-sale	**2,425**	2,259
Held at fair value through profit or loss	**1,056**	906

4. Interest expense

	2012 $million	2011 $million
Deposits by banks	**685**	429
Customer accounts:		
Interest bearing current accounts and savings deposits	**1,336**	1,450
Time deposits	**3,507**	3,130
Debt securities in issue	**1,138**	948
Subordinated liabilities and other borrowed funds:		
Wholly repayable within five years	**3**	13
Other	**579**	461
	7,248	6,431
Of which from financial instruments held at:		
Amortised cost	**6,533**	5,953
Held at fair value through profit or loss	**715**	478

5. Fees and commissions

	2012 $million	2011 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	**392**	391
Wealth Management	**880**	868
Deposits	**234**	239
Mortgages and Auto Finance	**93**	92
Others	**80**	44
	1,679	1,634
Wholesale Banking		
Lending and Portfolio Management	**91**	72
Transaction Banking	**1,449**	1,409
Financial Markets	**230**	142
Corporate Finance	**670**	766
Others	**2**	23
	2,442	2,412
Net fee and commission income	**4,121**	4,046

Total fee income arising from financial instruments that are not fair valued through profit or loss of $1,594 million (2011: $1,380 million) and arising from trust and other fiduciary activities of $119 million (2011: $155 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss of $83 million (2011: $74 million) and arising from trust and other fiduciary activities of $21 million (2011: $22 million).

Notes to the financial statements continued

6. Net trading income

	2012 $million	2011 $million
Gains less losses on instruments held for trading:		
Foreign currency[1]	**1,854**	1,789
Trading securities	**730**	23
Interest rate derivatives	**180**	333
Credit and other derivatives	**(153)**	632
	2,611	2,777
Gains less losses from fair value hedging:		
Gains less losses from fair value hedged items	**10**	(808)
Gains less losses from fair value hedging instruments	**(13)**	795
	(3)	(13)
Gains less losses on instruments designated at fair value:		
Financial assets designated at fair value through profit or loss	**229**	52
Financial liabilities designated at fair value through profit or loss	**(256)**	(438)
Derivatives managed with financial instruments designated at fair value through profit or loss	**167**	267
	140	(119)
	2,748	2,645

1 Includes foreign currency gains and losses arising on the translation of foreign currency monetary assets and liabilities

7. Other operating income

	2012 $million	2011 $million
Other operating income includes:		
Gains less losses on disposal of financial assets:		
Available-for-sale	**339**	267
Loans and receivables	**37**	27
Dividend income	**92**	73
Gains arising on repurchase of subordinated liabilities	**90**	–
Gains arising on assets fair valued at acquisition	**3**	12
Rental income from operating lease assets	**347**	268
Gains on disposal of property, plant and equipment	**100**	52
Gain arising on sale of business	**15**	–

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

	2012 $million	2011 $million
Staff costs:		
Wages and salaries	**4,955**	4,973
Social security costs	**148**	155
Other pension costs (note 34)	**302**	282
Share based payment costs (note 37)	**374**	392
Other staff costs	**805**	828
	6,584	6,630

Variable compensation is included within wages and salaries. Further details are disclosed in the Directors' remuneration report on page 163. Other staff costs include training and travel costs.

8. Operating expenses continued

The following tables summarise the number of employees within the Group:

	2012			
	Consumer Banking	**Wholesale Banking**	**Support Services**	**Total**
At 31 December	**55,237**	**19,752**	**14,069**	**89,058**
Average for the year	**54,650**	**19,565**	**13,354**	**87,569**

	2011			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	54,604	19,517	12,744	86,865
Average for the year	53,242	19,236	12,758	85,236

The company employed nil staff at 31 December 2012 (2011: nil) and it incurred costs of $3 million (2011: $3 million).

Details of directors' pay and benefits and interests in shares are disclosed in the Directors' remuneration report on pages 160 to 185.

Transactions with directors, officers and other related parties are disclosed in note 46.

Premises and equipment expenses

	2012 $million	2011 $million
Rental of premises	**438**	420
Other premises and equipment costs	**417**	410
Rental of computers and equipment	**31**	32
	886	862

General administrative expenses

	2012 $million	2011 $million
UK bank levy	**174**	165
Settlements with US authorities	**667**	–
Other general administrative expenses	**1,917**	1,639
	2,758	1,804

The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting. The rate of the levy for 2012 is 0.088 per cent for chargeable short-term liabilities, with a lower rate of 0.044 per cent generally applied to chargeable equity and long-term liabilities (i.e. liabilities with a remaining maturity greater than one year). The rate for 2013 has been increased to 0.13 per cent for qualifying liabilities, with a long-term rate of 0.065 per cent.

During 2012, the Group reached settlements with the US authorities regarding US sanctions compliance in the period 2001 to 2007, involving a Consent Order by the New York Department of Financial Services (NYDFS), a Cease and Desist Order by the Federal Reserve Bank of New York (FRBNY), Deferred Prosecution Agreements with each of the Department of Justice and with the District Attorney of New York and a Settlement Agreement with the Office of Foreign Assets Control.

Auditor's remuneration

Auditor's remuneration in relation to the Group statutory audit amounts to $3.8 million (2011: $3.6 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'):

	2012 $million	2011 $million
Audit fees for the Group statutory audit:		
Fees relating to the current year	**3.8**	3.6
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	**10.7**	10.5
Total audit and audit related fees	**14.5**	14.1
Other services pursuant to legislation	**2.6**	2.5
Tax services	**0.9**	0.6
Services relating to corporate finance transactions	**0.3**	0.1
All other services	**0.4**	1.7
Total fees payable	**18.7**	19.0

Notes to the financial statements continued

8. Operating expenses continued

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

- Audit fees are in respect of fees payable to KPMG Audit Plc for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered PLC. They exclude amounts payable for the audit of Standard Chartered PLC's subsidiaries and amounts payable to KPMG Audit Plc's associates. These amounts have been included in Fees payable to KPMG for other services provided to the Group
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings, including comfort letters and interim reviews
- Tax services include tax compliance services and tax advisory services
- Services 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 less than $0.1 million (2011: $0.1 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 PLC are not separately disclosed because such fees are disclosed on a consolidated basis for the Group.

9. Depreciation and amortisation

	2012 $million	2011 $million
Premises	**127**	123
Equipment:		
Operating lease assets	**148**	100
Others	**136**	145
Intangibles:		
Software	**190**	184
Acquired on business combinations	**67**	69
	668	621

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 risk provisions:

	2012 $million	2011 $million
Net charge against profit on loans and advances:		
Individual impairment charge	**1,247**	867
Portfolio impairment (release)/charge	**(27)**	14
	1,220	881
Provisions related to credit commitments	**5**	2
Impairment (release)/charge relating to debt securities classified as loans and receivables	**(4)**	25
Total impairment losses and other credit risk provisions	**1,221**	908

An analysis of impairment provisions on loans and advances by geography and business is set out within the Risk review on pages 74 to 91.

11. Other impairment

	2012 $million	2011 $million
Impairment losses on available-for-sale financial assets:		
– Asset-backed securities	**(3)**	7
– Other debt securities	**(16)**	52
– Equity shares	**134**	42
	115	101
Impairment of investment in associates	**70**	–
Other	**34**	40
	219	141
Recovery of impairment on disposal of equity instruments[1]	**(25)**	(30)
	194	111

1 Relates to private equity instruments sold during the year that had impairment provisions raised against them in previous periods

12. Taxation

Determining the Group's taxation charge for the year involves a degree of estimation and judgement.

Analysis of taxation charge in the year:

	2012 $million	2011 $million
The charge for taxation based upon the profits for the year comprises:		
Current tax:		
United Kingdom corporation tax at 24.5 per cent (2011: 26.5 per cent):		
Current tax on income for the year[1]	**110**	1,037
Adjustments in respect of prior periods (including double taxation relief)	**10**	(101)
Double taxation relief[1]	**(9)**	(912)
Foreign tax:		
Current tax on income for the year	**1,711**	1,645
Adjustments in respect of prior periods	**(4)**	8
	1,818	1,677
Deferred tax:		
Origination/reversal of temporary differences	**65**	207
Adjustments in respect of prior periods	**8**	(42)
	73	165
Tax on profits on ordinary activities	**1,891**	1,842
Effective tax rate	**27.5%**	27.2%

The UK corporation tax rate was reduced from 26 per cent to 24 per cent with an effective date of 1 April 2012, giving a blended rate of 24.5 per cent for the year. This change has reduced the UK deferred tax asset by $24 million.

Foreign taxation includes taxation on Hong Kong profits of $189 million (2011: $170 million) provided at a rate of 16.5 per cent (2011: 16.5 per cent) on the profits assessable in Hong Kong. Deferred taxation includes origination/(reversal) of temporary differences in Hong Kong profits of $3 million (2011: $28 million) provided at a rate of 16.5 per cent (2011: 16.5 per cent) on the profits assessable in Hong Kong.

The taxation charge for the year is higher than the blended rate of corporation tax in the United Kingdom, 24.5 per cent. The differences are explained below:

	2012 $million	2011 $million
Profit on ordinary activities before taxation	**6,876**	6,775
Tax at 24.5 per cent (2011: 26.5 per cent)	**1,685**	1,795
Effects of:		
Tax free income	**(263)**	(117)
Lower tax rates on overseas earnings	**(338)**	(200)
Higher tax rates on overseas earnings	**386**	322
Adjustments to tax charge in respect of previous periods	**14**	(135)
Branch Profits Exemption[1]	**–**	138
Non-deductible expenses	**438**	209
Other items	**(31)**	(170)
Tax on profits on ordinary activities	**1,891**	1,842

1 The Group elected into the Branch Profit Exemption Regime which took effect from 1 January 2012. This election provides for the profits of foreign branches of a UK company to be exempt from UK corporation tax. Double taxation relief has also reduced as a result of the election. The prior period impact was to reduce the UK deferred tax asset by $138 million

Notes to the financial statements continued

12. Taxation continued

	2012			2011		
	Current Tax $million	**Deferred Tax $million**	**Total $million**	Current Tax $million	Deferred Tax $million	Total $million
Tax recognised in other comprehensive income						
Available-for-sale assets	**(40)**	**(87)**	**(127)**	(33)	74	41
Cash flow hedges	**–**	**(19)**	**(19)**	–	20	20
Retirement benefit obligations	**–**	**14**	**14**	–	37	37
	(40)	**(92)**	**(132)**	(33)	131	98
Other tax recognised in equity						
Share based payments	**14**	**8**	**22**	80	(21)	59
	14	**8**	**22**	80	(21)	59
Total tax (charge)/credit recognised in equity	**(26)**	**(84)**	**(110)**	47	110	157

13. Dividends

	2012		2011	
Ordinary equity shares	**Cents per share**	**$million**	Cents per share	$million
2011/2010 final dividend declared and paid during the year	**51.25**	**1,216**	46.65	1,089
2012/2011 interim dividend declared and paid during the year	**27.23**	**650**	24.75	586
		1,866		1,675

The amounts in the table above reflect the actual dividend per share declared and paid to shareholders in 2012 and 2011. Dividends on ordinary equity shares are recorded in the period in which they are declared and, in respect of the final dividend, have been approved by the shareholders. Accordingly, the final ordinary equity share dividends set out above relate to the respective prior years. The 2011 final dividend of 51.25 cents per ordinary share ($1,216 million) was paid to eligible shareholders on 15 May 2012 and the 2012 interim dividend of 27.23 cents per ordinary share ($650 million) was paid to eligible shareholders on 11 October 2012.

2012 recommended final ordinary equity share dividend

The 2012 final ordinary equity share dividend recommended by the Board is 56.77 cents per share ($1,366 million), which makes the total dividend for 2012 84.00 cents per share (2011: 76.00 cents per share). The final dividend will be paid in either pounds sterling, Hong Kong dollars or US dollars on 14 May 2013 to shareholders on the UK register of members at the close of business in the UK (10:00pm London time) on 15 March 2013, and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9:00am Hong Kong time) on 15 March 2013. The 2012 final ordinary equity share dividend will be paid in Indian rupees on 14 May 2013 to Indian Depository Receipt holders on the Indian register at the close of business in India on 15 March 2013.

It is intended that shareholders on the UK register and Hong Kong branch register will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 28 March 2013. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

Preference shares		**2012 $million**	2011 $million
Non-cumulative irredeemable preference shares:	7 3/8 per cent preference shares of £1 each[1]	**11**	11
	8 1/4 per cent preference shares of £1 each[1]	**13**	13
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[2]	**53**	53
	6.409 per cent preference shares of $5 each[2]	**48**	48

1 Dividends on these preference shares are treated as interest expense and accrued accordingly

2 Dividends on those preference shares classified as equity are recorded in the period in which they are declared

14. Earnings per ordinary share

	2012			2011		
	Profit[1] $million	Weighted average number of shares (000)	Per share amount cents	Profit[1] $million	Weighted average number of shares (000)	Per share amount cents
Basic earnings per ordinary share						
Basic earnings per ordinary share	**4,786**	**2,396,737**	**199.7**	4,748	2,364,445	200.8
Effect of dilutive potential ordinary shares:						
Options[2]	**–**	**24,534**	**–**	–	31,408	–
Diluted earnings per ordinary share	**4,786**	**2,421,271**	**197.7**	4,748	2,395,853	198.2

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

Normalised earnings per ordinary share

The Group measures earnings per share on a normalised basis. This differs from earnings defined in IAS 33 *Earnings per share*.

The table below provides a reconciliation.

	2012 $million	2011 $million
Profit attributable to ordinary shareholders	**4,786**	4,748
Amortisation and impairment of intangible assets arising on business combinations	**69**	69
Gain on disposal of property	**(91)**	(49)
Gains arising on repurchase of subordinated liabilities	**(90)**	–
Recovery on structured notes	**–**	(96)
Gain arising on sale of business	**(15)**	–
Settlements with US authorities	**667**	–
Impairment of associates	**70**	–
Tax on normalised items	**2**	10
Normalised earnings	**5,398**	4,682
Normalised basic earnings per ordinary share (cents)	**225.2**	198.0[2]
Normalised diluted earnings per ordinary share (cents)	**222.9**	195.4[2]

1 The profit amounts represent the profit attributable to ordinary shareholders, which is profit for the year after non-controlling interest and the declaration of dividends payable to the holders of the non-cumulative redeemable preference shares classified as equity (note 13)

2. The impact of anti-dilutive options has been excluded from this amount as required by IAS 33

Notes to the financial statements continued

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.

		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		**–**	**–**	**–**	**–**	**61,043**	**–**	**–**	**61,043**
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		**677**	**–**	**97**	**–**	**–**	**–**	**–**	**774**
Loans and advances to customers[1]		**4,793**	**–**	**185**	**–**	**–**	**–**	**–**	**4,978**
Treasury bills and other eligible bills	16	**2,955**	**–**	**–**	**–**	**–**	**–**	**–**	**2,955**
Debt securities	16	**14,890**	**–**	**333**	**–**	**–**	**–**	**–**	**15,223**
Equity shares	16	**2,140**	**–**	**1,014**	**–**	**–**	**–**	**–**	**3,154**
		25,455	**–**	**1,629**	**–**	**–**	**–**	**–**	**27,084**
Derivative financial instruments	17	**47,134**	**2,362**	**–**	**–**	**–**	**–**	**–**	**49,496**
Loans and advances to banks[1]	18	**–**	**–**	**–**	**–**	**68,381**	**–**	**–**	**68,381**
Loans and advances to customers[1]	19	**–**	**–**	**–**	**–**	**283,885**	**–**	**–**	**283,885**
Investment securities									
Treasury bills and other eligible bills	21	**–**	**–**	**–**	**26,871**	**–**	**–**	**–**	**26,871**
Debt securities	21	**–**	**–**	**–**	**65,413**	**3,851**	**–**	**–**	**69,264**
Equity shares	21	**–**	**–**	**–**	**3,278**	**–**	**–**	**–**	**3,278**
		–	**–**	**–**	**95,562**	**3,851**	**–**	**–**	**99,413**
Other assets	22	**–**	**–**	**–**	**–**	**21,659**	**–**	**7,159**	**28,818**
Total at 31 December 2012		**72,589**	**2,362**	**1,629**	**95,562**	**438,819**	**–**	**7,159**	**618,120**
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[1, 2]	17	56,485	2,039	–	–	–	–	–	58,524
Loans and advances to banks[1]	18	–	–	–	–	65,981	–	–	65,981
Loans and advances to customers[1, 2]	19	–	–	–	–	266,790	–	–	266,790
Investment securities									
Treasury bills and other eligible bills	21	–	–	–	21,680	–	–	–	21,680
Debt securities	21	–	–	–	55,567	5,475	18	–	61,060
Equity shares	21	–	–	–	2,543	–	–	–	2,543
		–	–	–	79,790	5,475	18	–	85,283
Other assets	22	–	–	–	–	20,554	–	6,732	27,286
Total at 31 December 2011		80,286	2,039	1,027	79,790	406,164	18	6,732	576,056

1 Further analysed in Risk review on pages 56 to 115

2 Amounts have been restated as explained in note 45

15. Financial instruments continued

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		**933**	**–**	**35**	**–**	**–**	**968**
Customer accounts		**4,858**	**–**	**7,385**	**–**	**–**	**12,243**
Debt securities in issue		**3,902**	**–**	**1,359**	**–**	**–**	**5,261**
Short positions		**4,592**	**–**	**–**	**–**	**–**	**4,592**
		14,285	**–**	**8,779**	**–**	**–**	**23,064**
Derivative financial instruments	17	**46,459**	**733**	**–**	**–**	**–**	**47,192**
Deposits by banks	28	**–**	**–**	**–**	**36,477**	**–**	**36,477**
Customer accounts	29	**–**	**–**	**–**	**377,639**	**–**	**377,639**
Debt securities in issue	30	**–**	**–**	**–**	**55,979**	**–**	**55,979**
Other liabilities	31	**–**	**–**	**–**	**19,739**	**4,765**	**24,504**
Subordinated liabilities and other borrowed funds	32	**–**	**–**	**–**	**18,799**	**–**	**18,799**
Total at 31 December 2012		**60,744**	**733**	**8,779**	**508,633**	**4,765**	**583,654**
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[1]	17	55,441	1,076	–	–	–	56,517
Deposits by banks	28	–	–	–	35,296	–	35,296
Customer accounts[1]	29	–	–	–	345,726	–	345,726
Debt securities in issue	30	–	–	–	47,140	–	47,140
Other liabilities	31	–	–	–	19,169	4,665	23,834
Subordinated liabilities and other borrowed funds	32	–	–	–	16,717	–	16,717
Total at 31 December 2011		65,329	1,076	9,711	464,048	4,665	544,829

1 Amounts have been restated as explained in note 45

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. Valuation Control performs price testing by comparing external and independent market data (e.g. consensus data, trade prices and broker quotes) against internal 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 are, 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.

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.

Notes to the financial statements continued

15. Financial instruments continued

In addition to periodic reassessment of the counterparties, credit exposures and external trends that 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. The pricing deficiencies or limitations that 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

Funding valuation adjustments account for the additional costs of funding in the valuation of funded derivative transactions. Examples of funded derivative transactions are prepaid swaps or funded loans in the form of a derivative.

In total, the Group has made $349 million (2011: $334 million) of valuation adjustments in determining fair value for financial assets and financial liabilities.

Valuation adjustments	**2012**	2011
Bid offer	**80**	92
Credit	**133**	127
Model	**10**	20
Funding	**73**	55
Others (including Day 1)	**53**	40
Total	**349**	334

Control framework

A Product Valuation 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 are 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	Directly or indirectly observable inputs other than unadjusted quoted prices included within level 1 that are observable	One or more significant inputs that are not based on observable market data (unobservable inputs)
Types of financial assets	Actively traded government and other 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 inputs Illiquid or highly structured corporate bonds with unobservable inputs Illiquid loans and advances
Types of financial liabilities	Listed derivative instruments	OTC derivatives Structured deposits Credit structured debt securities in issue	Highly structured OTC derivatives with unobservable inputs. Illiquid or highly structured debt securities in issue with unobservable inputs

15. Financial instruments continued

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 unadjusted 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.

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 2012, level 3 assets with a fair value of $5,109 million (2011: $3,347 million) and Level 3 liabilities with a fair value of $677 million (2011: $356 million) were held in respect of which there were no observable market data. For these instruments, a sensitivity analysis is presented on page 230 in respect of reasonably possible changes to the valuation assumptions.

The primary products classified as level 3 are as follows:

Loan and advances
These include loans in the global syndications underwriting book that are not syndicated yet. These loans are generally bilateral in nature and their valuation is primarily based on recent trades or proxies, i.e. comparable loans with similar credit grade, sector etc. Where there are no recent transactions and reliable comparable loans to proxy from, the valuation of these loans is based on unobservable inputs resulting in them being classified as level 3.

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 that 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
These debt securities include certain convertible bonds, corporate bonds, credit and equity structured notes where there are significant valuation inputs that 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 Earnings 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 that 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 with 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 that 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.

Notes to the financial statements continued

15. 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 2012.

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	97	677	–	774
Loans and advances to customers	–	4,068	910	4,978
Treasury bills and other eligible bills	2,812	143	–	2,955
Debt securities	8,531	6,516	176	15,223
Equity shares	2,029	–	1,125	3,154
	13,469	11,404	2,211	27,084
Derivative financial instruments	260	48,750	486	49,496
Investment securities				
Treasury bills and other eligible bills	22,912	3,901	58	26,871
Debt securities	20,828	44,189	396	65,413
Equity shares	1,307	13	1,958	3,278
	45,047	48,103	2,412	95,562
At 31 December 2012	58,776	108,257	5,109	172,142

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	–	968	–	968
Customer accounts	68	12,175	–	12,243
Debt securities in issue	–	5,147	114	5,261
Short positions	4,320	272	–	4,592
	4,388	18,562	114	23,064
Derivative financial instruments	383	46,246	563	47,192
At 31 December 2012	4,771	64,808	677	70,256

There were no significant transfers between Level 1 and Level 2 in 2012.

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.

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	57,852	276	58,524
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	108,354	3,347	163,142

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 issue	–	4,261	172	4,433
Short positions	4,483	473	–	4,956
	4,587	14,840	172	19,599
Derivative financial instruments	549	55,784	184	56,517
At 31 December 2011	5,136	70,624	356	76,116

There were no significant transfers between Level 1 and Level 2 in 2011.

15. Financial instruments continued

Level 3 movement tables

Financial assets

Assets	Held at fair value through profit or loss: Loans and advances to customers $million	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 2012	–	293	566	276	49	745	1,418	3,347
Total gains/(losses) recognised in income statement	–	9	313	(48)	–	48	(13)	309
Total (losses)/gains recognised in other comprehensive income	–	–	–	–	–	(56)	133	77
Purchases	–	22	310	336	42	134	525	1,369
Sales	–	(5)	(64)	(13)	–	(199)	(71)	(352)
Settlements	(27)	(97)	–	(60)	–	(17)	(23)	(224)
Transfers out	–	(96)	–	(5)	(33)	(261)	(16)	(411)
Transfers in	937	50	–	–	–	2	5	994
At 31 December 2012	910	176	1,125	486	58	396	1,958	5,109
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2012	–	(10)	195	(30)	–	–	–	155

Transfers in during the year primarily relate to loans held within the Group's global syndicates underwriting book where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain corporate desk securities where the valuation parameters became observable during the year and were transferred to Level 2 financial assets.

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)	(71)	(444)
Transfers in	129	–	13	53	509	335	1,039
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 debt securities and equity shares becoming illiquid or where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to Level 2 financial assets.

Notes to the financial statements continued

15. Financial instruments continued

Financial liabilities

Liabilities	2012 Debt securities in issue $million	2012 Derivative financial instruments $million	2012 Total $million	2011 Debt securities in issue $million	2011 Derivative financial instruments $million	2011 Total $million
At 1 January	**172**	**184**	**356**	311	282	593
Total (gains)/losses recognised in income statement	**(43)**	**80**	**37**	(8)	38	30
Issues	**50**	**324**	**374**	65	51	116
Settlements	**(28)**	**(25)**	**(53)**	(242)	(128)	(370)
Transfers out	**(37)**	**–**	**(37)**	(34)	(59)	(93)
Transfers in	**–**	**–**	**–**	80	–	80
At 31 December	**114**	**563**	**677**	172	184	356
Total losses/(gains) recognised in the income statement relating to liabilities held at 31 December	**3**	**44**	**47**	(38)	37	(1)

Transfers in during the year primarily relate to certain financial instruments for which parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to Level 2 financial liabilities.

Sensitivities in respect of the fair values of Level 3 assets and liabilities

	Held at fair value through profit or loss			Available-for-sale		
	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	**176**	**180**	**171**	**–**	**–**	**–**
Equity shares	**1,125**	**1,237**	**1,013**	**–**	**–**	**–**
Loan and advances	**910**	**924**	**896**			
Derivative financial instruments	**(77)**	**2**	**(154)**	**–**	**–**	**–**
Debt securities in issue	**(114)**	**(114)**	**(114)**	**–**	**–**	**–**
Investment securities						
Treasury bills and other eligible bills	**–**	**–**	**–**	**58**	**58**	**58**
Debt securities	**–**	**–**	**–**	**396**	**401**	**385**
Equity shares	**–**	**–**	**–**	**1,958**	**2,167**	**1,759**
At 31 December 2012	**2,020**	**2,229**	**1,812**	**2,412**	**2,626**	**2,202**
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 and other eligible bills	–	–	–	49	49	48
Debt securities	–	–	–	745	774	716
Equity shares	–	–	–	1,418	1,557	1,279
At 31 December 2011	779	864	694	2,212	2,380	2,043

Where the fair value of financial instruments are measured using valuation techniques that incorporate one or more significant inputs that 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 IFRS 7. 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 2012, these reasonably possible alternatives could have increased fair values of financial instruments held at fair value through profit or loss by $209 million (2011: $85 million) and available-for-sale by $214 million (2011: $168 million) or decreased fair values of financial instruments held at fair value through profit or loss by $208 million (2011: $85 million) and available-for-sale by $210 million (2011: $169 million).

15. Financial instruments continued

Instruments carried at amortised cost

The following table summarises the carrying amounts and incorporates the Group's estimate of 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 may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

	2012		2011	
	Carrying value $million	**Fair value $million**	Carrying value $million	Fair value $million
Assets				
Cash and balances at central banks	**61,043**	**61,043**	47,364	47,364
Loans and advances to banks	**68,381**	**68,345**	65,981	65,964
Loans and advances to customers	**283,885**	**282,919**	266,790	267,554
Investment securities	**3,851**	**3,803**	5,493	5,241
Other assets	**21,659**	**21,659**	20,554	20,554
Liabilities				
Deposits by banks	**36,477**	**36,011**	35,296	35,259
Customer accounts	**377,639**	**376,467**	345,726	345,569
Debt securities in issue	**55,979**	**56,469**	47,140	46,836
Subordinated liabilities and other borrowed funds	**18,799**	**19,988**	16,717	16,599
Other liabilities	**19,739**	**19,739**	19,169	19,169

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. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads. 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.

Reclassification of financial assets

In 2008 the Group 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.

Notes to the financial statements continued

15. Financial instruments continued

The following tables provide details of the remaining balances of assets reclassified during 2008:

For assets reclassified:	Carrying amount at 31 December 2012 $million	Fair value at 31 December 2012 $million	If assets had not been reclassified, fair value gains from 1 January 2012 to 31 December 2012 that would have been recognised within: Income $million	AFS reserve $million	Income recognised in income statement in 2012 $million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows $million
From trading to AFS	85	85	5[1]	–	10	4.1	195
From trading to loans and receivables	550	532	34	–	28	5.0	609
From AFS to loans and receivables	673	661	–	45	26	5.3	826
	1,308	1,278	39	45	64		
Of which asset backed securities:							
reclassified to AFS	81	81	5[1]	–	8		
reclassified to loans and receivables	924	896	68	45	43		

1 Post-reclassification, this is recognised within the available-for-sale reserve

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 2011 to 31 December 2011 that 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	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 AFS	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

Transfers of financial assets

Transfers where financial assets are not derecognised

Repurchase transactions

The Group enters into collateralised repurchase agreements (repos) and securities borrowing and lending transactions. These transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos continue to be recognised on the balance sheet as the Group retains substantially the associated risk and rewards of these securities. The counterparty liability is included in deposits by banks or customer accounts, as appropriate.

The table below sets out the financial assets provided by the Group as collateral for repurchase transactions:

Collateral pledged against repurchase agreements	Fair value through profit and loss $million	Available for sale $million	Loans and receivables $million	Total $million
On balance sheet				
Treasury bills and other eligible bills	62	424	–	486
Debt securities	522	590	–	1,112
Loan and advances to banks and customers	–	–	1,780	1,780
Off balance sheet				
Repledged collateral received	97	–	1,281	1,378
At 31 December 2012	681	1,014	3,061	4,756

Balance sheet liabilities – Repurchase agreements	
Banks	1,338
Customers	1,917
At 31 December 2012	3,255

15. Financial instruments continued

Collateral pledged against repurchase agreements	Fair value through profit and loss $million	Available for sale $million	Loans and receivables $million	Total $million
On balance sheet				
Treasury bills and other eligible bills	234	490	–	724
Debt securities	933	1,107	15	2,055
Loan and advances to banks and customers	–	–	15	15
Off balance sheet				
Repledged collateral received	104	–	901	1,005
At 31 December 2011	1,271	1,597	931	3,799

Balance sheet liabilities – Repurchase agreements	
Banks	1,913
Customers	1,850
At 31 December 2011	3,763

Repurchase and reverse repurchase agreements

The Group also undertakes reverse repurchase transactions as set out in the table below:

Balance sheet assets – Reverse repurchase agreements	**2012 $million**	2011 $million
Banks	**7,759**	5,706
Customers	**2,900**	1,890
	10,659	7,596

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

	2012 $million	2011 $million
Securities and collateral that can be repledged or sold (at fair value)	**10,517**	7,076
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)	**1,378**	1,005

Securitisation transactions

The Group has also entered into a number of securitisation transactions where the underlying loans and advances have been transferred to special purpose entities (SPEs) that are fully consolidated by the Group. As a result, the Group continues to recognise the assets on its balance sheet, together with the associated liability instruments issued by the special purpose entities. The holders of the liability instruments have recourse only to the assets transferred to the SPE. Further details of SPE in note 43.

The following table sets out the carrying value and fair value of the assets transferred and the carrying value and fair value of the associated liabilities at 31 December 2012 and 2011 respectively.

	2012		2011	
	Carrying value $million	**Fair value $million**	Carrying value $million	Fair value $million
Loan and advances	**1,321**	**1,319**	2,212	2,011
Securitisation liability	**1,093**	**1,093**	1,843	1,843
Net	**228**	**226**	369	168

The Group did not undertake any transactions that required the recognition of an asset representing continuing involvement in financial assets.

Notes to the financial statements continued

16. Financial instruments held at fair value through profit or loss

Loans and advances held at fair value through profit or loss

The maximum exposure to credit risk for loans designated at fair value through profit or loss was $282 million (2011: $417 million).

The net fair value gain on loans and advances to customers designated at fair value through profit or loss was $0.2 million (2011: $2.3 million). Of this, $nil million (2011: $nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was $3.4 million (2011: $3.4 million).

The changes in fair value attributable to credit risk have 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.

Debt securities, equity shares and treasury bills held at fair value through profit or loss

	2012			
	Debt securities $million	**Equity shares $million**	**Treasury bills $million**	**Total $million**
Issued by public bodies:				
Government securities	**10,182**			
Other public sector securities	**131**			
	10,313			
Issued by banks:				
Certificates of deposit	**255**			
Other debt securities	**1,723**			
	1,978			
Issued by corporate entities and other issuers:				
Other debt securities	**2,932**			
Total debt securities	**15,223**			
Of which:				
Listed on a recognised UK exchange	**467**	**23**	**–**	**490**
Listed elsewhere	**9,086**	**2,081**	**949**	**12,116**
Unlisted	**5,670**	**1,050**	**2,006**	**8,726**
	15,223	**3,154**	**2,955**	**21,332**
Market value of listed securities	**9,553**	**2,104**	**949**	**12,606**

	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

Financial liabilities held at fair value through profit or loss

The net fair value loss on liabilities designated at fair value through profit or loss was $256 million for the year (2011: $438 million). Of this, $nil million (2011: $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 (2011: $10.4 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 2012, the amount the Group is contractually obliged to pay at maturity to the holders of these obligations was $29 million higher (2011: $60 million lower) than the carrying amount at fair value.

17. Derivative financial instruments

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

Total derivatives	2012 Notional principal amounts $million	2012 Assets $million	2012 Liabilities $million	2011 Notional principal amounts $million	2011 Assets[1] $million	2011 Liabilities[1] $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	**1,220,949**	**11,636**	**12,697**	1,130,075	17,412	16,521
Currency swaps and options	**853,498**	**13,932**	**12,370**	1,098,433	15,406	16,180
Exchange traded futures and options	**8,772**	**–**	**–**	363	–	–
	2,083,219	**25,568**	**25,067**	2,228,871	32,818	32,701
Interest rate derivative contracts:						
Swaps	**1,463,778**	**19,107**	**18,343**	2,009,872	17,182	15,405
Forward rate agreements and options	**145,020**	**1,266**	**796**	242,843	1,086	1,093
Exchange traded futures and options	**306,054**	**–**	**–**	273,089	343	347
	1,914,852	**20,373**	**19,139**	2,525,804	18,611	16,845
Credit derivative contracts	**61,186**	**830**	**1,130**	77,776	1,783	1,807
Equity and stock index options	**12,223**	**355**	**372**	12,057	678	845
Commodity derivative contracts	**138,642**	**2,370**	**1,484**	62,426	4,634	4,319
Total derivatives	**4,210,122**	**49,496**	**47,192**	4,906,934	58,524	56,517

1 Amounts have been restated as explained in note 45

The Group 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 only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business. Details of the amounts available for offset under master netting agreement can be found in the Risk review on page 68.

The Derivatives and Hedging sections of the Risk review on page 102 explain the Group's risk management of derivative contracts and application of hedging.

Derivatives held for hedging

Hedge accounting is applied to derivatives and hedged items when the criteria under IAS 39 have been met (see note 1 on page 210). The table below list the types of derivatives that the Group holds for hedge accounting.

	2012 Notional principal amounts $million	2012 Assets $million	2012 Liabilities $million	2011 Notional principal amounts $million	2011 Assets $million	2011 Liabilities $million
Derivatives designated as fair value hedges:						
Interest rate swaps	**51,383**	**2,236**	**636**	45,249	1,806	760
Currency swaps	**2,910**	**18**	**5**	3,768	60	221
Forward foreign exchange contracts	**427**	**–**	**9**	843	67	–
	54,720	**2,254**	**650**	49,860	1,933	981
Derivatives designated as cash flow hedges:						
Interest rate swaps	**17,033**	**33**	**17**	23,536	40	21
Options	**–**	**–**	**–**	–	–	–
Forward foreign exchange contracts	**2,066**	**52**	**1**	2,999	2	72
Currency swaps	**8,955**	**23**	**13**	3,609	30	2
	28,054	**108**	**31**	30,144	72	95
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	**671**	**–**	**52**	707	34	–
Total derivatives held for hedging	**83,445**	**2,362**	**733**	80,711	2,039	1,076

Notes to the financial statements continued

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, net gains arising on the hedging instruments during the year were $13 million (2011: $795 million) compared with net losses arising on the hedged items of $10 million (2011: $808 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.

	2012 $million	2011 $million
Gains recognised in the income statement in respect of ineffectiveness	**–**	–
Gains/(losses) reclassified from reserves to income statement	**21**	(93)
Gains/(losses) recognised in operating costs	**17**	(95)
Losses recognised in net income	**(4)**	(2)

The Group has hedged the following cash flows that are expected to impact the income statement in the following periods:

	2012						
	Less than one year $million	**One to two years $million**	**Two to three years $million**	**Three to four years $million**	**Four to five years $million**	**Over five years $million**	**Total $million**
Forecast receivable cash flows	**3,533**	**292**	**174**	**2**	**–**	**–**	**4,001**
Forecast payable cash flows	**(5,229)**	**(577)**	**(177)**	**(3)**	**(2)**	**–**	**(5,988)**
	(1,696)	**(285)**	**(3)**	**(1)**	**(2)**	**–**	**(1,987)**

	2011						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	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)

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 of. During the year, $nil million (2011: $nil million) was recognised in the income statement in respect of ineffectiveness arising on net investment hedges.

18. Loans and advances to banks

	2012 $million	2011 $million
Loans and advances to banks	**69,260**	66,633
Individual impairment provision	**(103)**	(82)
Portfolio impairment provision	**(2)**	(2)
	69,155	66,549
Of which: loans and advances held at fair value through profit or loss (note 15)	**(774)**	(568)
	68,381	65,981

Analysis of loans and advances to banks by geography are set out in the Risk review section on page 69.

19. Loans and advances to customers

	2012 $million	2011[1] $million
Loans and advances to customers	**291,975**	274,428
Individual impairment provision	**(2,368)**	(1,890)
Portfolio impairment provision	**(744)**	(760)
	288,863	271,778
Of which: loans and advances held at fair value through profit or loss (note 15)	**(4,978)**	(4,988)
	283,885	266,790

1 Amounts have been restated as explained in note 45

The Group has outstanding residential mortgage loans to Korea residents of $16.7 billion (2011:$20.8 billion) and Hong Kong residents of $21.4 billion (2011: $19.2 billion).

Analysis of loans and advances to customers by geography and business and related impairment provisions are set out within the Risk review on pages 69 to 93.

20. Assets leased to customers

Finance leases and instalment credit

	2012 $million	2011 $million
Finance leases	**576**	526
Instalment credit agreements	**2,248**	1,949
	2,824	2,475

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 $841 million (2011: $275 million).

	2012 $million	2011 $million
Minimum lease receivables under finance leases falling due:		
Within one year	**116**	91
Later than one year and less than five years	**370**	391
After five years	**188**	141
	674	623
Interest income relating to future periods	**(98)**	(97)
Present value of finance lease receivables	**576**	526
Of which:		
Falls due within one year	**98**	73
Falls due later than one year and less than five years	**332**	344
Falls due after five years	**146**	109

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft and ships that are included within property, plant and equipment in note 26. At 31 December 2012 these assets had a net book value of $4,422 million (2011: $2,782 million).

	2012 $million	2011 $million
Minimum lease receivables under operating leases falling due:		
Within one year	**480**	317
Later than one year and less than five years	**1,201**	1,177
After five years	**1,523**	768
	3,204	2,262

Notes to the financial statements continued

21. Investment securities

	2012					
	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	–	23,116	390			
Other public sector securities	–	1,229	–			
	–	24,345	390			
Issued by banks:						
Certificates of deposit	–	5,974	–			
Other debt securities	–	24,195	114			
	–	30,169	114			
Issued by corporate entities and other issuers:						
Other debt securities	–	10,899	3,347			
Total debt securities	–	65,413	3,851			
Of which:						
Listed on a recognised UK exchange	–	6,858	173[1]	70	–	7,101
Listed elsewhere	–	22,816	878[1]	1,104	13,039	37,837
Unlisted	–	35,739	2,800	2,104	13,832	54,475
	–	65,413	3,851	3,278	26,871	99,413
Market value of listed securities	–	29,674	1,006	1,174	13,039	44,893

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

	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

Equity shares largely comprise investments in corporates.

21. Investment securities continued

The change in the carrying amount of investment securities comprised:

	2012				2011			
	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	**61,060**	**2,543**	**21,680**	**85,283**	55,384	2,517	17,895	75,796
Exchange translation differences	**675**	**14**	**615**	**1,304**	(960)	5	(848)	(1,803)
Additions	**111,438**	**783**	**45,104**	**157,325**	79,385	982	50,893	131,260
Maturities and disposals	**(104,700)**	**(217)**	**(40,988)**	**(145,905)**	(72,668)	(672)	(46,491)	(119,831)
Impairment, net of recoveries on disposal	**24**	**(109)**	**–**	**(85)**	(84)	(12)	–	(96)
Changes in fair value (including the effect of fair value hedging)	**728**	**264**	**57**	**1,049**	99	(277)	(38)	(216)
Amortisation of discounts and premiums	**39**	**–**	**403**	**442**	(96)	–	269	173
At 31 December	**69,264**	**3,278**	**26,871**	**99,413**	61,060	2,543	21,680	85,283

At 31 December 2012, unamortised premiums on debt securities held for investment purposes amounted to $607 million (2011: $387 million) and unamortised discounts amounted to $443 million (2011: $308 million). Income from listed equity shares amounted to $54 million (2011: $36 million) and income from unlisted equity shares amounted to $38 million (2011: $37 million).

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables.

	2012 $million	2011 $million
At 1 January	**33**	32
Exchange translation differences	**–**	(1)
Amounts written off	**(2)**	(23)
Impairment (release)/ charge	**(4)**	25
At 31 December	**27**	33

22. Other assets

	2012 $million	2011 $million
Financial assets held at amortised cost (note 15)		
Hong Kong SAR government certificates of indebtedness (note 31)	**4,191**	4,043
Cash collateral	**5,068**	4,856
Acceptances and endorsements	**5,156**	5,485
Unsettled trades and other financial assets	**7,244**	6,170
	21,659	20,554
Non-financial assets		
Commodities	**5,574**	3,523
Other	**1,585**	3,209
	28,818	27,286

The Hong Kong SAR government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued.

Notes to the financial statements continued

23. Investments in subsidiary undertakings, joint ventures and associates

Investment in subsidiary undertakings	2012 $million	2011 $million
At 1 January	**14,291**	14,291
Additions	**78**	–
At 31 December	**14,369**	14,291

During the year the company made a deemed contribution and received a deemed dividend of $270 million (2011: $430 million) on account of share-based payments and made a deemed contribution of $78 million (2011: $nil) relating to a waiver of an intercompany receivable from Standard Chartered Bank.

At 31 December 2012, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital %
Standard Chartered Bank, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100
Standard Chartered Bank Korea Limited, Korea	Korea	100
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	100
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	Nigeria	100
Standard Chartered Bank Kenya Limited, Kenya	Kenya	73.9
Standard Chartered Private Equity Limited, Hong Kong	Hong Kong	100

Joint ventures

The Group has a 44.56 per cent (2011: 44.51 per cent) interest through a joint venture company that 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 42, include $348 million (2011: $286 million) relating to this joint venture. These mainly comprise banking guarantees and irrevocable letters of credit. There are no capital commitments related to the Group's investment in this joint venture. Related party transactions are disclosed in note 46.

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

	2012 $million	2011 $million
Current assets	**3,680**	3,006
Long-term assets	**2,445**	2,050
Total assets	**6,125**	5,056
Current liabilities	**(4,765)**	(4,066)
Long-term liabilities	**(573)**	(314)
Total liabilities	**(5,338)**	(4,380)
Net assets	**787**	676
Income	**287**	257
Expenses	**(174)**	(151)
Impairment	**(23)**	(20)
Operating profit	**90**	86
Tax	**(25)**	(22)
Share of post tax result from joint ventures	**65**	64

Long-term assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

23. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in associates

	2012 $million	2011 $million
At 1 January	**903**	631
Translation	**14**	10
Additions	**4**	198
Share of profits	**116**	74
Dividends received	**(14)**	(10)
Impairment	**(70)**	–
At 31 December	**953**	903

The following amounts represent the total profit, assets and liabilities of the Group's associated undertakings:

	2012 $million	2011 $million
Profit for the year	**609**	405
Total assets	**79,637**	57,006
Total liabilities	**(75,770)**	(53,738)
Net assets	**3,867**	3,268

The Group's principal associates are:

Associate	Main areas of operation	Group interest in ordinary share capital %
China Bohai Bank	China	19.9
Fleming Family & Partners	Asia	20.0
Asia Commercial Bank	Vietnam	15.0

The fair value of our investment in Asia Commercial Bank (ACB) as at 31 December 2012 is $111 million (2011: $145 million). The Group's investments in ACB and China Bohai Bank are less than 20 per cent but both companies 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 interchange of management personnel and the provision of expertise. The reporting dates of these associates are within three months of the Group's reporting date.

24. Business Combinations

2012 acquisitions

On 4 November 2012, the Group completed the acquisition of 100 per cent of the issued and paid up share capital of Credit Agricole Yatirim Bankasi Turk A.S. (CAYBT), a wholly-owned subsidiary of Credit Agricole Corporate and Investment Bank, for a consideration of $63 million, recognising goodwill of $26 million. The net assets acquired primarily comprised balances held with central banks. The goodwill acquired largely represents intangibles that are not separately recognised, and primarily relates to the associated banking licence.

2011 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, for a total cash consideration of $695 million, recognising goodwill of $199 million.

On 2 September 2011, the Group acquired a 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 $17,671 million and profit before taxation would have been $6,793 million. In 2011, these acquisitions contributed $66 million to the Group's operating income and $40 million to the Group's profit before taxation since acquisition.

Notes to the financial statements continued

24. Business Combinations continued

The assets and liabilities arising from the acquisitions were 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
Fair value of interest held prior to change in control	5
Fair value of net assets acquired	(513)
Goodwill	210
Intangible assets acquired:	
Customer relationships	17
Total	17

Goodwill arising on the acquisitions is attributable to the synergies expected to arise from their 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 of loans to banks was $16 million. The gross contractual amount due was $16 million, which is expected to be collected. The fair value of loans to customers was $1,545 million. The gross contractual amount due was $1,554 million, of which $9 million was 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.

25. Goodwill and intangible assets

	2012				2011			
	Goodwill $million	**Acquired intangibles $million**	**Software $million**	**Total $million**	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	**6,347**	**666**	**816**	**7,829**	6,257	654	774	7,685
Exchange translation differences	**158**	**13**	**40**	**211**	(120)	(5)	(10)	(135)
Acquisitions	**34**	**3**	**–**	**37**	210	17	–	227
Additions	**–**	**–**	**296**	**296**	–	–	240	240
Disposals	**–**	**–**	**–**	**–**	–	–	(47)	(47)
Amounts written off	**–**	**(2)**	**(219)**	**(221)**	–	–	(141)	(141)
At 31 December	**6,539**	**680**	**933**	**8,152**	6,347	666	816	7,829
Provision for amortisation								
At 1 January	**–**	**423**	**345**	**768**	–	359	328	687
Exchange translation differences	**–**	**13**	**15**	**28**	–	(5)	(1)	(6)
Amortisation for the period	**–**	**67**	**190**	**257**	–	69	184	253
Disposals	**–**	**–**	**–**	**–**	–	–	(31)	(31)
Amounts written off	**–**	**(2)**	**(211)**	**(213)**	–	–	(135)	(135)
At 31 December	**–**	**501**	**339**	**840**	–	423	345	768
Net book value	**6,539**	**179**	**594**	**7,312**	6,347	243	471	7,061

At 1 January 2011, the net book value was: goodwill $6,257 million; acquired intangibles $295 million; and software $446 million.

At 31 December 2012, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $69 million (2011: $69 million).

25. Goodwill and intangible assets continued

	2012 $million	2011 $million
Acquired intangibles comprise:		
Core deposits	**18**	25
Customer relationships	**127**	174
Brand names	**31**	40
Licences	**3**	4
Net book value	**179**	243

Acquired intangibles primarily comprise those recognised as part of the acquisitions of Korea First Bank (subsequently renamed 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).

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 below 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 below 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 multiple consistent with available market data. These cash flows are discounted using a pre-tax discount rate that reflects current market rates appropriate to the CGU as set out in the table below.

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 four years to 2016. Management forecasts project growth rates greater than long-term GDP rates but that 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.

At 31 December 2012, the results of our review indicate that there is no goodwill impairment. The Group also 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.

It is possible that certain scenarios could be constructed where a combination of a material change in the discount rate, coupled with a reduction in current business plan forecasts or the GDP growth rate, could potentially result in the carrying amount of the goodwill exceeding the recoverable amount in the future.

Based on our review and assessment, we believe that the Korea CGU would be more sensitive to such a scenario.

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.

		2012			2011		
Acquisition	**Cash Generating Unit**	**Goodwill $million**	**Pre-tax discount rate per cent**	**Long-term forecast GDP growth rates per cent**	Goodwill $million	Pre-tax discount rate per cent	Long-term forecast GDP growth rates per cent
KFB, A Brain and Yeahreum	Korean business	**1,850**	**16.4**	**3.9**	1,720	18.1	4.0
Union Bank	Pakistan business	**270**	**27.6**	**3.5**	292	27.1	4.8
Hsinchu and Asia Trust	Taiwan business	**1,348**	**16.3**	**4.8**	1,294	17.2	4.9
Manhattan Card Business	Credit card and personal loan – Asia, India & MESA	**896**	**15.8**	**1.8**	895	16.5	1.6
Grindlays (India) and STCI	India business	**364**	**16.8**	**6.8**	377	18.7	8.1
Grindlays (MESA)	MESA business	**368**	**20.4**	**4.0**	370	21.1	3.7
Standard Chartered Bank (Thai)	Thailand business	**331**	**16.1**	**5.0**	324	16.3	4.9
Permata	Group's share of Permata (Indonesia business)	**162**	**16.9**	**6.7**	172	20.0	6.9
American Express Bank	Financial Institutions and Private Banking business	**396**	**15.2**	**1.8**	396	15.6	1.6
Harrison Lovegrove, Pembroke, Cazenove Asia, First Africa and Gryphon partners.	Corporate advisory business	**77**	**15.9**	**1.8**	76	16.7	1.6
GE Money and GE Singapore	Consumer banking business in Singapore	**228**	**12.6**	**3.8**	208	12.8	4.1
Other		**249**	**15.6-17.0**	**1.8-7.5**	223	15.9-17.4	1.6-5.3
		6,539			6,347		

Notes to the financial statements continued

26. Property, plant and equipment

	2012				2011			
	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	**2,559**	**826**	**3,021**	**6,406**	2,665	837	2,183	5,685
Exchange translation differences	**54**	**7**	**–**	**61**	(74)	(40)	–	(114)
Additions	**73**	**95**	**1,788**	**1,956**	138	148	1,049	1,335
Acquisitions	**2**	**–**	**–**	**2**	–	1	–	1
Disposals and fully depreciated assets written off	**(111)**	**(84)**	**–**	**(195)**	(138)	(120)	(211)	(469)
Transfers from/(to) assets held for re-sale	**–**	**–**	**–**	**–**	(32)	–	–	(32)
At 31 December	**2,577**	**844**	**4,809**	**8,230**	2,559	826	3,021	6,406
Depreciation								
Accumulated at 1 January	**531**	**558**	**239**	**1,328**	471	557	150	1,178
Exchange translation differences	**8**	**5**	**–**	**13**	(7)	(29)	–	(36)
Charge for the year	**127**	**136**	**148**	**411**	123	145	100	368
Attributable to assets sold, transferred or written off	**(86)**	**(82)**	**–**	**(168)**	(56)	(115)	(11)	(182)
Accumulated at 31 December	**580**	**617**	**387**	**1,584**	531	558	239	1,328
Net book amount at 31 December	**1,997**	**227**	**4,422**	**6,646**	2,028	268	2,782	5,078

At 1 January 2011, the net book value was: premises, $2,194 million; equipment, $280 million; and operating lease assets, $2,033 million.

Assets held under finance leases have a net book value of $173 million (2011: $192 million) with minimum lease payments of $7 million (2011: $7 million) before and after future finance charges.

27. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year:

	At 1 January 2012 $million	**Exchange & other adjustments $million**	**Acquisitions/ disposals $million**	**Charge/ (credit) to profit $million**	**Charge/ (credit) to equity $million**	**At 31 December 2012 $million**
Deferred taxation comprises:						
Accelerated tax depreciation	**(47)**	**16**	**–**	**159**	**–**	**128**
Impairment provisions on loans and advances	**19**	**20**	**–**	**(190)**	**–**	**(151)**
Tax losses carried forward	**(433)**	**(15)**	**–**	**(29)**	**–**	**(477)**
Available-for-sale assets	**(3)**	**1**	**–**	**1**	**87**	**86**
Premises revaluation	**–**	**(1)**	**–**	**1**	**–**	**–**
Cash flow hedges	**(2)**	**–**	**–**	**–**	**19**	**17**
Retirement benefit obligations	**(105)**	**(1)**	**–**	**12**	**(14)**	**(108)**
Share-based payments	**(88)**	**(1)**	**–**	**17**	**(8)**	**(80)**
Other temporary differences	**(45)**	**(2)**	**–**	**102**	**–**	**55**
Net deferred tax assets	**(704)**	**17**	**–**	**73**	**84**	**(530)**

	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	(144)	11	(13)	101	–	(45)
Net deferred tax assets	(763)	(8)	12	165	(110)	(704)

27. Deferred tax continued

Deferred taxation comprises assets and liabilities as follows:

	2012			2011		
	Total $million	Asset $million	Liability $million	Total $million	Asset $million	Liability $million
Deferred taxation comprises:						
Accelerated tax depreciation	**128**	**(15)**	**143**	(47)	(114)	67
Impairment provisions on loans and advances	**(151)**	**(319)**	**168**	19	(196)	215
Tax losses carried forward	**(477)**	**(404)**	**(73)**	(433)	(401)	(32)
Available-for-sale assets	**86**	**51**	**35**	(3)	(18)	15
Premises revaluation	**–**	**–**	**–**	–	1	(1)
Cash flow hedges	**17**	**14**	**3**	(2)	(6)	4
Retirement benefit obligations	**(108)**	**(103)**	**(5)**	(105)	(98)	(7)
Share-based payments	**(80)**	**(67)**	**(13)**	(88)	(63)	(25)
Other temporary differences	**55**	**152**	**(97)**	(45)	60	(105)
	(530)	**(691)**	**161**	(704)	(835)	131

Where permitted, deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

At 31 December 2012, the Group has net deferred tax assets of $530 million (2011: $704 million).

The recoverability of the Group's deferred tax assets is based on management's judgment of the availability of future taxable profits against which the deferred tax assets will be utilised.

Of the group's total deferred tax assets, $477 million relate to tax losses carried forward. These tax losses have arisen in individual legal entities and will be offset as future taxable profits arise in those entities.

$238 million of these losses have arisen in the UK, where there is no expiry date for unused tax losses. There is a defined profit stream against which the losses are forecast to be fully utilised, over a period of 15 years.

$52 million of these losses have arisen in Ireland, where there is no expiry date for unused tax losses. These losses relate to aircraft leasing and are expected to be fully utilised over the useful economical life of the assets, being up to 25 years.

$50 million of these losses have arisen in Taiwan. Management forecasts show that the losses are expected to be fully utilised over a period of five years. The tax losses expire after 10 years.

$40 million of these losses have arisen in Australia, where these is no expiry date for unused tax losses. Management forecasts show that the losses are expected to be fully utilised over a period of 15 years.

The remaining losses relate to other jurisdictions and are expected to be recovered in less than five years.

	2012 $million	2011 $million
No account has been taken of the following potential deferred taxation assets/(liabilities):		
Withholding tax on unremitted earnings from overseas subsidiaries	**(316)**	(294)
Foreign exchange movements on investments in branches	**36**	45
Tax losses	**112**	78
Held over gains on incorporations of overseas branches	**(496)**	(476)

Notes to the financial statements continued

28. Deposits by banks

	2012 $million	2011 $million
Deposits by banks	**36,477**	35,296
Deposits by banks included within:		
Financial liabilities held at fair value through profit or loss (note 15)	**968**	1,092
	37,445	36,388

29. Customer accounts

	2012 $million	2011[1] $million
Customer accounts	**377,639**	345,726
Customer accounts included within:		
Financial liabilities held at fair value through profit or loss (note 15)	**12,243**	9,118
	389,882	354,844

1 Amounts have been restated as explained in note 45

Included in customer accounts were deposits of $2,862 million (2011: $2,000 million) held as collateral for irrevocable commitments under import letters of credit.

30. Debt securities in issue

	2012			2011		
	Certificates of deposit of $100,000 or more $million	**Other debt securities in issue $million**	**Total $million**	Certificates of deposit of $100,000 or more $million	Other debt securities in issue $million	Total $million
Debt securities in issue	**16,982**	**38,997**	**55,979**	15,783	31,357	47,140
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	**165**	**5,096**	**5,261**	166	4,267	4,433
	17,147	**44,093**	**61,240**	15,949	35,624	51,573

31. Other liabilities

	2012 $million	2011 $million
Financial liabilities held at amortised cost (note 15)		
Notes in circulation	**4,191**	4,043
Acceptances and endorsements	**5,053**	5,473
Cash collateral	**3,245**	3,145
Unsettled trades and other financial liabilities	**7,250**	6,508
	19,739	19,169
Non-financial liabilities		
Cash-settled share based payments	**84**	85
Other liabilities	**4,681**	4,580
	24,504	23,834

Hong Kong currency notes in circulation of $4,191 million (2011: $4,043 million) that are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 22).

32. Subordinated liabilities and other borrowed funds

	2012 $million	2011 $million
Subordinated loan capital – issued by subsidiary undertakings		
£675 million 5.375 per cent undated Step up subordinated notes (callable and floating rate from 2020)	**781**	730
£600 million 8.103 per cent Step up callable Perpetual preferred securities (callable and floating rate from 2016)	**1,177**	1,154
£700 million 7.75 per cent subordinated notes 2018	**1,353**	1,281
£300 million 6.0 per cent subordinated notes 2018 (callable and floating rate from 2013)	**488**	488
£200 million 7.75 per cent undated Step up subordinated notes (callable and floating rate from 2022)	**446**	419
€1.1 billion 5.875 per cent subordinated notes 2017	**1,706**	1,662
€750 million 3.625 per cent subordinated notes 2017 (callable and floating rate from 2012)	**–**	977
€675 million floating rate subordinated notes 2018 (callable 2013)	**890**	886
$1.5 billion 9.5 per cent Step up perpetual preferred securities (callable 2014)	**1,582**	1,602
$1 billion 6.4 per cent subordinated notes 2017	**1,188**	1,193
$750 million 5.875 per cent subordinated notes 2020	**847**	763
$700 million 8.0 per cent subordinated notes 2031	**675**	683
$300 million floating rate subordinated notes 2017 (callable 2012)	**–**	300
$100 million floating rate subordinated notes 2018 (callable 2013)	**100**	100
$22 million 9.75 per cent fixed to floating rate note 2021 (callable and floating rate from 2016)	**23**	25
BWP 127.26 million 8.2 per cent subordinated notes 2022	**16**	–
BWP 75 million floating rate subordinated notes 2017 (callable 2013)	**10**	10
BWP 70 million floating rate subordinated notes 2021 (callable 2016)	**9**	9
BWP 50 million floating rate notes 2022 (callable 2017)	**6**	–
IDR 1,800 billion 9.4 per cent subordinated notes 2019	**81**	–
IDR 1,750 billion 11 per cent subordinated notes 2018	**76**	82
IDR 700 billion 8.9 per cent subordinated notes 2019	**32**	–
JPY 10 billion 3.35 per cent subordinated notes 2023 (callable 2018)	**128**	149
KRW 300 billion 7.05 per cent subordinated debt 2019 (callable 2014)	**280**	260
KRW 270 billion 4.67 per cent subordinated debt 2021 (callable 2016)	**252**	235
KRW 260 billion 6.08 per cent subordinated debt 2018 (callable 2013)	**244**	230
KRW 90 billion 6.05 per cent subordinated debt 2018	**95**	86
KRW 30 billion floating rate subordinated debt 2011	**–**	26
MYR 500 million 4.28 per cent subordinated bonds 2017 (callable and floating rate from 2012)	**–**	157
PKR 2.5 billion floating rate notes 2022 (callable 2017)	**26**	–
PKR 1 billion floating rate notes 2013	**3**	8
SGD 750 million 4.15 per cent subordinated notes 2021 (callable and floating rate from 2016)	**607**	624
SGD 450 million 5.25 per cent subordinated notes 2023 (callable and floating rate from 2018)	**408**	376
TWD 10 billion 2.9 per cent subordinated debt 2019 (callable 2014)	**348**	337
TZS 10 billion 11 per cent subordinated notes 2021 (callable and floating rate from 2015)	**6**	6
UGX 40 billion 13 per cent subordinated notes 2020 (callable 2015)	**15**	16
	13,898	14,874
Issued by Company:		
Primary capital floating rate notes		
$400 million	**44**	57
$300 million (Series 2)	**80**	81
$400 million (Series 3)	**64**	83
$200 million (Series 4)	**50**	51
£150 million	**50**	233
€750 million 3.625 per cent subordinated notes 2022	**1,000**	–
$1.25 billion 4.0 per cent subordinated notes 2022 (callable 2017)	**1,255**	–
$1 billion 5.7 per cent subordinated notes 2022	**1,022**	–
Other borrowings – issued by company[1,2]	**1,336**	1,338
	4,901	1,843
Total for Group	**18,799**	16,717

1 In the balance sheet of the Company the amount recognised is $1,241 million (2011: $1,223 million) with the difference being the effect of hedge accounting achieved on a Group basis

2 Other borrowings comprise irredeemable sterling preference shares (note 35) and US dollar non-cumulative redeemable preference shares

Notes to the financial statements continued

32. 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, $17,467 million is at fixed interest rates (2011: $12,918 million).

On 25 January 2012, Standard Chartered PLC (the Company) issued $1 billion 5.7 per cent fixed interest rate notes due January 2022.

On 15 June 2012, PT Bank Permata Tbk issued IDR 700 billion 8.9 per cent fixed interest rate notes due June 2019.

On 27 June 2012, Standard Chartered Bank (Botswana) Limited issued BWP 50 million floating interest rate notes due June 2022 and BWP 127.26 million fixed interest rate notes due June 2022.

On 29 June 2012, Standard Chartered Bank (Pakistan) Limited issued PKR 2.5 billion floating interest rate notes due June 2022.

On 12 July 2012, Standard Chartered PLC (the Company) issued $1.25 billion 4.0 per cent fixed interest rate notes due July 2022 and on 23 November 2012, the Company issued EUR 750 million fixed interest rate notes due November 2022.

On 19 December 2012, PT Bank Permata Tbk issued IDR 1,800 billion 9.4 per cent fixed interest rate notes due December 2019.

On 2 January 2012, Standard Chartered Bank Korea Limited redeemed KRW 30 billion floating rate subordinated debt on maturity.

On 3 February 2012, Standard Chartered Bank exercised its right to redeem its EUR 750 million 3.625 per cent notes in full on the first optional call date.

On 13 April 2012, Standard Chartered Bank Hong Kong Limited exercised its right to redeem its $300 million floating rate subordinated notes in full on the first optional call date.

On 15 November 2012, Standard Chartered Bank Malaysia Berhad exercised its right to redeem its MYR 500 million 4.28 per cent subordinated bonds in full on the first optional call date.

33. Provisions for liabilities and charges

	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January 2012	14	355	369
Exchange translation differences	1	–	1
Charge against profit	5	105	110
Provisions utilised	10	(275)	(265)
At 31 December 2012	30	185	215

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 settlements, legal claims and restructuring.

34. Retirement benefit obligations

Retirement benefit obligations comprise:

	2012 $million	2011 $million
Defined benefit schemes obligation	**483**	499
Defined contribution schemes obligation	**21**	20
Net book amount	**504**	519

	2012 $million	2011 $million
At 1 January	**519**	310
Exchange translation differences	**14**	(5)
Charge against profit	**302**	282
Change in other comprehensive income	**76**	189
Net payments	**(407)**	(257)
At 31 December	**504**	519

Retirement benefit charge comprises:

	2012 $million	2011 $million
Defined benefit schemes	**99**	103
Defined contribution schemes	**203**	179
Charge against profit (note 8)	**302**	282

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 2012. 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 that have a term to maturity approximating that of the related liability.

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 Zegleman, Fellow of the Faculty of Actuaries, of Towers Watson, using the projected unit method. The 31 December 2011 funding valuation is currently under way and its findings on updated life expectancies are reflected in the IAS 19 position at 31 December 2012.

Following the 31 December 2008 valuation, regular contributions to the Fund were set at 28 per cent of pensionable salary for all members. Over 2012, additional contributions were paid under the terms of the 2008 valuation agreement, bringing the total amount paid to $52 million.

No further contributions are planned in 2013 under the terms of the 2008 valuation.

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.

Notes to the financial statements continued

34. Retirement benefit obligations continued

Overseas Schemes

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

Employer contributions to defined benefit plans over 2013 are expected to be around $80 million.

The financial assumptions used at 31 December 2012 were:

	Funded defined benefit schemes			
	UK Fund[1]		Overseas Schemes[2]	
	2012 %	2011 %	**2012 %**	2011 %
Price inflation	**3.00**	3.10	**1.50-4.50**	1.50-4.50
Salary increases	**2.30**	3.10	**2.10-6.00**	3.10-6.00
Pension increases	**2.30**	2.10	**1.75-3.00**	1.75-3.10
Discount rate	**4.50**	4.80	**0.70-8.40**	1.40-8.80

1 The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 28 years (2011: 26 years) and a female member 29 years (2011: 29 years) and a male member currently aged 40 will live for 30 years (2011: 29 years) and a female member 31 years (2011: 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 around 80 per cent of the total liabilities of funded overseas schemes

These assumptions are likely to change in the future and thus will affect the value placed on the liability. For example, if the discount rate for the UK Fund increased by 25 basis points the liability would reduce by approximately $65 million. Whilst changes in other assumptions would also have an impact, the effect would not be as significant.

	Unfunded schemes			
	Post-retirement medical[3]		Other[4]	
	2012 %	2011 %	**2012 %**	2011 %
Price inflation	**2.50**	2.50	**3.00-5.00**	3.10-5.00
Salary increases	**4.00**	4.00	**2.30-6.00**	3.10-6.00
Pension increases	**N/A**	N/A	**2.30**	2.10
Discount rate	**4.20**	4.70	**4.20-8.40**	4.70-8.80
Post-retirement medical rate	**9% in 2012 reducing by 1% per annum to 5% in 2016**	8% in 2011 reducing by 1% per annum to 5% in 2014	**N/A**	N/A

3 The post-retirement medical plan is in the US

4 The range of assumptions shown is for the main unfunded schemes in India, Indonesia, UAE and the UK

34. Retirement benefit obligations continued

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2012 were:

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2012	**Expected return on assets %[5]**	**Value $million**	**Expected return on assets %[5]**	**Value $million**	**Expected return on assets %**	**Value $million**	**Expected return on assets %**	**Value $million**
Equities	**8.00**	**382**	**6.30-16.00**	**254**	**N/A**	**N/A**	**N/A**	**N/A**
Bonds	**3.20**	**1,072**	**1.00-16.00**	**229**	**N/A**	**N/A**	**N/A**	**N/A**
Property	**7.50**	**58**	**5.25-16.00**	**8**	**N/A**	**N/A**	**N/A**	**N/A**
Others	**8.00**	**190**	**0.50-16.00**	**173**	**N/A**	**N/A**	**N/A**	**N/A**
Total market value of assets		**1,702**		**664**		**N/A**		**N/A**
Present value of the schemes' liabilities		**(1,795)**		**(854)**		**(28)**		**(172)**
Net pension liability		**(93)**		**(190)**		**(28)**		**(172)**

5 IAS 19R removes the impact of expected asset returns on the income statement. These figures are included here for presentational purposes and are set at the same level as the 31 December 2011 returns

	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)[6]		(28)		(148)
Net pension liability		(74)		(249)		(28)		(148)

6 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	Value $million	Value $million	Value $million	Value $million
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)
At 31 December 2009				
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)

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

Notes to the financial statements continued

34. Retirement benefit obligations continued

The pension cost for defined benefit schemes was:

	Funded defined benefit schemes		Unfunded schemes		
Year ending 31 December 2012	**UK Fund $million**	**Overseas schemes $million**	**Post-retirement medical $million**	**Other $million**	**Total $million**
Current service cost	8	74	1	19	102
Past service cost	–	–	–	3	3
Gain on settlements and curtailments	–	(6)	–	–	(6)
Expected return on pension scheme assets	(80)	(32)	–	–	(112)
Interest on pension scheme liabilities	77	26	1	8	112
Total charge to profit before deduction of tax	5	62	2	30	99
Gains on assets above expected return[1]	(53)	(22)	–	–	(75)
Experience loss on liabilities	115	28	–	8	151
Total loss recognised directly in statement of comprehensive income before tax	62	6	–	8	76
Deferred taxation	(14)	–	–	–	(14)
Total loss after tax	48	6	–	8	62

1 The actual return on the UK fund assets was $133 million and on overseas scheme assets was $54 million

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of $376 million (2011: loss of $300 million).

	Funded defined benefit schemes		Unfunded schemes		
Year ending 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 statement of 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

34. Retirement benefit obligations continued

	Funded defined benefit schemes		Unfunded schemes		
Year ending 31 December 2010	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Gain on assets in excess of expected return[1]	(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)
Year ending 31 December 2009					
Gain on assets below expected return[2]	(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 ending 31 December 2008					
Loss on assets in excess of expected return[3]	203	130	–	–	333
Experience (gain)/loss on liabilities	(143)	35	–	4	(104)
Total loss recognised directly in statement of comprehensive income before tax	60	165	–	4	229
Deferred taxation	(16)	(44)	–	–	(60)
Total loss after tax	44	121	–	4	169

1 The actual return on the UK fund assets was $122 million and on overseas scheme assets was $48 million
2 The actual return on the UK fund assets was $159 million and on overseas scheme assets was $67 million
3 The actual return on the UK fund assets was $99 million and on overseas scheme assets was $94 million

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

	Funded defined benefit schemes		**Unfunded schemes**		
Year ending 31 December 2012	**UK Fund $million**	**Overseas schemes $million**	**Post-retirement medical $million**	**Other $million**	**Total $million**
Deficit at 1 January 2012	**(74)**	**(249)**	**(28)**	**(148)**	**(499)**
Contributions	**52**	**139**	**2**	**11**	**204**
Current service cost	**(8)**	**(74)**	**(1)**	**(19)**	**(102)**
Past service cost	**–**	**–**	**–**	**(3)**	**(3)**
Settlement/curtailment costs	**–**	**6**	**–**	**–**	**6**
Other finance income/(charge)	**3**	**6**	**(1)**	**(8)**	**–**
Actuarial loss	**(62)**	**(6)**	**–**	**(8)**	**(76)**
Exchange rate adjustment	**(4)**	**(12)**	**–**	**3**	**(13)**
Deficit at 31 December 2012	**(93)**	**(190)**	**(28)**	**(172)**	**(483)**

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

	Funded defined benefit schemes		Unfunded schemes		
Year ending 31 December 2011	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $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 benefit 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)

Notes to the financial statements continued

34. Retirement benefit obligations continued

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

Year ending 31 December 2012	Assets $million	Obligations $million	Total $million
Deficit as at 1 January 2012	2,118	(2,617)	(499)
Contributions	204	–	204
Current service cost	–	(102)	(102)
Past service cost	–	(3)	(3)
Settlement/curtailment costs	(72)	78	6
Interest cost	–	(112)	(112)
Expected return on scheme assets	112	–	112
Benefits paid out	(151)	151	–
Actuarial loss	75	(151)	(76)
Exchange rate adjustment	80	(93)	(13)
Deficit as at 31 December 2012	2,366	(2,849)	(483)

Year ending 31 December 2011	Assets $million	Obligations $million	Total $million
Deficit as 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 as at 31 December 2011	2,118	(2,617)	(499)

35. Share capital, reserves and own shares

Share capital

In 2010, the Company amended its Articles of Association to remove the provision for authorised share capital following an amendment to corporate law in the UK through the Companies Act 2006.

The available profits of the company are distributed to the holders of the issued preference shares in priority to payments made to holders of the ordinary shares and in priority to, or pari passu with, any payments to the holders of any other class of shares in issue. On a winding up, the assets of the Company are applied to the holders of the preference shares in priority to any payment to the ordinary shareholders and in priority to, or pari passu with, the holders of any other shares in issue, for an amount equal to any dividends accrued and/or payable and the nominal value of the shares together with any premium as determined by the Board. The redeemable preference shares are redeemable at the paid up amount (which includes premium) at the option of the Company in accordance with the terms of the shares. The holders of the preference shares are not entitled to attend or vote at any general meeting except where any relevant dividend due is not paid in full or where a resolution is proposed varying the rights of the preference shares. The nominal value of each ordinary share is 50 cents.

As at 31 December 2012, 477,500 $5 non-cumulative redeemable preference shares were in issue, of which 462,500 are classified within subordinated liabilities and other borrowed funds and which includes a premium of $923 million. The irredeemable preference shares of £1 each are also classified as other borrowed funds as required by the contingent settlement provisions of IAS 32 'Financial instruments: Presentation'.

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.

35. Share capital, reserves and own shares continued

Group and Company

	Number of ordinary shares (millions)	Ordinary share capital $million	Preference share capital $million	Total $million
As at 1 January 2011	2,348	1,174	–	1,174
Capitalised on scrip dividend	25	12	–	12
Shares issued	11	6	–	6
As at 31 December 2011	**2,384**	**1,192**	**–**	**1,192**
Capitalised on scrip dividend	**25**	**13**	**–**	**13**
Shares issued	**4**	**2**	**–**	**2**
At 31 December 2012	**2,413**	**1,207**	**–**	**1,207**

2012
On 14 May 2012, the Company issued 6,961,782 new ordinary shares instead of the 2011 final dividend and on 11 October 2012 the Company issued 18,454,741 new ordinary shares instead of the 2012 interim dividend.

During the year, 3,559,652 new ordinary shares were issued under employee share plans at prices between nil and 1,463 pence.

2011
On 11 May 2011, the Company issued 23,196,890 new ordinary shares instead of the 2010 final dividend. On 4 October 2011 the Company issued 1,274,109 new ordinary shares instead of the 2011 interim dividend.

During the year, 11,425,223 new ordinary shares were issued under employee share plans at prices between nil and 1,463 pence.

Reserves
Transaction costs relating to share issues deducted from reserves account total $149 million (2011: $149 million).

The cumulative amount of goodwill on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is $27 million (2011: $27 million).

The premium of $923 million arising on the issue of the $5 non-cumulative redeemable preference shares classified within 'Subordinated liabilities and other borrowed funds' is not included within the share premium account and forms part of the reported liability.

The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001. The capital redemption reserve represents the nominal value of preference shares redeemed.

The merger reserve represents the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the Companies Act 2006. Shares were issued using this structure in 2005 and 2006 to assist in the funding of certain acquisitions, in 2008 and 2010 for the shares issued by way of a rights issue, and for the shares issued in 2009 in the placing. The funding raised by the 2008 and 2010 rights issues and 2009 share issue was retained within the Company.

The 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 and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired.

The cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria for these types of hedges. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur.

The 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 and are reclassified to the income statement when 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 held (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 that can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

Notes to the financial statements continued

35. Share capital, reserves and own shares continued

Own shares

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

Except as disclosed, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the company listed on The Stock Exchange of Hong Kong during the year. Details of the shares purchased and held by the trusts are set out below.

	1995 Trust		2004 Trust		Total	
Number of shares	**2012**	2011	**2012**	2011	**2012**	2011
Shares purchased	**15,984,057**	4,500,000	**977,761**	1,136,086	**16,961,818**	5,636,086
Market price of shares purchased ($ million)	**386**	117	**25**	29	**411**	146
Shares held at the end of the year	**6,808,375**	11,049,476	**211,415**	281,670	**7,019,790**	11,331,146
Maximum number of shares held during year					**18,321,546**	15,590,159

36. Non-controlling interests

	$300m 7.267% Hybrid Tier 1 Securities $million	Other non-controlling interests $million	Total $million
At 1 January 2011	321	332	653
Expenses in equity attributable to non-controlling interests	–	(28)	(28)
Other profits attributable to non-controlling interests	22	62	84
Comprehensive income for the year	22	34	56
Distributions	(23)	(46)	(69)
Other increases	–	21	21
At 31 December 2011	**320**	**341**	**661**
Expenses in equity attributable to non-controlling interests	**–**	**(14)**	**(14)**
Other profits attributable to non-controlling interests	**22**	**76**	**98**
Comprehensive income for the year	**22**	**62**	**84**
Distributions	**(22)**	**(38)**	**(60)**
Other increases	**–**	**8**	**8**
At 31 December 2012	**320**	**373**	**693**

37. 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:

	2012			2011		
	Cash $million	**Equity $million**	**Total $million**	Cash $million	Equity $million	Total $million
Deferred share awards	**32**	**292**	**324**	17	264	281
Other share awards	**5**	**45**	**50**	(4)	115	111
Total share-based payments	**37**	**337**	**374**	13	379	392

2011 Standard Chartered Share Plan (the 2011 Plan)

Approved by shareholders in May 2011, this is the Group's main share plan applicable to all employees. The 2011 Plan is designed to deliver performance shares, deferred awards and restricted shares, giving us sufficient flexibility to meet the challenges of the changing regulatory and competitive environment. Discretionary share awards are a key part of both executive directors' and senior management's variable compensation and their significance as a proportion of potential total remuneration is one of the strongest indicators of our commitment to pay for sustainable performance and aligning reward with our risk horizon.

Further details regarding the 2011 Plan are included in the Directors' remuneration report. The remaining life of the plan is nine years.

Performance shares

Awards vest after a three-year period and are subject to three equally weighted (albeit independently assessed) performance measures, Total Shareholder Return ('TSR'), Earnings Per Share ('EPS') and Return on Risk Weighted Assets ('RoRWA'). The fair value of awards is based on the market value less an adjustment for the expected dividends over the vesting period and the relevant performance condition applying to that portion of the award.

Valuation

The fair value of the TSR component is derived by discounting a third of the award 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, the number of shares expected to vest is adjusted for actual performance when calculating the share-based payment charge for the year. The same fair value applies to all employees including directors.

	2012				2011			
Grant date	**21 December**	**19 September**	**20 June**	**13 March**	14 December	20 September	22 June	6 May
Share price at grant date (£)	**15.84**	**14.82**	**14.17**	**15.65**	14.35	13.52	15.75	16.31
Vesting period (years)	**3**	**3**	**3**	**3**	3	3	3	3
Expected dividend yield (%)	**3.7**	**3.2**	**3.5**	**3.5**	4.0	4.0	3.7	3.7
Fair value (EPS) (£)	**4.73**	**4.50**	**4.26**	**4.71**	4.26	4.01	4.70	4.87
Fair value (RoRWA) (£)	**4.73**	**4.50**	**4.26**	**4.71**	4.26	4.01	4.70	4.87
Fair value (TSR) (£)	**1.86**	**1.77**	**1.68**	**1.85**	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.

Deferred share awards/Restricted shares

Deferred awards are used to deliver the deferred portion of annual performance awards, in line with both market practice and the requirements of the FSA. These awards are subject to a three-year deferral period, vesting equally one-third on each of the first, second and third anniversaries.

Restricted share awards that 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 typically vest in equal instalments on the second and the third anniversaries of the award date. In a few circumstances, some awards vest over a four-year period in equal tranches, this is in line with similar plans operated by our competitors.

Valuation

The fair value, for all employees including directors, is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

Notes to the financial statements continued

37. Share-based payments continued

Deferred share awards

	2012		2011
Grant date	**20 June**	**13 March**	22 June
Share price at grant date (£)	**14.17**	**15.65**	15.75
Vesting period (years)	**1/2/3**	**1/2/3**	1/2/3
Expected dividend yield (%)	**n/a**	**n/a**	n/a
Fair value (£)	**14.17**	**15.65**	15.75

Deferred awards accrue dividend equivalent payments during the vesting period.

Other restricted share awards

	2012				2011		
Grant date	**21 December**	**19 September**	**20 June**	**13 March**	14 December	20 September	22 June
Share price at grant date (£)	**15.84**	**14.82**	**14.17**	**15.65**	14.35	13.52	15.75
Vesting period (years)	**2/3 1/2/3/4**	**2/3**	**2/3**	**2/3**	2/3	2/3	2/3
Expected dividend yield (%)	**3.7**	**3.0**	**3.8**	**3.8**	2.9	2.9	4.1
Fair value (£)	**14.46**	**13.76**	**12.91**	**14.26**	13.36	12.59	14.25

The expected dividend yield is based on the historical dividend for two and a half years prior to grant.

2000 Executive Share Option Scheme (2000 ESOS) – now closed to new grants

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 EPS performance criteria being satisfied. The exercise price per share is the share price at the date of grant.

2001 Performance Share Plan (PSP) – now closed to new grants

The Group's previous plan for delivering performance shares was the PSP and there remain outstanding vested and unvested awards.

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.

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. Awards were generally 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. Further details are contained in the Directors' remuneration report. The remaining life of the plan is two years.

All Employee Sharesave Plan (Sharesave)

Under the Sharesave plans, employees have the choice of opening a three-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. 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 plans. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based plan to its employees. The remaining life of the Sharesave plans is two years.

Valuation

Options under the Sharesave plans are valued using a binomial option-pricing model. The same fair value is applied to all employees including directors. The fair value per option granted and the assumptions used in the calculation are as follows:

	2012		2011	
Grant date	**11 October**	**1 October**	11 October	4 October
Share price at grant date (£)	**13.95**	**14.35**	14.11	11.70
Exercise price (£)	**11.40**	**11.40**	10.65	10.65
Vesting period (years)	**3**	**3**	3/5	3/5
Expected volatility (%)	**29.8**	**30.0**	53.8/45.8	53.3/45.5
Expected option life (years)	**3.33**	**3.33**	3.33/5.33	3.33/5.33
Risk free rate (%)	**0.4**	**0.4**	0.9/1.4	0.7/1.2
Expected dividend yield (%)	**3.1**	**3.1**	3.9/3.5	3.9/3.5
Fair value (£)	**3.28**	**3.53**	5.46/5.39	3.87/3.87

The expected volatility is based on historical volatility over the past 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.

37. Share-based payments continued

Reconciliation of option movements for the year to 31 December 2012

	2012 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	**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**
Granted	**5,116,875**	**10,268,598**	**–**	**364,112**	**–**	**70,255**	**–**	**–**	**4,572,789**	**11.40**
Lapsed	**(201,051)**	**(299,723)**	**(1,657,903)**	**(937,152)**	**(103,149)**	**–**	**(123,016)**	**6.33**	**(2,337,736)**	**11.64**
Exercised	**–**	**(1,450)**	**(2,981,607)**	**(12,813,210)**	**(4,136,454)**	**(70,255)**	**(484,316)**	**6.77**	**(3,539,744)**	**10.44**
Outstanding at 31 December	**9,075,667**	**10,598,950**	**2,221,257**	**16,685,298**	**2,870,847**	**55,795**	**351,044**	**7.46**	**14,076,948**	**11.59**
Exercisable at 31 December	**–**	**–**	**863,644**	**3,396,479**	**2,154,834**	**–**	**351,044**	**7.46**	**1,068,182**	**10.96**
Range of exercise prices (£)	**–**	**–**	**–**	**–**	**–**	**–**	**5.82-7.89**	**–**	**10.48-11.04**	**–**
Intrinsic value of vested but not exercised options ($ million)	**–**	**–**	**2**	**8**	**3**	**–**	**–**	**–**	**–**	**–**
Weighted average contractual remaining life (years)	**8.82**	**6.19**	**6.57**	**4.52**	**4.09**	**–**	**0.97**	**–**	**2.53**	**–**
Weighted average share price for options exercised during the period (£)	**–**	**14.39**	**15.59**	**15.66**	**15.64**	**15.97**	**14.94**	**–**	**14.87**	**–**

1 Employees do not contribute towards the cost of these awards

2 Notes:
a) The market value of shares on date of awards (13 March 2012) was 1,605 pence
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

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 1,680 pence
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

Notes to the financial statements continued

38. Cash flow statement

Adjustment for non-cash items and other adjustments included within income statement

	Group		Company	
	2012 $million	2011 $million	**2012 $million**	2011 $million
Amortisation of discounts and premiums of investment securities	**(442)**	(173)	**–**	–
Interest expense on subordinated liabilities	**582**	474	**186**	104
Interest expense on senior debts liabilities	**418**	809	**–**	228
Other non-cash items	**125**	204	**(143)**	3
Pension costs for defined benefit schemes	**99**	103	**–**	–
Share based payment costs	**374**	392	**–**	–
UK bank levy	**10**	69	**–**	–
Impairment losses on loans and advances and other credit risk provisions	**1,221**	908	**–**	–
Dividend income from subsidiaries	**–**	–	**(1,433)**	(1,176)
Other impairment	**194**	111	**–**	–
Profit from associates	**(116)**	(74)	**–**	–
Total	**2,465**	2,823	**(1,390)**	(841)

Change in operating assets

	Group		Company	
	2012 $million	2011 $million	**2012 $million**	2011 $million
Decrease/(increase) in derivative financial instruments	**9,441**	(21,617)	**(401)**	(160)
Increase in debt securities, treasury bills and equity shares held at fair value through profit or loss	**(3,121)**	(2,373)	**–**	–
Increase in loans and advances to banks and customers	**(19,135)**	(38,771)	**–**	–
Increase in pre-payments and accrued income	**(34)**	(440)	**–**	–
(Increase)/decrease in other assets	**(3,033)**	(4,810)	**(317)**	184
Total	**(15,882)**	(68,011)	**(718)**	24

Change in operating liabilities

	Group		Company	
	2012 $million	2011 $million	**2012 $million**	2011 $million
(Decrease)/increase in derivative financial instruments	**(9,726)**	20,266	**(43)**	(48)
Net increase in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions	**35,941**	55,069	**4,286**	598
Increase/(decrease) in accruals and deferred income	**113**	217	**123**	(22)
Increase/(decrease) in other liabilities	**88**	2,926	**738**	(4)
Total	**26,416**	78,478	**5,104**	524

39. 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. The following balances with less than three months maturity from the date of acquisition have been identified by the Group as being cash and cash equivalents. Restricted balances comprise minimum balances required to be held at central banks.

	Group		Company	
	2012 $million	2011 $million	**2012 $million**	2011 $million
Cash and balances at central banks	**61,043**	47,364	**–**	–
Less restricted balances	**(9,336)**	(9,961)	**–**	–
Treasury bills and other eligible bills	**3,101**	3,244	**–**	–
Loans and advances to banks	**24,485**	27,470	**–**	–
Trading securities	**1,307**	2,333	**–**	–
Amounts owed by and due to subsidiary undertakings	**–**	–	**16,879**	15,878
Total	**80,600**	70,450	**16,879**	15,878

40. Capital commitments

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

	2012 $million	2011 $million
Contracted	**51**	9

41. Operating lease commitments

	2012		2011	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	**336**	**4**	290	2
Later than one year and less than five years	**755**	**5**	637	2
After five years	**806**	**–**	479	–
	1,897	**9**	1,406	4

During the year $443 million (2011: $393 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 2012 is $6 million (2011: $2 million).

42. Contingent liabilities and commitments

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

	2012 $million	2011 $million
Contingent liabilities[1]		
Guarantees and irrevocable letters of credit	**34,281**	27,022
Other contingent liabilities	**10,168**	15,858
	44,449	42,880
Commitments[1]		
Documentary credits and short-term trade-related transactions	**7,752**	8,612
Forward asset purchases and forward deposits placed	**711**	733
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	**39,309**	28,507
Less than one year	**17,388**	24,193
Unconditionally cancellable	**110,138**	88,652
	175,298	150,697

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

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 33).

The Group seeks to comply with all applicable laws and regulations but may be subject to regulatory actions and interventions across our markets, the outcome of which are generally difficult to predict and can be material to the Group.

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.

Notes to the financial statements continued

43. 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 only consolidated when the Group has control of the SPE. Control is assessed based on the Group's exposure to the majority of the risks of the SPE and the right to obtain the majority of the benefits of the SPE. The assessment of risks and benefits is based on the assessed risk exposures at inception and these risks and benefits are re-considered if and when circumstances change. These circumstances may include situations when the Group acquires additional interests in the SPE, or the Group acquires control of the financial and operating policies of the SPE. Most of the Group's consolidated SPEs are in respect of the Group's securitised portfolios of residential mortgages (see page 94 of the Risk review).

The total assets of unconsolidated SPEs in which the Group has an interest are set out below.

	2012		2011	
	Total assets $million	**Maximum exposure $million**	Total assets $million	Maximum exposure $million
Portfolio management vehicles	**1,267**	**44**	1,136	130
Principal Finance Funds[1]	**766**	**181**	1,089	131
Structured finance	**464**	**103**	291	99
	2,497	**328**	2,516	360

1 Committed capital for these funds is $375 million (2011: $375 million) of which $145 million (2011: $129 million) has been drawn down net of provisions for impairment of $33 million (2011: $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 continues to own or hold all of the risks and returns relating to these assets and the credit protection afforded by the synthetic securitisation only serves to protect the Group against losses upon the occurrence of certain credit events, the assets are not de-recognised from the Group balance sheet. 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 largely relate to the provision of aircraft leasing and 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.

44. Post balance sheet events

Tax

On 5 December 2012, the UK government announced a further reduction in the main rate of UK corporation tax of 1 per cent with effect from 1 April 2014, in addition to the stepped reductions as previously announced. The combined effect of the reductions is to lower the main rate of UK corporation tax to 24 per cent in 2012-13, to 23 per cent in 2013-14, and 21 per cent in 2014-15.

At 31 December 2012, only the further tax rate change for 2013-14 to 23 per cent had been substantively enacted. Had the further rate change for 2014-15 been substantively enacted at the balance sheet date, the Group estimates that the UK deferred tax assets would have reduced by a further $24 million.

45. Restatement of prior year

The Group has re-presented certain balances in the consolidated balance sheet to reflect the effect of enhanced system capabilities introduced during the year. The Group has also re-presented the entity-wide geographic disclosures following the transfer of the governance of its franchise in Mauritius from Other Asia Pacific to Africa to align with Group's overall strategy in Africa. The impact of these changes has required: (i) gross up of loans and advances to customers (Mortgages) and customer deposit accounts (Interest-bearing current accounts) that were previously recorded net; (ii) netting of certain interest rate derivatives that were previously shown gross; and (iii) change of the Group's entity-wide geographic disclosures to reflect the transfer of Mauritius from Other Asia Pacific to Africa. For consistency, comparative balances have also been re-presented on a similar basis to enhance the comparability of information presented.

Balance sheet

	As reported at 2011 $million	Restated $million	Restated at 2011 $million
Loans and advances to customers	263,765	3,025	266,790
Customer accounts	342,701	3,025	345,726
Derivative assets	67,933	(9,409)	58,524
Derivative liabilities	65,926	(9,409)	56,517
Total assets	599,070	(6,384)	592,686
Total liabilities	557,695	(6,384)	551,311

Entity-wide geographic regions

Note 2 – Segmental information

	Hong Kong $million	Singapore $million	Other Asia Pacific $million	India $million	Africa $million	Americas UK & Europe $million
Loans and advances to customers						
As reported at 2011	50,541	42,574	54,196	23,379	10,004	–
Mortgage restatement	455	1,253	1,010	307	–	–
Mauritius geographic change	–	–	(1,227)	–	1,227	–
Restated at 2011	50,996	43,827	53,979	23,686	11,231	–
Total assets employed						
As reported at 2011	117,245	102,768	115,588	42,300	17,276	157,473
Mortgage restatement	455	1,253	1,010	307	–	–
Derivative restatement	–	–	–	–	–	(9,409)
Mauritius geographic change	–	–	(3,127)	–	3,127	–
Restated at 2011	117,700	104,021	113,471	42,607	20,403	148,064
Customer accounts (Current accounts)						
As reported at 2011	87,253	63,053	70,657	12,757	8,835	–
Deposit restatement	455	1,253	1,010	307	–	–
Mauritius geographic change	–	–	(670)	–	670	–
Restated at 2011	87,708	64,306	70,997	13,064	9,505	–
Deposit by banks						
As reported at 2011	–	–	5,881	–	532	–
Mauritius geographic change	–	–	(37)	–	37	–
Restated at 2011	–	–	5,844	–	569	–

	Other Asia Pacific			Africa Region		
	As reported at 2011 $million	Restated $million	As restated at 2011 $million	As reported at 2011 $million	Restated $million	As restated at 2011 $million
Operating income	3,553	(42)	3,511	1,340	42	1,382
Operating expenses	(2,076)	11	(2,065)	(703)	(11)	(714)
Loan impairment	(134)	(1)	(135)	(25)	1	(24)
Other impairment	31	–	31	(16)	–	(16)
Profit from associates	73	–	73	–	–	–
Profit before tax	1,447	(32)	1,415	596	32	628

Notes to the financial statements continued

45. Restatement of prior year continued

Loans and advances to customers – Risk review disclosure

	Hong Kong $million	Singapore $million	Other Asia Pacific $million	India $million	Africa $million
As reported at 2011	50,459	47,535	51,835	10,846	6,068
Mortgage restatement	455	1,253	1,010	307	–
Mauritius geographic change	–	–	(1,227)	–	1,227
Restated at 2011	50,914	48,788	51,618	11,153	7,295

46. Related party transactions

Directors and officers

Details of directors' remuneration and interests in shares are disclosed in the Directors' remuneration report.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises non-executive directors and members of the Group Management Committee (from January 2013, the Executive Management Group), which includes all executive directors.

	2012 $million	2011 $million
Salaries, allowances and benefits in kind	**21**	20
Pension contributions	**6**	5
Bonuses paid or receivable	**10**	11
Share-based payments	**35**	39
	72	75

The 2011 salaries, allowances and benefits in kind figure has been restated to include part of Sir John Peace's annual fee that is delivered in restricted shares.

Transactions with directors, officers and others

At 31 December 2012, the total amounts to be disclosed under the Companies Act 2006 (the Act) and the Listing Rules of the Hong Kong Stock Exchange Limited (HK Listing Rules) about loans to directors and officers were as follows:

	2012		2011	
	Number	**$000**	Number	$000
Directors	**4**	**4,898**	2	2,550
Officers[1]	**1**	**18**	2	3,064

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 Group Company Secretary

As at 31 December 2012, Standard Chartered Bank had created a charge over $43 million (2011: $42 million) of cash assets in favour of the independent trustee of its employer financed retirement benefit scheme.

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

Associates

The Group has loans and advances to Merchant Solutions and China Bohai Bank totalling $29 million and $32 million respectively at 31 December 2012 (2011: $39 million and $172 million respectively) and amounts payable to Merchant Solutions and China Bohai Bank of $21 million and $16 million respectively at 31 December 2012 (2011: $30 million and $10 million respectively).

Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling $18 million at 31 December 2012 (2011: $7 million), and deposits of $23 million (2011: $29 million). The Group has investments in subordinated debt issued by PT Bank Permata Tbk of $128 million (2011: $132 million).

Company

The Company has received $510 million (2011: $318 million) of interest income from Standard Chartered Bank. The Company issues debt externally and lends proceeds to Group companies. At 31 December 2012, it had loans to and debt instruments issued by Standard Chartered Bank of $23,604 million (2011: $17,625 million), derivative financial assets of $1,002 million (2011: $601 million) and no derivative financial liabilities (2011: $43 million) with Standard Chartered Bank, loans of $1,770 million (2011: $1,731 million) to Standard Chartered Holdings Limited.

In 2006, the Company licensed intellectual property rights related to the Company's main brands to an indirect wholly owned subsidiary, Standard Chartered Strategic Brand Management Limited, the income from which is held on the Company's balance sheet and released over the term of licence, which expires in 2015. At 31 December 2012, $54 million (2011: $72 million) has been included as deferred income in the Company balance sheet in relation to this licence.

The Company has an agreement with Standard Chartered Bank that in the event of Standard Chartered Bank defaulting on its debt coupon interest payments, where the terms of such debt requires it, the Company shall issue shares as settlement for non-payment of the coupon interest.

47. Standard Chartered PLC (Company)

Classification and measurement of financial instruments

Financial assets	2012 Derivatives held for hedging $million	2012 Amortised cost $million	2012 Total $million	2011 Derivatives held for hedging $million	2011 Amortised cost $million	2011 Total $million
Derivatives	**1,002**	**–**	**1,002**	601	–	601
Debt securities	**–**	**8,835**	**8,835**	–	4,025	4,025
Amounts owed by subsidiary undertakings	**–**	**16,879**	**16,879**	–	15,878	15,878
Total at 31 December	**1,002**	**25,714**	**26,716**	601	19,903	20,504

Derivatives held for hedging are held at fair value, are classified as Level 2 and counterparty is Standard Chartered Bank.

Debt securities comprise corporate securities issued by Standard Chartered Bank with a fair value of $8,876 million (2011: $4,062 million).

In 2011 and 2012, amounts owed by subsidiary undertakings have a fair value equal to carrying value.

Financial liabilities	2012 Derivatives held for hedging $million	2012 Amortised cost $million	2012 Total $million	2011 Derivatives held for hedging $million	2011 Amortised cost $million	2011 Total $million
Derivatives	**–**	**–**	**–**	43	–	43
Debt securities in issue	**–**	**14,534**	**14,534**	–	11,374	11,374
Subordinated liabilities and other borrowed funds	**–**	**4,806**	**4,806**	–	1,728	1,728
Total at 31 December	**–**	**19,340**	**19,340**	43	13,102	13,145

Derivatives held for hedging are held at fair value, are classified as level 2 and counterparty is Standard Chartered Bank.

The fair value of debt securities in issue is $15,563 million (2011: $11,374 million).

The fair value of subordinated liabilities and other borrowed funds is $4,953 million (2011: $1,584 million).

Derivative financial instruments

Total derivatives	2012 Notional principal amounts $million	2012 Assets $million	2012 Liabilities $million	2011 Notional principal amounts $million	2011 Assets $million	2011 Liabilities $million
Foreign exchange derivative contracts:						
Currency swaps	**9,224**	**663**	**–**	5,180	326	43
Interest rate derivative contracts:						
Swaps	**7,500**	**339**	**–**	5,250	275	–
Total derivatives	**16,724**	**1,002**	**–**	10,430	601	43

Credit risk

Maximum exposure to credit risk

	2012 $million	2011 $million
Derivative financial instruments	**1,002**	601
Investment securities	**8,835**	4,025
Amounts owed by subsidiary undertakings	**16,879**	15,878
	26,716	20,504

In 2011 and 2012, amounts owed by subsidiary undertakings were neither past due nor impaired; the Company had no individually impaired loans.

In 2011 and 2012, the Company had no impaired debt securities. The debt securities held by the Group are issued by Standard Chartered Bank, a wholly owned subsidiary undertaking with a credit rating of AA- to AA+.

Notes to the financial statements continued

47. Standard Chartered PLC (Company) continued

Liquidity risk

The following table analyses the residual contractual maturity of the assets and liabilities of the Company, on a discounted basis:

	2012				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Total $million
Assets					
Derivative financial instruments	–	–	741	261	1,002
Investment securities	–	250	–	8,585	8,835
Amounts owed by subsidiary undertakings	–	–	–	16,879	16,879
Investments in subsidiary undertakings	–	–	–	14,369	14,369
Other assets	–	–	–	115	115
Total assets	–	250	741	40,209	41,200
Liabilities					
Debt securities in issue	56	459	12,638	1,381	14,534
Other liabilities	–	–	–	392	392
Subordinated liabilities and other borrowed funds	41	71	470	4,224	4,806
Total liabilities	97	530	13,108	5,997	19,732
Net liquidity gap	(97)	(280)	(12,367)	34,212	21,468

	2011				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Total $million
Assets					
Loans and advances to customers	–	–	325	276	601
Investment securities	–	–	250	3,775	4,025
Amounts owed by subsidiary undertakings	–	–	–	15,878	15,878
Investments in subsidiary undertakings	–	–	–	14,291	14,291
Other assets	–	–	–	45	45
Total assets	–	–	575	34,265	34,840
Liabilities					
Derivative financial instruments	–	–	43	–	43
Debt securities in issue	–	–	11,374	–	11,374
Other liabilities	69	–	68	218	355
Subordinated liabilities and other borrowed funds	–	–	915	813	1,728
Total liabilities	69	–	12,400	1,031	13,500
Net liquidity gap	(69)	–	(11,825)	33,234	21,340

47. Standard Chartered PLC (Company) continued

Financial liabilities excluding derivative financial instruments on an undiscounted basis

	2012				2011			
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million
Debt securities in issue	56	460	14,026	1,444	2	107	11,649	–
Subordinated liabilities and other borrowed funds	41	77	471	6,089	1	102	1,264	813
Other liabilities	–	–	–	203	–	–	68	127
Total liabilities	97	537	14,497	7,736	3	209	12,981	940

Derivative 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.

	2012				2011			
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million
Derivative financial instruments	43	201	722	335	21	142	495	–

Supplementary information

Zambia

Standard Chartered first opened in Zambia in 1906 in the Kalomo district. As the oldest financial institution in the country, we are an integral part of the Zambian economy

Supplementary financial information

Average balance sheets and yield

The following tables set out the average balances and yields for the Group's assets and liabilities for the years ended 31 December 2012 and 31 December 2011. For the purpose of the following table, average balances have generally been determined on the basis of daily balances, except for certain categories, for which balances have been determined less frequently. The Group does not believe that the information presented in this table would be significantly different had such balances been determined on a daily basis.

	2012			
	Average non-interest earning balance $million	**Average interest earning balance $million**	**Interest income $million**	**Gross yield %**
Assets				
Cash and balances at central banks	**19,014**	**31,668**	**161**	**0.5**
Gross loans and advances to banks	**2,456**	**65,671**	**1,214**	**1.8**
Gross loans and advances to customers	**–**	**286,671**	**13,665**	**4.8**
Impairment provisions against loans and advances to banks and customers	**–**	**(2,511)**	**–**	**–**
Investment securities	**5,962**	**106,679**	**3,218**	**3.0**
Property, plant and equipment and intangible assets	**7,420**	**–**	**–**	**–**
Prepayments, accrued income and other assets	**103,181**	**–**	**–**	**–**
Total average assets	**138,033**	**488,178**	**18,258**	**3.7**

	2011			
	Average non-interest earning balance $million	Average interest earning balance $million	Interest income $million	Gross yield %
Assets				
Cash and balances at central banks	16,458	19,974	159	0.8
Gross loans and advances to banks	4,236	54,351	1,251	2.3
Gross loans and advances to customers	240	273,637	12,366	4.5
Impairment provisions against loans and advances to banks and customers	–	(2,364)	–	–
Investment securities	4,847	96,294	2,808	2.9
Property, plant and equipment and intangible assets	6,371	–	–	–
Prepayments, accrued income and other assets	96,226	–	–	–
Total average assets	128,378	441,892	16,584	3.8

Average balance sheets and yield continued

	2012			
	Average non-interest bearing balance $million	**Average interest bearing balance $million**	**Interest expense $million**	**Rate yield %**
Liabilities				
Deposits by banks	**3,207**	**52,817**	**685**	**1.3**
Customer accounts:				
Current accounts and savings deposits	**29,890**	**143,723**	**1,336**	**0.9**
Time and other deposits	**2,908**	**184,033**	**3,507**	**1.9**
Debt securities in issue	**–**	**62,786**	**1,138**	**1.8**
Accruals, deferred income and other liabilities	**95,252**	**–**	**–**	**–**
Subordinated liabilities and other borrowed funds	**–**	**18,121**	**582**	**3.2**
Non-controlling interests	**486**	**–**	**–**	**–**
Shareholders' funds	**43,037**	**–**	**–**	**–**
Total average liabilities and shareholders' funds	**174,780**	**461,480**	**7,248**	**1.6**
Net yield				**2.2**
Net interest margin				**2.3**

	2011			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate yield %
Liabilities				
Deposits by banks	5,272	30,453	429	1.4
Customer accounts:				
Current accounts and savings deposits	26,036	150,533	1,450	1.0
Time and other deposits	4,696	168,532	3,130	1.9
Debt securities in issue	999	45,320	948	2.1
Accruals, deferred income and other liabilities	86,926	–	–	–
Subordinated liabilities and other borrowed funds	–	15,764	474	3.0
Non-controlling interests	647	–	–	–
Shareholders' funds	39,465	–	–	–
Total average liabilities and shareholders' funds	164,041	410,602	6,431	1.6
Net yield				2.2
Net interest margin				2.3

Supplementary financial information continued

Volume and price variances

The following table analyses the estimated change in the Group's net interest income attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, and changes in their respective interest rates for the periods presented. Volume and rate variances have been determined based on movements in average balances and average exchange rates over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Variances caused by changes in both volume and rate have been allocated to changes in volume.

	2012 versus 2011		
	Increase/(decrease) in interest due to:		Net increase/ (decrease) in interest $million
	Volume $million	Rate $million	
Interest-earning assets			
Cash and unrestricted balances at central banks	**59**	**(57)**	**2**
Loans and advances to banks	**209**	**(246)**	**(37)**
Loans and advances to customers	**635**	**664**	**1,299**
Investment securities	**319**	**91**	**410**
Total interest-earning assets	**1,222**	**452**	**1,674**
Interest-bearing liabilities			
Subordinated liabilities and other borrowed funds	**77**	**31**	**108**
Deposits by banks	**325**	**(69)**	**256**
Customer accounts:			
Current accounts and savings deposits	**(149)**	**35**	**(114)**
Time and other deposits	**277**	**100**	**377**
Debt securities in issue	**318**	**(128)**	**190**
Total interest-bearing liabilities	**848**	**(31)**	**817**

	2011 versus 2010		
	Increase/(decrease) in interest due to:		Net increase/ (decrease) in interest $million
	Volume $million	Rate $million	
Interest-earning assets			
Cash and unrestricted balances at central banks	47	95	142
Loans and advances to banks	226	261	487
Loans and advances to customers	1,122	1,218	2,340
Investment securities	30	85	115
Total interest-earning assets	1,425	1,659	3,084
Interest-bearing liabilities			
Subordinated liabilities and other borrowed funds	14	30	44
Deposits by banks	(55)	(2)	(57)
Customer accounts:			
Current accounts and savings deposits	337	92	429
Time and other deposits	655	133	788
Debt securities in issue	184	13	197
Total interest-bearing liabilities	1,135	266	1,401

Five-year summary

	2012 $million	2011 $million	2010 $million	2009 $million	2008 $million
Operating profit before impairment losses and taxation	**8,175**	7,720	7,039	7,232	6,357
Impairment losses on loans and advances and other credit risk provisions	**(1,221)**	(908)	(883)	(2,000)	(1,321)
Other impairment	**(194)**	(111)	(76)	(102)	(469)
Profit before taxation	**6,876**	6,775	6,122	5,151	4,568
Profit attributable to shareholders	**4,887**	4,849	4,332	3,380	3,241
Loans and advances to banks[1]	**68,381**	65,981	52,058	50,885	46,583
Loans and advances to customers[1]	**283,885**	266,790[4]	240,358	198,292	174,178
Total assets	**636,518**	592,686[4]	516,560	436,653	435,068
Deposits by banks[1]	**36,477**	35,296	28,551	38,461	31,909
Customer accounts[1]	**377,639**	345,726[4]	306,992	251,244	234,008
Shareholders' equity	**45,362**	40,714	38,212	27,340	22,140
Total capital resources[2]	**64,854**	58,092	54,804	44,650	39,681
Information per ordinary share					
Basic earnings per share	**199.7c**	200.8c	196.3c	161.8c	185.1c
Normalised earning per share[3]	**225.2c**	198.0c	197.0c	173.2c	168.5c
Dividends per share	**84.00c**	76.00c	69.15c	63.61c	59.36c
Net asset value per share	**1,822.9c**	1,653.2c	1,573.2c	1281.6c	1,091.1c
Net tangible asset value per share	**1,519.0c**	1,355.6c	1,273.4c	953.4c	755.0c
Ratios					
Normalised return on ordinary shareholders' equity[3]	**12.8%**	12.2%	14.1%	14.3%	15.2%
Basic cost-income ratio	**57.1%**	56.2%	56.2%	52.4%	54.5%
Cost-income ratio – normalised basis[3]	**53.8%**	56.5%	55.9%	51.3%	56.1%
Capital ratios:					
Tier 1 capital[5]	**13.4%**	13.7%	14.0%	11.5%	9.9%
Total capital[5]	**17.4%**	17.6%	18.4%	16.5%	15.6%

1 Excludes amounts held at fair value through profit or loss

2 Shareholders' funds, non-controlling interests and subordinated loan capital

3 Results on a normalised basis reflect the Group's results, excluding amortisation and impairment of intangible assets, gains and losses of a capital nature, and gains and losses on repurchase of subordinated liabilities

4 Amounts have been restated as explained in note 45

5 Unaudited

Supplementary financial information continued

A. Convenience translation of selected financial statements into Indian rupees

In compliance with clause 37(3) of Indian Depository Receipts Listing agreement, the Consolidated and Company financial statements on pages 197 to 203 are presented in Indian rupees (INR) using a US dollar / Indian rupee exchange rate of 54.7773 as at 31 December 2012 as published by Reserve Bank of India. Amounts have been translated using the said exchange rate including totals and sub-totals and any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Consolidated income statement (translated to INR)

For the year ended 31 December 2012

	2012 ₹million	2011 ₹million
Interest income	**1,000,124**	908,427
Interest expense	**(397,026)**	(352,273)
Net interest income	**603,098**	556,154
Fees and commission income	**252,962**	244,635
Fees and commission expense	**(27,224)**	(23,006)
Net trading income	**150,528**	144,886
Other operating income	**65,295**	43,438
Non-interest income	**441,560**	409,953
Operating income	**1,044,658**	966,107
Staff costs	**(360,654)**	(363,173)
Premises costs	**(48,533)**	(47,218)
General administrative expenses	**(151,076)**	(98,818)
Depreciation and amortisation	**(36,591)**	(34,017)
Operating expenses	**(596,853)**	(543,226)
Operating profit before impairment losses and taxation	**447,804**	422,881
Impairment losses on loans and advances and other credit risk provisions	**(66,883)**	(49,738)
Other impairment	**(10,627)**	(6,080)
Profit from associates	**6,354**	4,054
Profit before taxation	**376,649**	371,116
Taxation	**(103,584)**	(100,900)
Profit for the year	**273,065**	270,216
Profit attributable to:		
Non-controlling interests	**5,368**	4,601
Parent company shareholders	**267,697**	265,615
Profit for the year	**273,065**	270,216
	Rupees	Rupees
Earnings per share:		
Basic earnings per ordinary share	**109.4**	110.0
Diluted earnings per ordinary share	**108.3**	108.6

Consolidated statement of comprehensive income (translated to INR)

For the year ended 31 December 2012

	2012 ₹million	2011 ₹million
Profit for the year	**273,065**	270,216
Other comprehensive income:		
Items that will not be reclassified to Income statement:		
Actuarial losses on retirement benefit obligations	**(4,163)**	(10,353)
Items that may be reclassified subsequently to Income statement:		
Exchange differences on translation of foreign operations:		
Net gains/(losses) taken to equity	**31,497**	(54,942)
Net (losses)/gains on net investment hedges	**(3,999)**	274
Reclassified to income on change of control	**–**	–
Share of other comprehensive income from associates	**(110)**	55
Available-for-sale investments:		
Net valuation gains/(losses) taken to equity	**57,845**	(11,613)
Reclassified to income statement	**(18,570)**	(14,626)
Cash flow hedges:		
Net gains taken to equity	**7,285**	219
Reclassified to income statement	**(1,096)**	(5,149)
Taxation relating to components of other comprehensive income	**(7,231)**	5,368
Other comprehensive income for the year, net of taxation	**61,460**	(90,766)
Total comprehensive income for the year	**334,525**	179,450

	2012 ₹million	2011 ₹million
Total comprehensive income attributable to:		
Non-controlling interests	**4,601**	3,068
Parent company shareholders	**329,924**	176,383
	334,525	179,450

Supplementary financial information continued

Consolidated balance sheet (translated to INR)

As at 31 December 2012

	2012 ₹million	2011[1] ₹million
Assets		
Cash and balances at central banks	**3,343,771**	2,594,472
Financial assets held at fair value through profit or loss	**1,483,588**	1,360,011
Derivative financial instruments	**2,711,257**	3,205,787
Loans and advances to banks	**3,745,727**	3,614,261
Loans and advances to customers	**15,550,454**	14,614,036
Investment securities	**5,445,576**	4,671,572
Other assets	**1,578,572**	1,494,653
Current tax assets	**11,777**	12,708
Prepayments and accrued income	**141,380**	138,094
Interests in associates	**52,203**	49,464
Goodwill and intangible assets	**400,532**	386,783
Property, plant and equipment	**364,050**	278,159
Deferred tax assets	**37,851**	45,739
Total assets	**34,866,737**	32,465,739
Liabilities		
Deposits by banks	**1,998,112**	1,933,420
Customer accounts	**20,686,045**	18,937,937
Financial liabilities held at fair value through profit or loss	**1,263,384**	1,073,580
Derivative financial instruments	**2,585,050**	3,095,849
Debt securities in issue	**3,066,378**	2,582,202
Other liabilities	**1,342,263**	1,305,562
Current tax liabilities	**58,557**	55,051
Accruals and deferred income	**266,218**	244,197
Subordinated liabilities and other borrowed funds	**1,029,758**	915,712
Deferred tax liabilities	**8,819**	7,176
Provisions for liabilities and charges	**11,777**	20,213
Retirement benefit obligations	**27,608**	28,429
Total liabilities	**32,343,969**	30,199,328
Equity		
Share capital	**66,116**	65,295
Reserves	**2,418,692**	2,164,908
Total parent company shareholders' equity	**2,484,808**	2,230,203
Non-controlling interests	**37,961**	36,208
Total equity	**2,522,769**	2,266,411
Total equity and liabilities	**34,866,737**	32,465,739

1 Amounts have been restated as explained in note 45

Consolidated statement of changes in equity (translated to INR)

For the year ended 31 December 2012

	Share capital ₹million	Share premium account ₹million	Capital and Capital redemption reserve[1] ₹million	Merger reserve ₹million	Available-for-sale reserve ₹million	Cash flow hedge reserve ₹million	Translation reserve ₹million	Retained earnings ₹million	Parent company share-holders' equity ₹million	Non-controlling interests ₹million	Total ₹million
At 1 January 2011	64,309	295,031	986	680,389	16,871	3,122	(22,568)	1,055,011	2,093,150	35,770	2,128,920
Profit for the year	–	–	–	–	–	–	–	265,615	265,615	4,601	270,216
Other comprehensive income	–	–	–	–	(22,842)	(3,834)	(53,791)	(8,764)[2]	(89,232)	(1,534)	(90,766)
Distributions	–	–	–	–	–	–	–	–	–	(3,780)	(3,780)
Shares issued, net of expenses	329	3,177	–	–	–	–	–	–	3,506	–	3,506
Net own shares adjustment	–	–	–	–	–	–	–	(3,506)	(3,506)	–	(3,506)
Share option expense, net of taxation	–	–	–	–	–	–	–	23,773	23,773	–	23,773
Capitalised on scrip dividend	657	(657)	–	–	–	–	–	–	–	–	–
Dividends, net of scrip	–	–	–	–	–	–	–	(63,103)	(63,103)	–	(63,103)
Other increases	–	–	–	–	–	–	–	–	–	1,150	1,150
At 31 December 2011	**65,295**	**297,550**	**986**	**680,389**	**(5,971)**	**(712)**	**(76,360)**	**1,269,026**	**2,230,203**	**36,208**	**2,266,411**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**267,697**	**267,697**	**5,368**	**273,065**
Other comprehensive income	**–**	**–**	**–**	**–**	**32,209**	**5,149**	**28,101**	**(3,232)[3]**	**62,227**	**(767)**	**61,460**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,287)**	**(3,287)**
Shares issued, net of expenses	**110**	**3,122**	**–**	**–**	**–**	**–**	**–**	**–**	**3,232**	**–**	**3,232**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(21,144)**	**(21,144)**	**–**	**(21,144)**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19,665**	**19,665**	**–**	**19,665**
Capitalised on scrip dividend	**712**	**(712)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(77,072)**	**(77,072)**	**–**	**(77,072)**
Other increases	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**438**	**438**
At 31 December 2012	**66,116**	**299,960**	**986**	**680,389**	**26,238**	**4,437**	**(48,259)**	**1,454,940**	**2,484,808**	**37,961**	**2,522,769**

1 Includes capital reserve of ₹274 million and capital redemption reserve of ₹712 million
2 Comprises actuarial losses, net of taxation and non-controlling interests, of ₹8,819 million and share of comprehensive income from associates of ₹55 million
3 Comprises actuarial losses, net of taxation, non-controlling interests, of ₹3,232 million

Supplementary financial information continued

Cash flow statement (translated to INR)

For the year ended 31 December 2012

	Group		Company	
	2012 ₹million	2011 ₹million	**2012 ₹million**	2011 ₹million
Cash flows from operating activities				
Profit before taxation	**376,649**	371,116	**86,000**	66,335
Adjustments for:				
Non-cash items included within income statement	**135,026**	154,636	**(76,140)**	(46,068)
Change in operating assets	**(869,973)**	(3,725,459)	**(39,330)**	1,315
Change in operating liabilities	**1,446,997**	4,298,813	**279,583**	28,703
Contributions to defined benefit schemes	**(11,175)**	(4,218)	**–**	–
UK and overseas taxes paid	**(98,106)**	(88,630)	**(6,245)**	–
Net cash from operating activities	**979,418**	1,006,259	**243,869**	50,286
Net cash flows from investing activities				
Purchase of property, plant and equipment	**(9,203)**	(15,666)	**–**	–
Disposal of property, plant and equipment	**10,682**	7,614	**–**	–
Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired	**(3,451)**	(49,628)	**(4,273)**	–
Purchase of investment securities	**(8,617,839)**	(7,190,068)	**(263,479)**	(71,210)
Disposal and maturity of investment securities	**7,992,282**	6,564,019	**–**	–
Dividends received from investment in subsidiaries and associates	**767**	548	**78,496**	64,418
Net cash used in investing activities	**(626,762)**	(683,182)	**(189,256)**	(6,792)
Net cash flows from financing activities				
Issue of ordinary and preference share capital, net of expenses	**3,232**	3,506	**3,232**	3,506
Purchase of own shares	**(23,280)**	(7,997)	**(23,280)**	(7,997)
Exercise of share options through ESOP	**2,136**	3,122	**2,136**	3,122
Interest paid on subordinated liabilities	**(47,711)**	(46,122)	**(7,231)**	(5,697)
Gross proceeds from issue of subordinated liabilities	**185,695**	50,888	**176,492**	–
Repayment of subordinated liabilities	**(93,176)**	(29,580)	**(12,325)**	–
Interest paid on senior debts	**(47,492)**	(48,971)	**(17,529)**	(19,501)
Gross proceeds from issue of senior debts	**627,364**	854,197	**–**	211,057
Repayment of senior debts	**(325,268)**	(443,258)	**(44,205)**	(58,228)
Dividends paid to non-controlling interests and preference shareholders, net of scrip	**(8,819)**	(9,312)	**(5,533)**	(5,533)
Dividends paid to ordinary shareholders, net of scrip	**(71,539)**	(57,571)	**(71,539)**	(57,571)
Net cash from financing activities	**201,142**	268,902	**219**	63,158
Net increase in cash and cash equivalents	**553,799**	591,978	**54,832**	106,651
Cash and cash equivalents at beginning of year	**3,859,061**	3,272,067	**869,754**	763,103
Effect of exchange rate movements on cash and cash equivalents	**2,191**	(4,985)	**–**	–
Cash and cash equivalents at end of year	**4,415,050**	3,859,061	**924,586**	869,754

Company balance sheet (translated to INR)

As at 31 December 2012

	2012 ₹million	2011 ₹million
Non-current assets		
Investments in subsidiary undertakings	**787,095**	782,822
Current assets		
Derivative financial instruments	**54,887**	32,921
Investment securities	**483,957**	220,479
Amounts owed by subsidiary undertakings	**924,586**	869,754
Taxation	**6,299**	2,465
	1,469,730	1,125,619
Current liabilities		
Derivative financial instruments	**–**	2,355
Other creditors	**18,515**	15,502
Deferred income	**986**	986
	19,501	18,843
Net current assets	**1,450,229**	1,106,775
Total assets less current liabilities	**2,237,324**	1,889,598
Non-current liabilities		
Debt securities in issue	**796,133**	623,037
Deferred income	**1,972**	2,958
Subordinated liabilities and other borrowed funds	**263,260**	94,655
	1,061,365	720,650
Total assets less liabilities	**1,175,959**	1,168,948
Equity		
Share capital	**66,116**	65,295
Reserves	**1,109,843**	1,103,653
Total equity	**1,175,959**	1,168,948

Supplementary financial information continued

Company statement of changes in equity (translated to INR)

For the year ended 31 December 2012

	Share capital ₹million	Share premium account ₹million	Capital and capital redemption reserve[1] ₹million	Merger reserve ₹million	Retained earnings ₹million	Total ₹million
At 1 January 2011	64,309	295,031	986	680,389	104,570	1,145,284
Profit for the year	–	–	–	–	66,226	66,226
Shares issued, net of expenses	329	3,177	–	–	–	3,506
Net own shares adjustment	–	–	–	–	(3,506)	(3,506)
Share option expense	–	–	–	–	20,541	20,541
Capitalised on scrip dividend	657	(657)	–	–	–	–
Dividends, net of scrip	–	–	–	–	(63,103)	(63,103)
At 31 December 2011	**65,295**	**297,550**	**986**	**680,389**	**124,728**	**1,168,948**
Profit for the year	**–**	**–**	**–**	**–**	**83,590**	**83,590**
Shares issued, net of expenses	**110**	**3,122**	**–**	**–**	**–**	**3,232**
Net own shares adjustment	**–**	**–**	**–**	**–**	**(21,144)**	**(21,144)**
Share option expense	**–**	**–**	**–**	**–**	**18,405**	**18,405**
Capitalised on scrip dividend	**712**	**(712)**	**–**	**–**	**–**	**–**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**(77,072)**	**(77,072)**
At 31 December 2012	**66,116**	**299,960**	**986**	**680,389**	**128,508**	**1,175,959**

1 Includes capital reserve of ₹274 million and capital redemption reserve of ₹712 million

B. Summary of significant differences between Indian GAAP and IFRS

The consolidated financial statements of the Group for the year ended 31 December 2012 with comparatives as at 31 December 2011 are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union.

IFRS differs in certain significant respects from Indian Generally Accepted Accounting Principles (GAAP). Such differences involve methods for measuring the amounts shown in the financial statements of the Group, as well as additional disclosures required by Indian GAAP.

Set out below are descriptions of certain accounting differences between IFRS and Indian GAAP that could have a significant effect on profit attributable to parent company shareholders for the year ended 31 December 2012 and 31 December 2011 and total parent company shareholders' equity as at the same date. This section does not provide a comprehensive analysis of such differences. In particular, this description considers only those Indian GAAP pronouncements for which adoption or application is required in financial statements for years ended on or prior to 31 December 2012. The Group has not quantified the effect of differences between IFRS and Indian GAAP, nor prepared consolidated financial statements under Indian GAAP, nor undertaken a reconciliation of IFRS and Indian GAAP financial statements. Had the Group undertaken any such quantification or preparation or reconciliation, other potentially significant accounting and disclosure differences may have come to its attention that are not identified below. Accordingly, the Group does not provide any assurance that the differences identified below represent all the principal differences between IFRS and Indian GAAP relating to the Group. Furthermore, no attempt has been made to identify future differences between IFRS and Indian GAAP. Finally, no attempt has been made to identify all differences between IFRS and Indian GAAP that may affect the financial statements as a result of transactions or events that may occur in the future.

In making an investment decision, potential investors should consult their own professional advisers for an understanding of the differences between IFRS and Indian GAAP and how those differences may have affected the financial results of the Group. The summary does not purport to be complete and is subject and qualified in its entirety by reference to the pronouncements of the International Accounting Standards Board (IASB), together with the pronouncements of the Indian accounting profession.

Changes in accounting policy

IFRS
Changes in accounting policy are applied retrospectively. Comparatives are restated and the effect of period(s) not presented is adjusted against opening retained earnings of the earliest year presented. Policy changes made on the adoption of a new standard are made in accordance with that standard's transitional provisions.

Indian GAAP
The cumulative amount of the change is included in the income statement for the period in which the change is made except as specified in certain standards (transitional provision) where the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact disclosed.

Where a change in accounting policy has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such an amount is not ascertainable this fact should be indicated.

Functional and presentation currency

IFRS
Assets and liabilities are translated at the exchange rate at the balance sheet date when the financial statements are presented in a currency other than the functional currency. Income statement items are translated at the exchange rate at the date of transaction or at average rates. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Group is US dollars.

Indian GAAP
There is no concept of functional or presentation currency. Entities in India have to prepare their financial statements in Indian rupees.

Consolidation

IFRS
Entities are consolidated when the Group has the power to govern the financial and operating policies so as to obtain benefits. Control is presumed to exist when the Group owns more than one half of an entity's voting power. Currently exercisable voting rights should also be taken into consideration when determining whether control exists.

Indian GAAP
Similar to IFRS, except that currently exercisable voting rights are not considered in determining control.

Consolidation of Special Purpose Entities

IFRS
Under the IASB's Standards Interpretations Committee (SIC) Interpretation 12 (SIC-12), an SPV should be consolidated when the substance of the relationship between an enterprise and the SPV indicates that the SPE is controlled by that entity. The definition of an SPV includes employee share trusts.

Indian GAAP
No specific guidance. SPEs including employee share trusts are not consolidated.

Business combinations

IFRS
All business combinations are treated as acquisitions. Assets, liabilities and contingent liabilities acquired are measured at their fair values. Pooling of interest method is prohibited.

For acquisitions occurring on or after 1 January 2004, IFRS 3 'Business Combinations' (IFRS 3) requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognised and if considered to have a finite life, amortised through the income statement over an appropriate period. As the Group has not applied IFRS 3, or its predecessor IAS 22, to transactions that occurred before 1 January 2004, no intangible assets, other than goodwill, were recognised on acquisitions prior to that date.

Adjustments to provisional fair values are permitted provided those adjustments are made within 12 months from the date of acquisition, with a corresponding adjustment to goodwill.

After re-assessment of respective fair values of net assets acquired, any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised immediately in the income statement.

Where less than 100 per cent of an entity is acquired, non-controlling interests are stated at their proportion of the fair value of the identifiable net assets and contingent liabilities acquired.

Indian GAAP
Treatment of a business combination depends on whether the acquired entity is held as a subsidiary, whether it is an amalgamation or whether it is an acquisition of a business.

For an entity acquired and held as a subsidiary, the business combination is accounted for as an acquisition. The assets and liabilities acquired are incorporated at their existing carrying amounts.

Supplementary financial information continued

B. Summary of significant differences between Indian GAAP and IFRS continued

For an amalgamation of an entity, either pooling of interests or acquisition accounting may be used. The assets and liabilities amalgamated are incorporated at their existing carrying amounts or, alternatively, if acquisition accounting is adopted, the consideration can be allocated to individual identifiable assets (which may include intangible assets) and liabilities on the basis of their fair values.

Adjustments to the value of acquired or amalgamated balances are not permitted after initial recognition.

Any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised as capital reserve, which is neither amortised nor available for distribution to shareholders. However, in case of an amalgamation accounted under the purchase method, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation.

Minority interests arising on the acquisition of a subsidiary are recognised at their share of the historical book value.

Goodwill

IFRS

IFRS 3 requires that goodwill arising on all acquisitions by the Group and associated undertakings is capitalised but not amortised and is subject to an annual review for impairment. Under the transitional provisions of IFRS 1, the Group has not applied IFRS 3, or its predecessor IAS 22, to transactions that occurred before 1 January 2004, the date of transition to IFRS. Accordingly, goodwill previously written off to reserves, as permitted under UK GAAP until the implementation of FRS 10 'Goodwill and intangible assets' in 1998, has not been reinstated nor will it be written back on disposal.

Amortisation of goodwill that has been charged up to 31 December 2003 has not been reversed and the deemed carrying value of the goodwill on transition to IFRS is equal to the net book value as at 31 December 2003.

Goodwill is tested annually for impairment. Any impairment losses recognised may not be reversed in subsequent accounting periods.

Indian GAAP

Goodwill arising for amalgamations is capitalised and amortised over useful life not exceeding five years, unless a longer period can be justified.

For goodwill arising on acquisition of a subsidiary or a business, there is no specific guidance – in practice there is either no amortisation or amortisation not exceeding 10 years.

Goodwill is reviewed for impairment whenever an indicator of impairment exists. Impairment losses recognised may be reversed under exceptional circumstances only in subsequent accounting periods through the income statement.

Acquired and internally generated intangible assets

IFRS

Intangible assets are recognised if the specific criteria are met. Assets with a finite useful life are amortised on a systematic basis over their useful life. An asset with an indefinite useful life and which is not yet available for use should be tested for impairment annually.

Indian GAAP

Intangible assets are capitalised if specific criteria are met and are amortised over their useful life, generally not exceeding 10 years. The recoverable amount of an intangible asset that is not available for use or is being amortised over a period exceeding 10 years should be reviewed at least at each financial year-end even if there is no indication that the asset is impaired.

Property, plant and equipment

IFRS

Fixed assets are recorded at cost or revalued amounts. Under the transition rules of IFRS 1, the Group elected to freeze the value of all its properties held for its own use at their 1 January 2004 valuations, their 'deemed cost' under IFRS. They will not be revalued in the future.

Foreign exchange gains or losses relating to the procurement of property, plant and equipment, under very restrictive conditions, can be capitalised as part of the asset.

Depreciation is recorded over the asset's estimated useful life. The residual value and the useful life of an asset and the depreciation method shall be reviewed at least at each financial year-end.

The Group has the option to capitalise borrowing costs incurred during the period that the asset is getting ready for its intended use.

Indian GAAP

Fixed assets are recorded at historical costs or revalued amounts.

Relevant borrowing costs are capitalised if certain criteria in AS-16 are met.

Depreciation is recorded over the asset's useful life. Schedule XIV of the Companies Act and Banking Regulations prescribe minimum rates of depreciation and these are typically used as the basis for determining useful life.

Recognition and measurement of financial instruments

IFRS

IAS 39 requires all financial instruments to be initially measured at their fair value, which is usually to be the transaction price. In those cases where the initial fair value is based on a valuation model that uses inputs that are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement but is amortised to the income statement until the inputs become observable, the transaction matures or is terminated.

At the time of initial recognition, IAS 39 requires all financial assets to be classified as either:

- Held at fair value through profit or loss (as a trading instrument or as designated by management), with realised and unrealised gains or losses reflected in profit or loss
- Available-for-sale at fair value, with unrealised gains and losses reflected in shareholders' equity, and recycled to the income statement when the asset is sold or is impaired
- Held-to-maturity at amortised cost, where there is the intent and the ability to hold them to maturity
- As loans and receivables at amortised cost

At the time of initial recognition, IAS 39 requires all financial liabilities to be classified as either:

- Held at fair value through profit or loss (as a trading instrument or as designated by management), with realised and unrealised gains or losses reflected in profit or loss
- At amortised cost

A financial asset or financial liability, other than one held for trading, can be designated as being held at fair value through profit or loss if it meets the criteria set out below:

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

The designation of a financial instrument as held at fair value through profit or loss is irrevocable in respect of the financial instruments to which it relates. Subsequent to initial recognition instruments cannot be classified into or out of this category.

Changes in the fair value of available-for-sale financial assets resulting from movements in foreign currency exchange rates are included in the income statement as exchange differences. Foreign currency exchange movements for available-for-sale equity securities is recognised in reserves.

B. Summary of significant differences between Indian GAAP and IFRS continued

Indian GAAP

AS 13 requires investments to be categorised as follows:

- Current investments, which are those readily realisable and intended to be held for less than one year, are carried at the lower of cost and fair value, with changes in fair value taken directly to profit or loss;
- Long-term investments, which are those investments not classified as current, are carried at cost unless there is a permanent diminution in value, in which case a provision for diminution is required to be made by the entity.

For investments, Reserve Banking India regulations require similar classifications to IFRS, but the classification criteria and measurement requirements differ from those set out in IFRS.

Financial liabilities are usually carried at cost.

There is no ability to designate instruments at fair value.

Measurement of derivative instruments and hedging activities

IFRS

IAS 39 requires that all derivatives be recognised on balance sheet at fair value. Changes in the fair value of derivatives that are not hedges are reported in the income statement. Changes in the fair value of derivatives that are designated as hedges are either offset against the change in fair value of the hedged asset or liability through earnings or recognised directly in equity until the hedged item is recognised in earnings, depending on the nature of the hedge. The ineffective portion of the hedge's change in fair value is immediately recognised in earnings. A derivative may only be classified as a hedge if an entity meets stringent qualifying criteria in respect of documentation and hedge effectiveness.

IAS 39 requires the separation of derivatives embedded in a financial instrument if it is not deemed to be closely related to the economic characteristics of the underlying host instrument.

Indian GAAP

Foreign exchange contracts held for trading or speculative purposes are carried at fair value, with gains and losses recognised in the income statement.

In the absence of specific guidance, equity options are carried at the lower of cost or market value.

There is no specific guidance on hedge accounting since Accounting Standard 30 is not mandatory. However, requirements of AS 30 with respect to hedge accounting are largely similar to that of IAS 39.

Disclosure of Notional

IFRS

A structured trade is a combination of individual trades. For IFRS reporting, notional value for structured trade is highest notional value amongst its individual trades as at Balance Sheet date.

Indian GAAP

Notional value for structured trade is cumulative notional values of all trades that make a structured trade.

Impairment of financial assets

IFRS

At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment.

Assets held at amortised cost

If objective evidence of impairment exists, an assessment is made to determine what, if any, impairment loss should be recognised. The impairment loss is the difference between the asset's carrying amount and its estimated recoverable amount.

The recoverable amount is determined based on the present value of expected future cash flows, discounted at the instrument's original effective interest rate, either individually or collectively. Individually assessed assets for which there is no objective evidence of impairment are collectively assessed for impairment.

Available-for-sale assets

If objective evidence of impairment exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any previously recognised impairment) is removed from equity and recognised in the income statement.

Market recoveries leading to a reversal of an impairment provision for available-for-sale debt securities are recognised in the income statement. Impairment losses for equity instruments classified as available-for-sale are not permitted to be reversed through profit or loss.

Indian GAAP

Long-term investments are written down when there is a decline in fair value that is deemed to be other than temporary. Impairments may be reversed through the income statement in subsequent periods if the investment rises in value, or the reasons for the impairment no longer exist.

Derecognition of financial assets

IFRS

A financial asset is derecognised if substantially all the risks and rewards of ownership have been transferred. If substantially all the risks and rewards have not been transferred, the asset will continue to be recognised to the extent of any continuing involvement.

Indian GAAP

There is limited guidance on derecognition of financial assets. Securitised financial assets can only be derecognised if the originator has surrendered control over the assets. Control is not surrendered where the securitised assets are not beyond the reach of the creditors of the originator or where the transferee does not have the right to pledge, sell, transfer or exchange the securitised asset for its own benefit, or where there is an option that entitles the originator to repurchase the financial assets transferred under a securitisation transaction from the transferee.

Liabilities and equity

IFRS

A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled.

Preference shares, which carry a mandatory coupon or 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.

Indian GAAP

Classification is based on the legal form rather than substance.

Provisions for liabilities and charges

IFRS

The amount recognised as a provision is the best estimate at the balance sheet date of the expenditure required to settle the obligation, discounted using a pre-tax market discount rate if the effect is material.

Indian GAAP

Provisions are recognised and measured on a similar basis to IFRS, except that discounting is not permitted.

Pension obligations

IFRS

IAS 19 'Employee Benefits' (IAS 19) requires defined benefit pension liabilities to be assessed on the basis of current actuarial valuations performed on each plan, and pension assets to be measured at fair

Supplementary financial information continued

value. The net pension surplus or deficit, representing the difference between plan assets and liabilities, is recognised on the balance sheet.

B. Summary of significant differences between Indian GAAP and IFRS continued

The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on high quality corporate bonds of a currency and term consistent with the currency and term of the post employment benefit obligations.

Under the transitional provisions of IFRS 1 'First time adoption of International Financial Reporting Standards' (IFRS 1) and in accordance with IAS 19, the Group elected to record all actuarial gains and losses on the pension surplus or deficit in the year in which they occur within the 'Consolidated statement of comprehensive income'.

Indian GAAP

The liability for defined benefit plans is determined on a similar basis to IFRS.

The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on government bonds.

Actuarial gains or losses are recognised immediately in the statement of income.

In respect of termination benefits, the revised AS 15 (2005) specifically contains a transitional provision providing that where expenditure on termination benefits is incurred on or before 31 March 2009, the entities can choose to follow the accounting policy of deferring such expenditure over its pay-back period. However, any expenditure deferred cannot be carried forward to accounting periods commencing on or after 1 April, 2010. Therefore any expenditure deferred should be written off over the shorter of (a) the pay-back period or (b) the period from the date expenditure on termination benefits is incurred to 1 April, 2010.

Share-based compensation

IFRS

IFRS 2 'Share based payment' requires that all share-based payments are accounted for using a fair value method.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For equity-settled awards, the total amount to be expensed over the vesting period must be determined by reference to the fair value of the options granted (determined using an option pricing model), excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions must be included in assumptions about the number of options that are expected to become exercisable.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. 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. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards must be revalued at each balance sheet date on an intrinsic value basis (being the difference between the market price of the share at the measurement date and the exercise price) with any changes in fair value charged or credited to staff costs in the income statement.

Deferred tax is recognised based on the intrinsic value of the award and is recorded in the income statement if the tax deduction is less than or equal to the cumulative share-based compensation expense or equity if the tax deduction exceeds the cumulative expense.

Indian GAAP

Entities may either follow the intrinsic value method or the fair value method for determining the costs of benefits arising from share-based compensation plans. Although the fair value approach is recommended, entities may use the intrinsic value method and provide fair value disclosures.

Deferred tax is not recognised as it is not considered to represent a timing difference.

Entities are also permitted the option of recognising the related compensation cost over the service period for the entire award (that is, over the service period of the last separately vesting portion of the award), provided that the amount of compensation cost recognised at any date at least equals the fair value of the vested portion of the award at that date.

Deferred taxation

IFRS

Deferred tax is determined based on temporary differences, being the difference between the carrying amount and tax base of assets and liabilities, subject to certain exceptions.

Deferred tax assets are recognised if it is probable (more likely than not) that sufficient future taxable profits will be available to utilise to deferred tax assets.

Indian GAAP

Deferred tax is determined based on timing differences, being the difference between accounting income and taxable income for a period that is capable of reversal in one or more subsequent periods.

Deferred tax assets recognised only if virtually certain with entities with tax losses carried forward or if reasonably certain with entities with no tax losses that the assets can be realised in future.

Interest income and expense

IFRS

Interest income and expense is recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Indian GAAP

In the absence of a specific effective interest rate requirement, premiums and discounts are usually amortised on a straight line basis over the term of the instrument.

Dividends

IFRS

Dividends to holders of equity instruments, when proposed or declared after the balance sheet date, should not be recognised as a liability on the balance sheet date. A company however is required to disclose the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue.

Indian GAAP

Dividends are reflected in the financial statements of the year to which they relate even if proposed or approved after the year end.

Shareholder information

Dividend and interest payment dates

Ordinary shares	Final dividend	Interim dividend (provisional only)
Results and dividend announced	5 March 2013	6 August 2013
Ex dividend date	13 March 2013	14 August 2013
Record date for dividend	15 March 2013	16 August 2013
Last date to elect for share dividend or to change standing instructions	29 April 2013	1 October 2013
Dividend payment date	14 May 2013	17 October 2013

Preference shares	1st half-yearly dividend	2nd half-yearly dividend
7 3/8 per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2013	1 October 2013
8 1/4 per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2013	1 October 2013
6.409 per cent Non-cumulative redeemable preference shares of $5 each	30 January 2013	30 July 2013
7.014 per cent Non-cumulative redeemable preference shares of $5 each	30 January 2013	30 July 2013
8.125 per cent Non-cumulative redeemable preference shares of $5 each	27 May 2013	27 November 2013

Annual General Meeting

The Annual General Meeting (AGM) will be held at 11.00am London time (6.00pm Hong Kong time) on Wednesday 8 May 2013 at etc. venues, 200 Aldersgate, St Paul's, London, EC1A 4HD. Details of the business to be transacted at the AGM are included in the accompanying Notice of AGM.

Details of voting at the Company's AGM and of proxy votes cast can be found on the Company's website at http://investors.standardchartered.com on 9 May 2013.

Interim results

The interim results will be announced to the London Stock Exchange, the Stock Exchange of Hong Kong, the Bombay Stock Exchange and the National Stock Exchange of India and put on the Company's website.

ShareCare

ShareCare is available to shareholders on the Company's UK register who have a UK address and bank account, and allows you to hold your Standard Chartered shares in a nominee account. Your shares will be held in electronic form so you will no longer have to worry about keeping your share certificates safe. If you join ShareCare you will still be invited to attend the Company's AGM and receive your dividend at the same time as everyone else. ShareCare is free to join and there are no annual fees to pay. If you would like to receive more information please visit our website at http://investors.standardchartered.com/mypage.cfm or contact the shareholder helpline on 0870 702 0138.

Previous dividend payments (unadjusted for the impact of the 2010/2008 rights issue)

Dividend and financial year	Payment date	Dividend per ordinary share	Cost of one new ordinary share under share dividend scheme
Interim 2002	15 October 2002	14.10c/9.023p	£6.537/$10.215
Final 2002	13 May 2003	32.9c/20.692p/HK$2.566	£6.884/$10.946
Interim 2003	10 October 2003	15.51c/9.3625p/HK$1.205	£8.597/$14.242
Final 2003	14 May 2004	36.49c/20.5277p/HK$2.8448	£8.905/$15.830
Interim 2004	8 October 2004	17.06c/9.4851p/HK$1.3303	£9.546/$17.16958
Final 2004	13 May 2005	40.44c/21.145p/HK$3.15156	£9.384/$17.947
Interim 2005	14 October 2005	18.94c/10.7437p/HK$1.46911	£11.878/$21.3578
Final 2005	12 May 2006	45.06c/24.9055p/HK$3.49343	£14.2760/$24.77885
Interim 2006	11 October 2006	20.83c/11.14409p/HK$1.622699	£13.2360/$25.03589
Final 2006	11 May 2007	50.21c/25.17397p/HK$3.926106	£14.2140/$27.42591
Interim 2007	10 October 2007	23.12c/11.39043p/HK$1.794713	£15.2560/$30.17637
Final 2007	16 May 2008	56.23c/28.33485p/HK$4.380092	£16.2420/$32.78447
Interim 2008	9 October 2008	25.67c/13.96133p/HK$1.995046	£14.00/$26.0148
Final 2008	15 May 2009	42.32c/28.4693p/HK$3.279597	£8.342/$11.7405
Interim 2009	8 October 2009	21.23c/13.25177p/HK$1.645304	£13.876/$22.799
Final 2009	13 May 2010	44.80c/29.54233p/HK$3.478306	£17.351/$26.252
Interim 2010	5 October 2010	23.35c/14.71618p/HK$1.811274/INR0.984124*	£17.394/$27.190
Final 2010	11 May 2011	46.45c/28.272513p/HK$3.623404/INR1.9975170*	£15.994/$25.649
Interim 2011	7 October 2011	24.75c/15.81958125p/HK$1.928909813/INR1.13797125*	£14.127/$23.140
Final 2011	15 May 2012	51.25c/31.63032125p/HK$3.9776083375/INR2.6667015*	£15.723/$24.634
Interim 2012	11 October 2012	27.23c/16.799630190p/HK$2.111362463/INR1.349803950*	£13.417/$21.041

*The INR dividend is per Indian Depository Receipt

Shareholder information continued

Donating shares to ShareGift

Shareholders who have a small number of shares often find it uneconomical to sell them. An alternative is to consider donating them to the charity ShareGift (registered charity 1052686), which collects donations of unwanted shares until there are enough to sell and uses the proceeds to support UK charities. Further information can be obtained from the Company's Registrars or from ShareGift on 020 7930 3737 or from www.ShareGift.org. There is no implication for Capital Gains Tax (no gain or loss) when you donate shares to charity and UK taxpayers may be able to claim income tax relief on the value of their donation.

Bankers' Automated Clearing System (BACS)

Dividends can be paid straight into your bank or building society account. Please register online at www.investorcentre.co.uk or contact our registrar for a mandate form.

Registrars and shareholder enquiries

If you have any enquiries relating to your shareholding and you hold your shares on the United Kingdom register, please contact our registrar Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 7ZY shareholder helpline number 0870 702 0138. If you hold your shares on the Hong Kong branch register please contact Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. You can check your shareholding at: www.investorcentre.co.uk

Chinese translation

If you would like a Chinese version of the 2012 Report and Accounts please contact:

Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

年報之中文譯本可向香港中央證券登記有限　司索取，地址：香港灣仔皇后大道東183號合和中心17M樓。

Shareholders on the Hong Kong branch register who have asked to receive the Report and Accounts in either Chinese or English can change this election by contacting Computershare.

If there is a dispute between any translation and the English version of this Report and Accounts, the English text shall prevail.

Taxation

Information on taxation applying to dividends paid to you if you are a shareholder in the United Kingdom, Hong Kong or the United States will be sent to you with your dividend documents.

Electronic communications

If you hold your shares on the United Kingdom register and in future you would like to receive the Report and Accounts electronically rather than by post, please register online at: www.investorcentre.co.uk. Then click on Register and follow the instructions. You will need to have your Shareholder or ShareCare Reference number when you log on. You can find this on your share certificate or ShareCare statement. Once registered you can also submit your proxy vote and dividend election electronically and change your bank mandate or address information.

Forward looking statements

It is possible that this document could or may contain forward looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward looking statements.

There are several factors that could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in the forward looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

The Group undertakes no obligation to revise or update any forward looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

www.standardchartered.com

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 that attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and in the case of **Collateralised Debt Obligations (CDOs)**, the reference pool may be ABS.

Advanced Internal Rating Based (AIRB) approach
The AIRB approach under the **Basel II** framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters.

ASEAN
Association of South East Asian Nations (ASEAN), which includes the Group's operation 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 are being phased in from 1 January 2013 with full implementation by 31 December 2019.

Basis point (bp)
One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. 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 that reference **ABS** 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 that 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 expenses to total operating income.

Cover ratio
Represents the extent to which **non-performing loans** are covered by **impairment allowances**.

Covered bonds
Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds.

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.

Glossary continued

Customer deposits
Money deposited by all individuals and companies that 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 transferable 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 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.

Eurozone
Represents the 17 European Union countries that have adopted the euro as their common currency. The 17 countries are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.

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 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 that 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 that 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 that 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 that 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 that 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 agreement that allows 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 that 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.

Glossary continued

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.

Seasoning
The emergence of credit loss patterns in portfolios over time.

Secured (fully and partially)
A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.

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)** that 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.

Senior debt
Senior debt, frequently issued in the form of senior notes, is debt that takes priority over other unsecured or otherwise more 'junior' debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

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 that 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.

Stressed value at risk
A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.

Structured finance/notes
A structured note is an investment tool that 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 judgments 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.

Value at Risk (VaR)
Value at Risk is an estimate of the potential loss that 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.

Major awards 2012

Asian Banking & Finance Retail Banking Awards 2012
Online Securities Platform of the Year in Hong Kong

Asian Banking & Finance Wholesale Banking Awards 2012
Technology & Operations Bank of the Year in Thailand

The Asian Banker Excellence in Retail Financial Services Awards 2012
Best Retail Bank in Hong Kong

Best Employee Engagement in Hong Kong

Best Retail Bank in Bangladesh

The Asian Banker Strongest Banks Awards Programme 2012
The Strongest Bank in Asia Pacific and Hong Kong

Asiamoney Country Deals of the Year Awards 2012
Deal of the Year – Indonesia: Perusahaan Penerbit SBSN Indonesia III USD1 billion 3.3% Islamic bonds due 2022

Asiamoney Fixed Income Poll 2012

Best for Credit Services in Thailand (Ranked 1st)

Best for Credit Derivatives in Thailand (Ranked 1st)

Best for Interest Rate Research in Thailand (Ranked 1st)

Asiamoney FX Poll 2012

Overall Best Domestic Provider of FX services as voted by Financial Institutions in Hong Kong

Asiamoney Regional Deal and Investment Bank of the Year Awards 2012
Best Leveraged Financing Deal: CVC Asia Pacific HKD2.95 billion (USD380.6 million) leverage buyout financing

Asia Pacific Syndicated Loan Awards 2012
Asia Pacific Financial Institution Syndicated Loan House of the Year

The Asian Private Banker Awards 2012
Private Banker of the Year – Rajesh Malkani

Best Private Bank in India

Best Private Bank in the Middle East

Asia Risk Awards 2012
Commodity Derivatives House of the Year

Credit Derivatives House of the Year

Interest Rate Derivatives House of the Year

Asia Risk Corporate Rankings 2012
#1 Overall for all categories

#1 Overall for Interest Rate

#1 Overall for Currency

The Asset Triple A Awards 2012
Best SME Bank in Vietnam, Hong Kong and Korea

The Asset Triple A Country Awards 2012
Best Deal: China Development Bank: CNH1bn 20-year 4.3% fixed rate MTNs due July 2032

Best Deal in Hong Kong: CVC Asia Pacific USD658 million (HKD5.1 billion) acquisition of Hong Kong Broadband Network Limited and IDD business from City Telecom

Best Deal: Thai Beverage Acquisition of Fraser & Neave/ SGD2.8 billion syndicated

Best Debt House in Singapore, Thailand and India

Best Bank in Pakistan

The Asset Triple A Investment Awards 2012
Best Structured Product: Multi Asset – Diversified Portfolio Index

The Asset Triple A Islamic Finance Awards 2012
Best Islamic Project Finance House

Islamic Loan House of the Year

The Asset Triple A Regional Awards 2012
Best House for Bank Capital

Best Transport Finance House

Best Project Finance House

Best Leveraged Finance House

Best Dim Sum Bond House

Best Asian Currency Bond House

The Asset Triple A Transaction Banking Awards 2012
Best Renminbi Trade Settlement Bank

Best in Structured Trade Finance

Best Transaction Bank in Korea

Best SME Bank in Hong Kong, Korea and Vietnam

Best Cash Management Solution in Korea: HANSSEM

Major awards 2012 continued

Banking & Payments Asia Trailblazer Awards 2012
Process Excellence in Account Opening

The Banker Bank of the Year Awards 2012

Bank of the Year for Global Transaction Services

Bank of the Year in Bangladesh, Uganda, Nepal and Zimbabwe

The Banker Deals of the Year 2012

FIG Capital Raising Deal of the Year – Americas: Banco de Brasil USD1bn perpetual tier one

Islamic Finance Deal of the Year – Europe: Kuveyt Turk USD350m sukuk

Loans Deal of the Year – Asia Pacific: Aditya Birla USD900m acquisition finance

Structured Finance Deal of the Year – Asia Pacific: Silver Oak USD645m CMBS

FIG Capital Markets Deal of the Year – Europe: Credit Suisse USD8bn contingent capital package

The Banker Middle East Product Awards 2012
Best SME Internet Banking

Best SME Foreign Exchange Service

Capital Outstanding Enterprise Awards 2012
Best Foreign Performing Bank

Outstanding Retail Bank in Hong Kong

Outstanding SME Bank in Hong Kong

China CFO's Most Trusted Banks Awards 2012
Best Corporate Internet Platform Award

CorpComms Digi Awards 2012
Best Corporate website

EMEA Finance Achievement Awards 2012
Best corporate sukuk: Majid Al Futtaim Properties

Deal of the Year: Qatar's USD4bn sukuk

EMEA Finance African Banking Awards 2012

Best Bank in Uganda

Best Foreign Bank in Ghana, Kenya, Tanzania and Zimbabwe

Euromoney Awards for Excellence 2012
Banker of the Year

Best Cash Management House in Africa

Best Flow House in Africa

Best Debt House in the UAE

Euromoney Deals of the Year 2012
Deals of the Year: Republic of the Philippines PHP30.8bn global peso notes

Deal of the Year: Jebel Ali Free Zone Refinancing

Euromoney Islamic Finance Awards 2012
Best Global sukuk House

European M&A Awards 2012
Financial Adviser of the Year in sub-Saharan Africa

FinanceAsia Country Awards for Achievement 2012
Best Foreign Commercial Bank in Bangladesh, Pakistan and Singapore

Gartner and 1to1 Media CRM Excellence Awards 2012
Best Customer Experience Excellence Award

Global Custodian Agent Banks in Major Markets Survey 2012

Leading Clients – Top Rated in South Korea

Global Finance Best Foreign Exchange Providers Awards 2012

Best Foreign Exchange Bank in Asia Pacific and Africa

Global Finance Best Supply Chain Finance Provider 2012

Best Supply Chain Finance Provider in Asia and Africa

Global Finance World's Best Banks 2012

Best Emerging Market Bank in Asia

Best Emerging Market Bank in Botswana, Gambia, Zambia and Zimbabwe

Global Finance World Best Internet Bank Awards 2012

Best Consumer Internet Bank

Best Bill Payment & Presentment in the Middle East and Asia

Best Information Security Initiatives in the Middle East

Best Integrated Consumer Bank Site in Asia

Best Online Deposit, Credit & Investment Product Offering in Asia

Global Finance World's Best Investment Banks 2012

Best Investment Bank in Singapore and the UAE

Global Finance World's Best Sub-Custodian Banks 2012

Best Sub-Custodian Bank in Asia

Best Sub-Custodian Bank in Hong Kong, Indonesia and Taiwan

Global Finance World's Best Treasury & Cash Management Providers 2012

Best Bank for Liquidity Management in Asia, Africa and the Middle East

Global Private Banking Awards 2012

Best Private Bank in India

GTR Leaders in Trade 2012

Best Trade Finance Bank in Asia Pacific

GTR Mena Leaders in Trade 2012

Best International Trade Finance Bank in Qatar

Best International Trade Finance Bank in Saudi Arabia

IFR Asia Review of the Year 2012

Hong Kong Loan House of the Year

APAC Domestic Bond House of the Year

APAC Islamic Deal of the Year in Asia: Republic of Indonesia's USD1bn 10-year sukuk

India Capital Markets Deal of the Year: Indian Oil Corp's SGD400m 10-year bond

IFR Awards 2012

Asia-Pacific High-Yield Bond of the Year in Asia: Mongolian Mining Corp's USD600m five-year bond

Emerging EMEA Loan of the Year: Jafza's Dh4.4bn Islamic loan

Latin America Bond of the Year: Banco do Brasil's USD1.75bn perpetual

Islamic Bond of the Year: Abu Dhabi Islamic Bank's USD1bn perpetual sukuk

Islamic Finance News Awards Deals of the Year 2012

Corporate Finance Deal of the Year: Al Futtaim Properties USD400 million sukuk

Mercomm ARC Awards 2012

Gold award in Overall Annual Reports category

mtn-i's Deals of the Decade Awards 2012

Landmark Deal of the Decade: China Development Bank CNH 1bn 20-year 4.3% fixed rate MTNs due July 2032

Major awards 2012 continued

New Finance World Awards 2012
Best Financial Innovation in China

PFI Awards 2012

Americas Deal of the Year: Sabine Pass LNG

Asia-Pacific Renewables Deal of the Year: Green Infra

Middle East & Africa Petrochemical Deal of the Year: ERC

Middle East & Africa Turkish Infra Deal of the Year: ATAS

Private Banker International Global Wealth Awards 2012
Outstanding Private Bank in Asia Pacific

Outstanding Young Private Bankers – Denise Leonardi

Outstanding Young Private Bankers – Ihab Al-Derzi

Retail Banker International Awards 2012
Global Retail Bank of the Year

Best Online Banking Strategy

Seatrade Middle East and Indian Subcontinent Awards 2012

The Ship Finance Award

TMI Awards for Innovation & Excellence in Treasury 2012

Best Bank for Cash Management in India

Best Bank for Financial Supply Chain in Asia and the Middle East

Best Bank for Financial Supply Chain in India

Best Bank in SWIFT for Corporates in Asia

Trade & Forfaiting Review Awards 2012
Deals of the Year – winner: BP Aromatics

Deals of the Year – winner: Nyiombo Investments

Trade Finance Awards for Excellence 2012
Best Trade Bank in MENA

Best Islamic Trade Finance Bank in EMEA

Web Marketing Association's Web Awards 2012
Bank Standard of Excellence, Financial Services Standard of Excellence

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