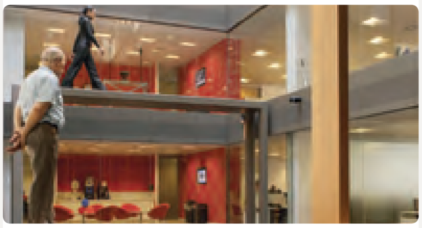
Standard Chartered
Here for good

Leading the way
in Asia, Africa and the Middle East

About us

The Group



Standard Chartered is a universal banking group headquartered in London and has operated for over 150 years in some of the world's most dynamic markets, leading the way in Asia, Africa and the Middle East. Our income and profit streams are highly diversified with 24 of our markets now delivering over $100 million in income.

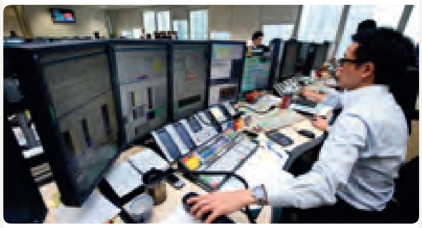
For more information on Group performance go to page 20

Consumer Banking

Helps meet the evolving financial needs of private, small and medium-sized enterprises (SMEs), Priority, and Personal banking customers across our franchise. Our customer-focused and service approach enables our staff to offer solutions from an innovative range of products and services to build stronger relationships with our customers.

For more information on Consumer Banking go to page 26

Wholesale Banking



Helps corporate and institutional clients facilitate trade and finance in the world's fastest-growing markets by offering solutions across our footprint. We are at the heart of international trade and investment flows, offering the knowledge of a local bank with the capabilities of an international financial institution.

For more information on Wholesale Banking go to page 34

Operational highlights in 2011

- Record income and operating profit for the ninth consecutive year, despite difficult market conditions
- Broad-based and diverse income growth across a range of businesses, markets, products, customer and client segments
- Consumer Banking grew operating profit by 26 per cent to over $1.6 billion
- Wholesale Banking delivered over $5 billion of profit in a year for the first time
- 24 markets generated income of more than $100 million
- Hong Kong surpassed $1.5 billion of profit and Singapore generated $1 billion of profit for the first time
- A highly liquid, well diversified balance sheet with an advances-to-deposits ratio of 76.4 per cent
- A strong Core Tier 1 capital ratio of 11.8 per cent positions the Group well to meet evolving regulatory requirements
- Strong balance sheet growth with customer advances up 9 per cent to $269 billion and customer deposits up 11 per cent to $352 billion
- $19.2 billion of credit provided to small and medium-sized enterprises
- Renewed commitment to Seeing is Believing with new fundraising target of $100 million by 2020
- 65,880 employee volunteering days contributed to local communities, an increase of over 40 per cent

Cover: **Bandra-Worli Sea Link Bridge, Mumbai, India**

What's inside this report

Group overview
2–17

Performance highlights and an introduction to our markets, business structure and strategy

Operating and financial review
18–91

A review of our businesses, their financial performance and outlook for 2012

Corporate governance
92–159

An explanation of our approach to corporate governance with key developments during the year, together with profiles of our Board of directors

Financial statements and notes
160–235

Detailed financial information for the year ended 31 December 2011

Supplementary information
236–264

Additional information for shareholders

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, Mauritius, 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
Strong foundations, consistent growth

Financial highlights

Non-financial highlights

Employees
86,865
2010: 85,231 2009: 78,494

Nationalities
130
2010: 129 2009: 125

Markets
71
2010: 71 2009: 71

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. 2009 dividend per share and 2010 interim dividend per share on a rights adjusted basis. Further details are set out in note 13 to the financial statements

Our approach
A strong One Bank culture

Our strategic intent

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

Our brand promise

Here for good, our brand promise, is a simple phrase with multiple meanings. We describe Here for good in the following manner. To be here for people – reflects our belief in developing long-term and deep relationships with our customers and clients, and with each other. To be here for progress – captures our belief in doing the right thing, in being a force for good, in making a positive contribution to the economies and societies in which we operate. To be here for the long run – attests to our financial performance, longevity and history.

How we deliver
Our strategic pillars

1 Clear geographic focus on Asia, Africa and the Middle East

We have an unequivocal focus on these fast growing economies in which we have, or can achieve, a clear competitive advantage supported by superior insight and deep local relationships.

2 Scale positions in significant local markets

We believe in combining global capabilities with local scale. This is becoming an ever-stronger competitive imperative in our markets. We want to be considered important to the banking system in our key geographies.

3 One Bank with two strong businesses actively reinforcing each other

We operate as One Bank with two major businesses, Wholesale Banking and Consumer Banking, working effectively together.

4 Customer and client relationships, rather than a product driven approach

We focus our capabilities around customer and client needs, rather than seeking a rapid return on products or building product silos.

5 Distinctive culture and values

Our unique culture and values are a source of significant advantage. They reassure customers and clients in a market where trust and ethics have re-emerged as critical, underpinning our One Bank approach, attracting talent to the Group, and strengthening our relationships with stakeholders, such as regulators and governments.

6 Conservative and disciplined on risk, capital and liquidity

We regard balance sheet strength as a cornerstone of our strategy, to build a sustainable business and to create confidence with our customers and clients through our ability to continue lending in times of scarce liquidity.

7 Organic growth the primary driver for our strategy and value creation

We believe that organic growth drives the greatest value creation for our shareholders. Where we cannot grow organically we explore acquisitions that reinforce our core strategy.

Chairman's statement
Delivering consistent value

Sir John Peace
Chairman

"Standard Chartered is very clearly different to most other banks. Our performance has shown that we are in the right markets, with the right strategy, and have the right leadership in place to deliver consistent value for our shareholders."

Normalised earnings per share

198.0 cents

2010: 197.0 cents[1]

Dividend per share

76.00 cents

2010: 69.15 cents[2]

1 Rights adjusted. Further details are set out in note 14 to the financial statements
2 Rights adjusted. Further details are set out in note 13 to the financial statements

I am pleased to report that 2011 was our ninth consecutive year of record income and profits. Once again, our performance has shown that we are in the right markets, with the right strategy, and have the right leadership in place to deliver consistent value for our shareholders.

- **Income** rose 10 per cent to $17.6 billion
- **Profit before tax** increased 11 per cent to $6.8 billion
- **Normalised earnings per share** were up 0.5 per cent to 198.0 cents

The Board is recommending a final dividend of 51.25 cents per share, bringing the total annual dividend to 76.00 cents per share, up 10 per cent.

We continue to keep shareholder interests top of mind when determining our strategy. In the past year, not only have we grown our income, profits and earnings per share – we have also increased our capital reserves and total dividends, delivering a return on equity of more than 12 per cent.

Despite turbulent global markets and the increased cost of regulation, we have struck the balance between paying our staff in a competitive industry, whilst investing in our business at pace and delivering great returns for our shareholders, with a growing dividend.

Since 2006, we have increased our total lending by more than 90 per cent, with mortgage lending up 40 per cent and SME lending up 70 per cent. We now employ nearly 87,000 people. Importantly, in achieving this, not once have we taken a penny in direct government support anywhere in the Group.

Banks have a fundamental role in economies, helping businesses to set up and expand, helping people buy homes and grow their wealth. Now more than ever, the world needs growth. It needs banks that are properly capitalised, strongly liquid and well managed to do what they do best – helping to meet the needs of growing populations, helping to deal with social issues such as rising youth unemployment. To achieve this, however, it is vital that regulation on banks is kept proportionate.

There is currently much debate on remuneration in banking. Put simply, our approach to remuneration has not changed. We continue to reward our people for sustained high performance, and we do not reward failure or short-term risk taking. Despite considerable growth in profits, the bonus pool has been kept flat and the amount we are paying out in bonuses is less than we are paying to our shareholders by way of a dividend.

Standard Chartered is very clearly different to most other banks. We remain well positioned in Asia, Africa and the Middle East – markets with a strong, underlying growth momentum, driven by urbanisation, rapidly expanding middle classes and booming infrastructure investment. As the shift in economic and political power from West to East accelerates, changing the flow of global trade, this places us at a powerful vantage point.

We are different because we are strongly capitalised and highly liquid, with diversified sources of quality income growth throughout our Consumer and Wholesale Banking businesses and an obsessive focus on the basics of banking.

Above all, we are different because we have a cohesive and distinctive global culture with a strong emphasis on values and leadership. Here for good, our brand promise, powerfully sums up who we are and what we stand for.

Strong governance is also integral to our long-term success. We continually assess our governance structure to ensure its effectiveness. Since 2009, as part of this process, we have widened the remits of our Board Committees, which has allowed the Board to focus more broadly on strategic issues.

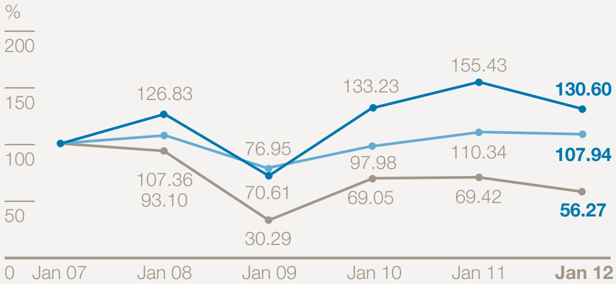
Following the appointment of three non-executive directors and one executive director in 2010, we made no changes to our Board in 2011. However, we were delighted to welcome V. Shankar to our Board as an executive director effective from 1 January 2012. Based in Dubai, Shankar has been a strong member of our top management team since 2007, bringing a great international knowledge and broad banking experience. His appointment further strengthens our Board.

In summary, 2011 was another year of strong performance for Standard Chartered, and the Board remains confident for the year ahead. Our results demonstrate the continued success of our strategy, our diverse footprint, our unique culture and values and, most especially, the quality of our people. We enter 2012 in great shape.

Sir John Peace
Chairman
29 February 2012

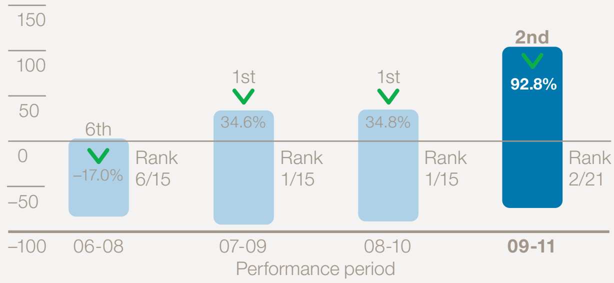
Total shareholder return (TSR)[1]

Percentage change over five-year period



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

Assessing TSR performance under the Performance Share Plan



- Standard Chartered TSR position in comparator group
- Comparator group TSR performance range with Standard Chartered actual performance

1 Further information on the Group's TSR performance can be found on pages 137 to 139

Group Chief Executive's review
Exciting growth opportunities

Peter Sands
Group Chief Executive

"The clouds over the West should not obscure the sheer scale of wealth creation and social progress in the developing world. We see huge opportunities in our core markets, both within individual markets, and in facilitating the explosive growth of trade and investment flows."

These results represent our ninth consecutive year of record income and profits. We are superbly placed in some of the world's fastest-growing markets. We have the right strategy, a distinctive culture and a strong brand. We are focused on delivering for our shareholders, supporting our customers and clients, and making a positive impact on the communities in which we live and work.

However, the consistency of our performance should not detract from our underlying achievement. Every year brings new challenges, and 2011 was no exception. Two of our largest markets saw sharp falls in profits. Some of our business streams, particularly in Wholesale Banking, faced very difficult conditions. The increasing burden of regulation – and the UK bank levy – created significant headwinds. Yet, our 2011 performance demonstrates, once again, the power of our strategy and the resilience of our business model.

Global macroeconomic outlook

The crisis that began in 2007 and brought markets to a halt in the autumn of 2008 continues to unfold. The roots of the crisis are now laid bare – too much debt, too little growth, an erosion of competitiveness and massive macroeconomic imbalances. Restoring the vitality of the world's most developed economies is an enormous endeavour with profound social and economic consequences.

The crisis has undoubtedly accelerated the fundamental shifts in the world economy. Whilst not immune to the problems of the West, countries like China, India, Brazil and Indonesia continue to grow at pace, building industries and infrastructure, turning hundreds of millions of people into consumers. The clouds over the West should not obscure the sheer scale of wealth creation and social progress in the developing world.

Of course such growth brings challenges – inflation, friction over resources, social inequality and environmental degradation. Moreover, the lack of consumption growth in the West undermines the export-driven model that has powered most Asian economies. Whilst we should not underestimate such challenges, neither should we underestimate Asian countries' ability to respond. Intra-regional trade and investment is growing extremely rapidly. Domestic consumption is growing fast. Policy makers in Asia – and particularly in China – have much more monetary, regulatory and fiscal flexibility than their counterparts in the West.

Taken as a whole, emerging Asia should continue to grow at mid to high single-digit rates – slower than before the crisis, but still much faster than the West. This sharp polarisation in economic performance and prospects is one reason different banks are in such different positions.

Turning the turmoil to our advantage

At Standard Chartered, we remain confident about our ability to grow and perform. Even as economic growth in our markets slows to more sustainable levels, we can win more market share. Our capital and funding strength allows us to be open for business whilst others are pulling down the shutters. We are taking share in core products like trade finance, with volume growth of 25 per cent.

We see huge opportunities in our core markets of Asia, Africa and the Middle East – both within individual markets, and in facilitating the explosive growth of trade and investment flows within the emerging world. We also see huge opportunities in being the bridge for trade and investment flows between Europe, the Americas and Asia, Africa and the Middle East. Whether it is helping Unilever or Diageo make the most of the opportunities in Asia; or Tata invest in Jaguar Land Rover in the UK; or Volkswagen, Tesco and Caterpillar issue renminbi (RMB) bonds.

It is by doing exactly this kind of thing – lending to clients, facilitating their trade, helping them manage foreign exchange and commodity price risk, identifying and supporting new partnerships and investments, helping them access capital markets – that we are fulfilling our social purpose, helping to drive economic growth, helping to create jobs.

At Standard Chartered, we have never lost sight of the role we play and of the impact we can have on the broader economy. In the five years since 2006 we have increased our lending by 91 per cent, from large multinationals to SMEs, from credit cards to mortgages. In the same period, our profits increased by 113 per cent.

Sticking to our strategy

Despite all that is changing around us, don't expect big shifts in our strategy. We still want to be the world's best international bank, leading the way in Asia, Africa and the Middle East. We build deep, longstanding relationships with our customers and clients. We are focused on organic growth, investing at pace in both of our businesses. We are obsessed with the basics of banking: being strongly capitalised and highly liquid; managing risk proactively; keeping tight control of costs; staying well diversified. This makes our balance sheet and earnings extraordinarily resilient. It should be no surprise that we are the only international bank to have been upgraded by all three major ratings agencies since the financial crisis.

Underpinning our strategy is a distinctive culture and set of values. Standard Chartered is Here for good. Here for good in the sense of commitment and permanence. Here for good in the sense of always seeking to do the right thing.

However, whilst the fundamentals of our strategy won't change, we will be constantly anticipating and adapting to the opportunities and challenges we see. Regulatory change will force us to do some things differently, and will change the economics of some of our businesses. But our mindset is as much about how we turn such changes to our advantage, as it is about mitigating the impact.

We are also focused on the opportunities emerging from technological change. Like any digitisable business, banking can be transformed through technological innovation. Indeed, compared with many such industries, we have arguably been slow, partly because regulation creates barriers to such changes, partly because financial innovation became seen as a bad thing in the wake of the crisis.

We have stepped up the pace of technology-led innovation across the Group: launching the world's first trade finance apps for iPad; rolling out lifestyle-linked personal finance apps for the iPhone; piloting radically different operational models. We have even got our own internal app store. We believe technology will transform the industry. And we want to make it happen, rather than have it happen to us.

Group Chief Executive's review continued

"It is by lending to clients, facilitating their trade, helping them manage foreign exchange and commodity price risk, identifying and supporting new partnerships and investments, helping them access capital markets, that we are fulfilling our social purpose, helping to drive economic growth, helping to create jobs."

Korea

As you know, we have not been satisfied with our performance in Korea. The cost-income ratio has been too high, and the return on capital too low. The core issue was labour productivity. We were unable to reward strong performance, or deal with poor performance. Pay was driven more by seniority than merit. Sustained efforts to get the union to agree to a more flexible approach had failed, so in 2011 we took a more direct approach.

This sparked a strike, which lasted 10 weeks and then collapsed. We stayed open throughout the strike, testament to the commitment and professionalism of many of our staff. While it had some impact on income momentum – of the order of $50 million – overall income remained resilient and customer deposits grew during 2011.

In December we launched an Early Retirement Programme (ERP). This had a big impact on Korea's profits in 2011, but it was undoubtedly the right thing to do. The programme will deliver annualised savings of $95 million and, coupled with the enhancement of performance management, will enable a big shift in culture, making Korea much more like the rest of the Group.

To further underscore our commitment to Korea, in January we rebranded the locally incorporated bank, dropping the SC First Bank name that harked back to the acquisition of Korea First Bank, and replacing it with Standard Chartered. Korea is now a seamless part of Standard Chartered as a whole.

There is still a lot to do before we have Korea performing the way we want, given the scale of the opportunities in the market, but we have taken significant steps in the right direction.

India

India was the second of our big markets to see a decline in profits in 2011. However, unlike in Korea this followed a spectacular year, with India being our most profitable market in 2010. That 2011 proved challenging in India was no surprise. To tackle inflation, the Reserve Bank of India hiked interest rates 13 times in two years. This had a predictable impact on economic growth – down from 8.5 per cent in 2010 to 7 per cent in 2011 – and also affected business confidence. In addition, a combination of protracted political and corporate governance issues further sapped business confidence, resulting in many investment projects being delayed or cancelled.

Our brand is one of our greatest assets and we continue to invest in it through our shirt sponsorship deal with Liverpool Football Club

Whilst this correction was very real, and the slowdown in regulatory reforms and vital infrastructure projects will have lasting consequences, we remain confident about the longer term growth prospects of India. The underlying drivers of growth – urbanisation, demographics, better education and an extraordinarily dynamic and entrepreneurial business culture – remain robust. Indeed, there are already some signs that the climate is changing – clear signals of an end to the rate cycle, some steps on critical reforms, progress on transparency issues. Moreover, looking only at onshore income understates the strength of our India franchise. Whilst onshore Wholesale Banking income fell by 14 per cent, income from Indian clients elsewhere in the network more than doubled, largely offsetting this decline, as we leverage our network to support our Indian clients' international objectives.

Our enthusiasm for India as a market remains undiminished. We have continued to invest at pace, in people, products, technology and branches. We remain convinced that India will become one of the world's largest economies, and is one of our biggest growth opportunities.

Like Korea, India had a tough 2011, but I am confident both will resume their growth path in 2012. The fact that we could be hit by declines in profits in two of our biggest markets, but still deliver double-digit growth in profits and income demonstrates once again the resilience of our model, the advantages of having multiple and diverse engines of growth. Whilst India and Korea faltered, other markets surged.

Greater China

Taken together, Hong Kong, Taiwan and mainland China delivered income of $4.4 billion and profits of $2.1 billion, up 18 per cent and 46 per cent, respectively. Greater China thus represents 25 per cent of the Group's total income and 31 per cent of total profits.

Hong Kong had an outstanding year, with income up 22 per cent to over $3 billion and profits up 41 per cent to over $1.5 billion – a record for any of our markets. In Taiwan, profits were up by 44 per cent to $342 million, helped in part by recoveries on structured notes. In mainland China, income increased by 17 per cent to $825 million, whilst profits doubled to over $220 million. We are still making losses in Consumer Banking in mainland China – around $100 million in 2011 – as we continue to invest in building the franchise. We opened another 19 branches and sub-branches in 2011, taking our total network to 81 branches across 21 cities. In Wholesale Banking, profits hit $278 million. Yet even this number massively understates the development of our China client franchise, since income from Chinese clients booked elsewhere in our network grew at over three times the pace of onshore client income.

Our business in Greater China is increasingly focused as much on the flows between these markets, as on the opportunities within them. As China's international financial centre, Hong Kong is central to the internationalisation of the RMB. We have played a leading role in the explosive growth of offshore RMB from the beginning. We conducted the first offshore trade settlement transaction in July 2009. We led the development of the 'dim sum' bond market and priced and launched 56 such bond issues last year.

Singapore

Greater China is not the only region in which we have seen strong performance in 2011. Across the Association of South East Asian Nations (ASEAN) countries of South East Asia we delivered income of $4.2 billion and profits of $1.9 billion, up 21 per cent and 32 per cent, respectively.

Singapore was the star performer with income up 26 per cent and profits up 40 per cent. Singapore is now the third of our markets to have delivered more than $1 billion of profit, following Hong Kong, which hit the mark for the first time in 2007, and India, which did so in 2009.

In Singapore we are reaping the benefits of sustained investment for growth – primarily organic, but complemented by select capability acquisitions. This is a market in which we have more than doubled income and profit since 2007.

We have announced that we will subsidiarise our Consumer and SME Banking activities in Singapore. Our Wholesale Banking and Private Banking businesses in Singapore will remain within the branch. This decision reflects both our success, and the growing scale and significance of the Group's Consumer Banking business in Singapore. We have taken the decision in consultation with the Monetary Authority of Singapore, and it is in line with its thinking. Subsidiarisation of our consumer and SME businesses will have minimal impact on the Group's capital or liquidity ratios, and little or no impact on the vast majority of our customers.

We see considerable opportunities for further growth in Singapore. In the consumer and SME segments there are opportunities to continue to make market share gains, which we believe will be facilitated by moving to a locally-incorporated structure. In Private Banking, we continue to capitalise on Singapore's strengths as an international asset management and private banking centre. And in Wholesale Banking, we see significant opportunities stemming from Singapore's role as a hub – for trade, for investment, for commodities.

Group Chief Executive's review continued

"Don't expect big shifts in our strategy. We still want to be the world's best international bank, leading the way in Asia, Africa and the Middle East. We build deep, longstanding relationships with our customers and clients. We are focused on organic growth, investing at pace in both of our businesses. We are obsessed with the basics of banking."

Diversified sources of growth

Elsewhere in ASEAN our businesses have performed strongly. Thailand grew income by 16 per cent and profits by 18 per cent. Malaysia grew income by 11 per cent and profits by 18 per cent. Indonesia, including both Permata and our branch, grew income by 24 per cent and profits by 44 per cent.

As in Greater China, we are leveraging our network strengths to exploit the rapid growth of trade and investment between the countries of ASEAN and with the rest of the world. ASEAN has been somewhat overshadowed by Greater China. Yet with over 600 million people, an aggregate GDP of $2.2 trillion, and growth of 5.3 per cent per year, it represents one of the most exciting parts of the world economy. The themes illustrated by Greater China and ASEAN – multiple engines of growth, opportunities in markets and between them – are not just true of Asia, but hold true across our franchise.

Our Africa business continues to grow well, with income up 8 per cent, or 13 per cent on a constant currency basis. Our Middle East franchise has proved resilient despite all the political turmoil in the region, with income up 2 per cent. In our biggest market, the UAE, we are seeing a return of confidence, despite the debt overhang, with hotel bookings, airport arrivals and container traffic all up strongly. Meanwhile, in Pakistan income was up 13 per cent and in Bangladesh, 16 per cent.

In the West – Europe and the Americas – income was up 16 per cent and profits increased by 58 per cent. With Western banks in disarray, with Western companies reaching out to the emerging world for growth, and with Asian companies investing in the West to acquire technology and brands, we are taking advantage of the opportunities to be a bridge between East and West.

To give a sense of our diversity, we now have 24 markets contributing over $100 million of income, up from 23 in 2010 and 19 in 2007.

Outlook

Delivering record income and profits in any year is always a good result. To do this every year for nine years through a period of crisis and exceptional volatility is testament to the dedication, discipline and professionalism of the people of Standard Chartered. On behalf of the Board, I would like to take this opportunity to thank them once again for their hard work in making this happen. I would also like to thank our investors for their continued support, not least in giving us the capital required to absorb new regulation and sustain our growth. Our balance sheet strength remains a powerful source of competitive advantage.

Our markets are robust and resilient. We have the right strategy and we are sticking to it. We have a powerful brand, a distinctive culture and fantastic people. Our client and customer franchise is stronger than it has ever been.

We remain committed to our performance aspirations: over the medium term and through the cycle, we expect to deliver double-digit income growth, double-digit earnings per share (EPS) growth, cost growth in line with income and mid-teens return on equity (RoE). In 2011 we delivered on double-digit income growth and flat jaws, but fell short on EPS and RoE, as a result of the dilutive impact of the rights issue in late 2010.

We have started 2012 strongly, following a very strong finish to 2011. Looking at January and our momentum into February, Consumer Banking has had a good start, with income ahead of the comparable period last year. Wholesale Banking has had a strong start, with income well ahead. Expenses are under tight control across the Bank and credit quality remains good.

So for 2012, we are on track to deliver double-digit income, double-digit EPS and flat jaws, but it is very early days and there are a number of factors that might affect our performance. First of all, the material and increasing drag on both income and costs from an ever more complex set of regulatory requirements. Second, the continued strength of the US dollar against Asian currencies. Third, we are not immune to potential turbulence in the global economy, whether arising from the eurozone, high oil prices, or elsewhere.

RoE will likely still be somewhat under our aspiration, partly as a result of ongoing regulatory drag and the lag before this gets fully reflected in margins, and partly because of the impact of a low interest rate environment on a deposit-rich institution.

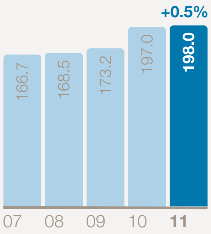
The Group enters 2012 with good momentum, an exceptionally strong balance sheet and a full transaction pipeline. We remain focused on the fundamentals of our business and on the disciplined execution of our strategy. We are well positioned in some of the most exciting growth markets in the world and well placed to make the most of the opportunities they present.

Peter Sands
Group Chief Executive
29 February 2012

Key performance indicators
Strong business momentum

1 To be the world's best international bank

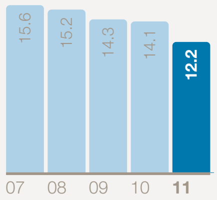
Normalised earnings per share
cents



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

Analysis
During 2011, normalised earnings per share marginally increased to 198.0 cents per share, reflecting the full year impact of the 2010 rights issue.

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 fell to 12.2 per cent, reflecting the full year impact of the 2010 rights issue and the further strengthening of our capital position.

2 Focusing on Asia, Africa and the Middle East

Operating income by region in 2011

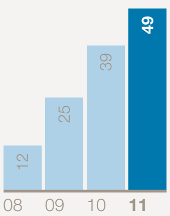
Hong Kong	17%
Singapore	12%
Korea	10%
Other Asia Pacific	20%
India	10%
Middle East and other South Asia	13%
Africa	8%
Americas, UK & Europe	10%

Aim
To deliver diversified income growth.

Analysis
Our income stream remains highly diversified with 24 markets delivering over $100 million of income.

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

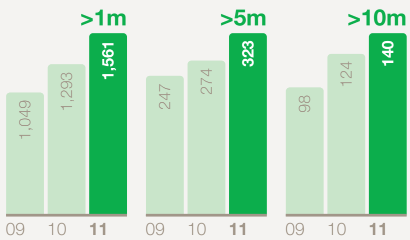
Consumer Banking
Net Promoter Score (NPS)[1] Index



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

Analysis
Our global NPS is up 10 points from 39 to 49.

Wholesale Banking
Core bank to more clients
$ income



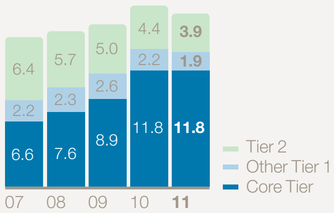
Aim
To continue to grow the total number of client relationships that deliver income in excess of $1 million, $5 million and $10 million.

Analysis
We have consistently grown the number of leading clients that generate income in excess of $1 million, demonstrating our strong and consistent progress against our Wholesale Banking strategy of becoming 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

Capital ratios
%

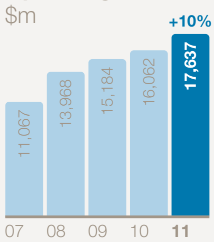


Aim
To maintain a strong capital base, with an increasing emphasis on Core Tier 1 capital.

Analysis
Core Tier 1 ratio for 2011 was 11.8 per cent and total Tier 1 was 13.7 per cent. The 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

Operating income
$m

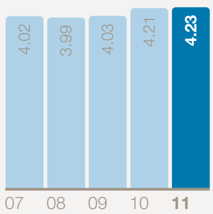


Aim
To sustain organic momentum, with growing revenue.

Analysis
Operating income grew by 10 per cent, with the sources of growth remaining well diversified by product and geography, with both businesses growing strongly.

6 Continuing to nurture and reinforce our distinctive culture

Q12 Grand Mean



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 Q12 Grand Mean score increased to 4.23 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 the second half of 2011.*

Wholesale Banking
Core bank to more clients
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 2009 and 2010 have been restated based on the Single Customer Identifier indicator as at 31 December 2011.*

Capital ratios
The components of the Group's capital are summarised on page 89. 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 87.*

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 163.*

Q12 Grand Mean
The Q12 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, Q12 Employee Engagement Survey.*

Business environment
Fragile West, resilient East

This section, 'Fragile West, resilient East', was written by Standard Chartered's Research team, which was ranked number one in the world for economic forecasting by Bloomberg in December 2011.

The world economy is in the early stages of a shift in the balance of economic and financial power from the West to the East. 2011 confirmed this trend. On the economic front, it was once again a story of Asia, Africa, the Middle East and Latin America driving global economic growth in the face of a sharp slowdown in the developed economies in the West.

Global growth slowed to 3.0 per cent in 2011, from 3.9 per cent in 2010. Initially, this was due to factors such as inventory restocking – which drove growth in 2010 – starting to wear off, and as more countries started to tighten policy. Higher oil prices as a result of the 'Arab Spring' and the impact of the Japanese earthquake on supply chains were other significant shocks in the first half. Since the summer, events in Europe have dragged growth down. After the financial crisis of 2008-09, there was always the possibility of a double-dip recession, triggered by an external shock, a policy mistake, or a loss of confidence. Europe provided all three in 2011, at the same time.

Given this backdrop, Standard Chartered's markets remained the locomotives for global growth in 2011. China stood out once again as the world's fastest growing major economy, charting a 9.2 per cent growth in gross domestic product (GDP), followed by India, which is likely to have grown by 7 per cent. Indonesia, Asia's other major domestic demand-driven economy, powered ahead with a 6.5 per cent growth. In contrast, the US economy grew by 1.7 per cent, the euro area by 1.5 per cent, while Japan's economy contracted by 0.9 per cent.

The more open Asian economies – South Korea, Taiwan, Hong Kong and Singapore – grew between 3.5 and 5.0 per cent, slowing in the second half of the year as the crisis in Europe hurt exports. Only Thailand reported a low rate of growth in 2011, at 0.1 per cent, as a result of the widespread floods that affected major industrial areas. The recovery process and spending to renew infrastructure and housing is already under way and we expect the Thai economy to bounce back in 2012.

In Africa, Nigeria, Standard Chartered's largest market in the region, expanded by 7.2 per cent, while Ghana's economy soared by 13.6 per cent as a result of the start of production from a major oilfield. South Africa, the continent's largest economy, grew by 3.2 per cent.

The Middle East was a diverse region in 2011 and differentiation was key to assessing its prospects. The 'Arab Spring' had little impact on the oil-producing countries of the region, which deployed their substantial revenues from energy resources to boost household wealth and consumption. That, as well as high oil prices, helped Saudi Arabia's economy, the region's largest, to grow by 6.6 per cent, while the UAE expanded by 3.8 per cent and Qatar's economy surged by 16.9 per cent on the back of new liquefied natural gas production coming on stream.

Business environment in 2012

The outlook for any economy depends on the interaction between the fundamentals, policy and confidence. In the West, the fundamentals are poor, the policy cupboard is almost empty and confidence has been shot to pieces. In contrast, across Standard Chartered's markets in the emerging world, the fundamentals are good, the policy cupboard is almost full and confidence is likely to prove resilient.

This points to a continuation in 2012 of a two-speed world where a fragile West contrasts with a resilient East. 2012 is also likely to highlight the fact that despite the world economy becoming more divided, no region is fully decoupled or immune from events elsewhere. During the first half of 2012, a deep recession in Europe will significantly weigh on global growth and impact the emerging markets through trade and financial linkages. European policy makers have made some progress lately. The European Central Bank has injected liquidity into Europe's banking system while the second bailout for Greece has been agreed. Despite these measures, economic conditions will remain extremely challenging for Europe. By the second half, stronger growth across China and other emerging economies should pull up worldwide activity, transforming prospects for 2013. It will be a recovery made in the East and felt in the West, though global growth for the year will slide from 3 per cent in 2011 to just 2.2 per cent in 2012, before picking up again to around 3.6 per cent pace in 2013. This is clear evidence of the ongoing shift in the balance of power.

Asian outlook

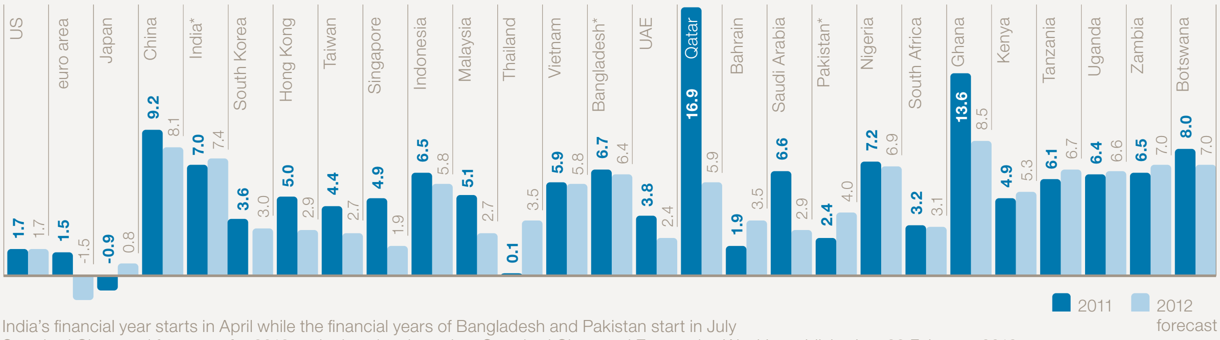
In Asia, growth is likely to slow to 6.5 per cent in 2012, from 7.3 per cent, before rebounding to 7.5 per cent in 2013. Given the external headwinds, it would not be a surprise if China slowed during the first quarter of 2012, and hints of a moderation are already apparent. Thereafter, the economy should recover, helped by policy stimulus. Overall, China is likely to slow for the second year running, to 8.1 per cent in 2012, before recovering to 8.7 per cent in 2013. Going forward, China is expected to grow at an average 7.0 per cent over the next decade, a slower but more sustainable pace of growth consistent with its ageing population, although there is likely to be volatility and occasional setbacks along the way.

Whereas many countries around the world may experience more difficult political conditions in the coming years, China's leadership change is expected to be smooth. Moreover, the economic policy environment will be a continuation of that seen before. Follow-through on China's 12th Five Year Plan, unveiled in March 2011, is likely to be an important feature. The plan focused on boosting consumer spending, social welfare and the green economy and highlighted seven key strategic industries. These are going to be the future growth drivers of the world's second-largest economy.

India, meanwhile, is likely to recover to a 7.4 per cent growth in the financial year starting on 1 April 2012, as the peaking of inflation allows the central bank to cut rates, improving

GDP growth in key markets

Real GDP growth rate in %



* India's financial year starts in April while the financial years of Bangladesh and Pakistan start in July
Standard Chartered forecasts for 2012 and other data based on Standard Chartered Economics Weekly, published on 23 February 2012

investment sentiment among local companies. However, progress on some major economic reform measures, such as the opening up of various sectors of the economy to international investors, increased spending on infrastructure and tackling governance issues are essential for India to achieve its growth potential and reap its demographic dividend.

Elsewhere in Asia, performance will remain solid. South Korea's economy is likely to slow marginally to a 3.0 per cent growth while Indonesia, the other major domestic demand-driven Asian economy, is likely to expand by 5.8 per cent in 2012. The more open economies of Taiwan, Hong Kong, Singapore and Malaysia are, however, likely to see a sharper slowdown as a result of recession in the euro area.

Africa and the Middle East

Sub-Saharan Africa is likely to see stronger growth in 2012, up from 4.8 per cent to 5.3 per cent, with Nigeria expected to grow by 6.9 per cent. It is important to stress that, while commodities have played an important role in Africa's recent growth, so too has the strength of domestic demand. This should remain a positive in 2012, notwithstanding worries about inflation prospects and other significant challenges across the region.

The Middle East and North Africa region, too, faces a challenging time as North Africa comes to terms with the aftermath of the 'Arab Spring' and conflict in Libya. Gulf countries, meanwhile, appear to be on a better trajectory, helped by improving regional fundamentals. Firm oil prices clearly help, although the breakeven price of oil used to prepare national budgets continues to rise. Standard Chartered's largest market in the region, the UAE, is expected to grow by 2.4 per cent.

Policy challenges and other risks

One of the key challenges in 2012 is that the policy environment in the West is in danger of being pro-cyclical, both in the regulatory response across many countries and in the fiscal response in Europe. This adds to the overhang of debt and the pressure on both governments and consumers to deleverage across the West. This augurs sluggish growth in the US and recession in the UK and the euro area.

The slow growth in the West will add to pressure on central banks to keep interest rates low for as long as possible. Further quantitative easing is likely. This may weigh on currencies and in turn feed flows into emerging economies, where growth and longer-term opportunities are better. However, with many economies lacking the absorptive capacity to handle such flows, one would expect to see eventual upward pressure on asset and land prices. This will add to dilemmas for policy makers across the emerging world.

Currency and commodity price volatility may be a feature of 2012. The euro looks overvalued given problems in the region, while many Asian currencies look oversold. The euro is unlikely to survive in its present format. But if the euro were to collapse, the initial beneficiary would likely be the US dollar. Meanwhile, uncertainties surrounding Iran's nuclear impasse with the West, and the unrest in Syria, are likely to increase volatility in crude oil prices.

Prospects are not rosy everywhere across the emerging world, either, and the focus is on countries where economic imbalances persist, particularly on the current account. Turkey, Pakistan and Vietnam remain concerns. Brazil is slowing sharply. Other challenges facing the emerging world include environmental degradation, resource shortages, and institutional and governance issues, especially corruption. The change of guard in North Korea has raised political uncertainty in that part of the world. In the Middle East, the problems so apparent in the 'Arab Spring' remain, and are seen in terms of high rates of youth unemployment.

Conclusion

The key message for 2012, however, is that the West is fragile, but emerging economies are in far better shape to cope. At this time, there is a need to balance short-term uncertainties against longer-term positives and to recognise some of the significant underlying long-term drivers of the global economy. These include the remarkable growth of consumer markets as a result of the rapid expansion of the middle class, urbanisation and an infrastructure boom across the emerging world and the growth of new trade corridors between economies in Asia, Africa, the Middle East and Latin America. This has been the key driver of global growth since the turn of the millennium and 2012 will reinforce this underlying trend.

2011 GDP growth in key markets

China
9.2%
2010: 10.3%

South Korea
3.6%
2010: 6.2%

Indonesia
6.5%
2010: 6.1%

India*
7.0%
2010: 8.5%

Hong Kong
5.0%
2010: 7.0%

Singapore
4.9%
2010: 14.5%

*India's financial year starts in April

Our performance in our markets
Diverse sources of income growth

Our strategy

Continued focus on Asia, Africa and the Middle East. These markets offer growth and we know them intimately.

Our performance

- Our income stream is highly diversified, with five of our markets delivering over $1 billion in income
- All geographies, with the exception of India, delivered positive income growth with Hong Kong and Singapore delivering income growth in excess of 20 per cent
- Wholesale Banking operating profit crossed $5 billion for the first time
- Singapore generated over $1 billion in profit, and Hong Kong surpassed $1.5 billion for the first time

We are headquartered in London and have operated for over 150 years in some of the world's most dynamic markets, leading the way in Asia, Africa and the Middle East. We offer the knowledge of a local bank with the capabilities of an international institution.

Our income stream is highly diversified, with five of our individual markets delivering over $1 billion of income.

Hong Kong
With a network of 77 branches and 237 ATMs, Hong Kong continues to be one of our largest geographies in terms of operating income and profits. Operating profit rose by 41 per cent to over $1.5 billion in 2011. It continues to be our most liquid market, growing both the loan and deposit book and gaining market share across products in both businesses. Hong Kong is also our gateway to mainland China, acting as a conduit and an enabler for products and services both into and from China. This has led to us building further on the Chinese currency, the renminbi (RMB), flow business in particular.

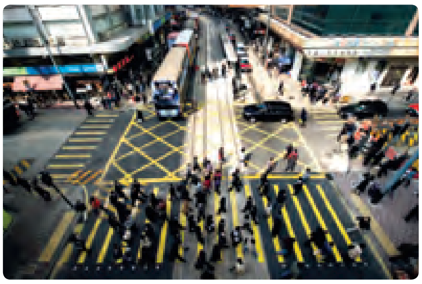
Singapore
Our global Wholesale Banking and Consumer Banking businesses are headquartered in Singapore. Singapore-based staff make up 8 per cent of our employees. In 2011 the Singapore branch surpassed $1 billion in profits, with Consumer Banking delivering double-digit growth across all segments and products. Wholesale Banking revenues continued to grow strongly as a result of investment spend in prior years and the increasing trade flows in Asia to build on its people and product capabilities and deepening customer relationships.

Korea
Korea houses one of our largest distribution networks, with 408 branches and 2,444 ATMs (including alliance ATMs). We continue to enhance and reshape our distribution infrastructure, and in December 2011 launched two innovative 'Smart Banking Centre' outlets in Seoul. 2011 performance in Consumer Banking in particular was challenged due to a labour strike and the impact of an Early Retirement Programme. The Wholesale Banking business also encountered a challenging trading environment but continued to direct business flow within the network.

Other Asia Pacific
Our presence in this region spreads across 11 markets, including China, Indonesia, Malaysia and Taiwan. Income is diversified across both businesses, with all major markets except Taiwan delivering positive income momentum in Consumer Banking. Across the region we continue to maintain a strong distribution network, particularly in China (81 outlets and 159 ATMs), Taiwan (88 branches and 406 ATMs) and in Indonesia through our joint venture investment in Permata Bank (over 270 branches). Wholesale Banking revenues grew in most of our major markets as we benefited from the geopolitical importance of the region. China experienced good growth across both businesses as we focused on building core banking relationships and expanding in growth cities, and generated increasing levels of income across the franchise.

India
India, where we have had a presence for over 150 years, had a challenging year. Consumer Banking income was adversely impacted by rising interest rates in response to high inflation coupled with increased competition and regulatory changes. Wholesale Banking was also impacted by increased competition and a relatively depressed business sentiment given governance issues in the broader economy. In particular, this impacted the Capital Markets and Corporate Finance businesses. Across India, we have a distribution network of 94 branches and 307 ATMs. Our banking operations and SCOPE, our shared service centre in Chennai, accounts for over a quarter of our global headcount.

Middle East and Other South Asia (MESA)
The UAE remains our largest market within this region. Among other markets, Pakistan and Bangladesh in particular have seen strong income growth. Wholesale Banking income was marginally up, benefiting from growth in the Commodities and Rates business. Client income was, however, adversely impacted as margin compression offset volume gains. Consumer Banking benefited from an improved Wealth Management performance in addition to increases in deposit



Hong Kong continues to be one of our largest geographies in terms of operating income and profits

Percentage of total Group profit before taxation by region in 2011

Hong Kong	**23%**
Singapore	**15%**
Korea	**3%**
Other Asia Pacific	**21%**
India	**12%**
Middle East and Other South Asia	**12%**
Africa	**9%**
Americas, UK & Europe	**5%**

volumes in key markets. Islamic Banking continues to be an area of focus with revenues up strongly across both businesses, with Consumer Banking following a 'Saddiq First' strategy and Wholesale Banking delivering a number of significant corporate finance sukuk, or Islamic bond, transactions.

Africa

The Group is present in 14 sub-Saharan markets and is a highly respected, well established household name, with deep-rooted local knowledge and experience. Income growth in this geographic segment is highly diversified, with markets such as Kenya, Ghana and Zambia being key contributors in addition to Nigeria, which continues to be our largest market in the region. Earning quality has also been enhanced, with client flow business replacing income from big ticket corporate finance deals, which had been the hallmark of the Wholesale Banking performance in the past couple of years. Consumer Banking also delivered double-digit income growth benefiting from improved Wealth Management and SME performance.

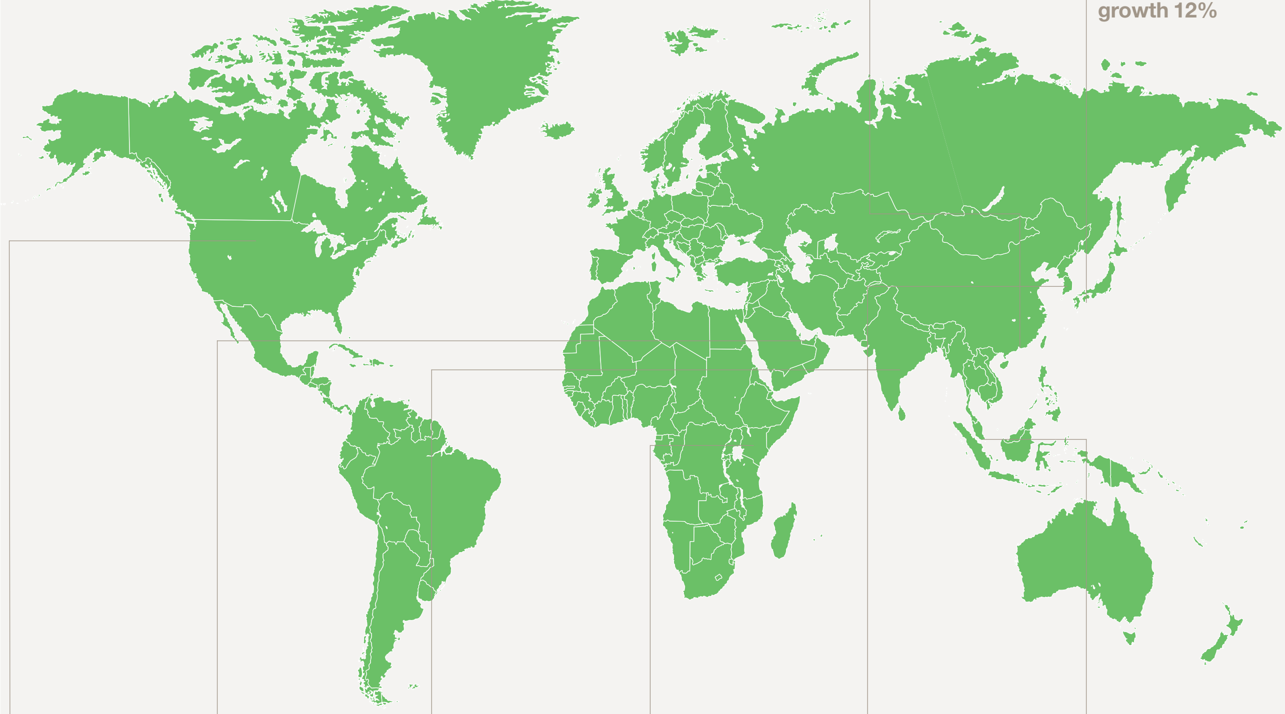
Americas, UK & Europe

The Group is headquartered in London in close proximity to our lead regulator, the Financial Services Authority. This region continues to be strategically important for the Group, both from a corporate governance and business generation perspective. Wholesale Banking activities dominate this region, which originates cross-border business with clients into our broad international network. We also continue to build our Private Banking offering focusing on lending products as appetite for Wealth Management and structured product offerings continued to be impacted by the bearish sentiment in western markets.

Total operating income **$17,637 million**
Total operating income **growth 10%**

Hong Kong
Operating income **$3,049 million**
Operating income **growth 22%**

Other Asia Pacific
Operating income **$3,553 million**
Operating income **growth 12%**



Americas, UK & Europe
Operating income **$1,767 million**
Operating income **growth 16%**

Middle East and Other South Asia
Operating income **$2,219 million**
Operating income **growth 2%**

India
Operating income **$1,805 million**
Operating income **growth –11%**

Africa
Operating income **$1,340 million**
Operating income **growth 8%**

Korea
Operating income **$1,718 million**
Operating income **growth 1%**

Singapore
Operating income **$2,186 million**
Operating income **growth 26%**

Operating and financial review

The Group in 2011
Consistent performance and disciplined execution

Richard Meddings
Group Finance Director

"The Group has delivered another record performance in 2011, as we continue to focus on the basics of banking. We remain true to our strategy, managing a well diversified, strongly capitalised and liquid balance sheet, and will continue to invest."

Key performance

Operating income

$17,637m

2010: $16,062m

Profit before taxation

$6,775m

2010: $6,122m

Our highlights and achievements in 2011

- Consistent performance as evidenced by nine successive years of record income and profit
- Upward revision of our credit rating by all three major rating agencies since the start of the financial crisis, reflecting the consistency of our performance and the resilience of the Group's balance sheet
- Resilient and well diversified income growth by product and geography, with both businesses exhibiting good momentum
- Disciplined management of costs whilst continuing to invest in both businesses and key markets
- A robust risk management process, together with a relatively benign credit environment across our footprint, has resulted in good credit quality in both businesses
- Strong capital ratios, with a Core Tier 1 ratio of 11.8 per cent
- Very strong, conservative balance sheet, with a highly liquid and stable mix of deposits, an advances-to-deposits ratio of 76.4 per cent and limited refinancing required over the next few years

Our priorities in 2012

- We will continue to be disciplined in the execution of our strategy, focused on the fundamentals of our business and on markets that have good growth prospects
- Costs will continue to be tightly managed and investment deployed to ensure alignment with growth
- We will continue to proactively manage the balance sheet and remain committed to capital and liquidity strength

Group summary

The Group remained disciplined in the execution of its strategy and delivered another record performance, the ninth year in succession. Operating income increased by $1,575 million, or 10 per cent, to $17,637 million. Operating profit rose 11 per cent to $6,775 million. On a constant currency basis, operating income rose 9 per cent and operating profit rose 11 per cent. Sources of income growth remain well diversified, both by product and geography.

The normalised cost to income ratio increased to 56.5 per cent from 55.9 per cent in 2010. Whilst the Group continued to manage expenses tightly, costs in 2011 included a charge in respect of an Early Retirement Programme (ERP) in Korea of $206 million as well as the full year charge of $165 million for the UK bank levy. Despite the impact of these items, cost growth was in line with income growth.

Normalised earnings per share (EPS) was 198.0 cents, marginally up from 197.0 cents in 2010, reflecting the full year impact of the rights issue launched in October 2010. Further details of basic and diluted earnings per share are provided in note 14 to the financial statements on page 189.

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

The Group's balance sheet is well diversified and conservative, with limited exposure to problem asset classes. We have no direct sovereign exposure to Greece, Ireland, Italy, Portugal or Spain and our direct sovereign exposure to the rest of the eurozone is immaterial. Further detail on these exposures is set out on page 76.

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

The Group is strongly capitalised, and generated good levels of organic equity during the year although our Core Tier 1 ratio of 11.8 per cent was unchanged from 2010, partly due to the impact of Asian currency depreciation in the second half of the year.

Continued focus and commitment to the basics of banking

1 Liquidity

We have continued with our conservative approach to liquidity management, with a liquid asset ratio of 27.5 per cent.

For further details see page 81.

2 Capital

We continue to proactively manage capital, maintaining strong capital ratios that positions us well for growth and the evolving regulatory landscape.

For further details see page 87.

3 Risk

A proactive approach to risk management, with a lending portfolio that is diversified across a wide range of products, industries and customer segments.

For further details see page 50.

4 Costs

Strong cost control, enabling continued investment in both businesses.

The Group in 2011 continued

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

Operating income and profit

	2011 $million	2010 $million	%
Net interest income	**10,153**	8,470	20
Fees and commissions income, net	**4,046**	4,238	(5)
Net trading income	**2,645**	2,577	3
Other operating income	**793**	777	2
Non-interest income	**7,484**	7,592	(1)
Operating income	**17,637**	16,062	10
Operating expenses	**(9,917)**	(9,023)	10
Operating profit before impairment losses and taxation	**7,720**	7,039	10
Impairment losses on loans and advances and other credit risk provisions	**(908)**	(883)	3
Other impairment	**(111)**	(76)	46
Profit from associates	**74**	42	76
Profit before taxation	**6,775**	6,122	11

Group performance

Operating income grew by $1,575 million, or 10 per cent, to $17,637 million. On a constant currency basis, income grew 9 per cent. The strategic repositioning of the CB business continued to gain traction during 2011 and income was 12 per cent higher at $6,791 million. This was driven by selective growth in credit cards and personal loans, higher liability margins, particularly across CASA and increased Wealth Management income, although growth in Wealth Management moderated in the second half of the year as investor sentiment was impacted by events in the West in general and the eurozone in particular. WB continued to strengthen relationships with existing clients and income was 9 per cent higher, at $10,846 million. Client income has grown 10 per cent, with a strong performance from Transaction Banking, Corporate Finance and Financial Markets. While own account income was above 2010 levels, the Principal Finance business was impacted by the macroeconomic environment and consequently realisations were materially below levels seen in 2010.

The Group's income streams continue to be well diversified and, with the exception of India, all geographic segments delivered positive income growth and our major markets in Hong Kong and Singapore grew 22 per cent and 26 per cent respectively.

Net interest income increased by $1,683 million, or 20 per cent. Whilst asset margins have continued to see some pressure, both businesses benefited from strong balance sheet momentum and wider liability margins. CB net interest income grew $546 million, or 14 per cent, as higher loan and deposit volumes and improved liability margins more than compensated for the fall in asset margins. Deposit margins improved, especially on CASA, as interest rate increases in several of our markets took effect. We are, however, seeing increasing competition for time deposits in a number of geographies. WB net interest income increased $1,137 million, or 26 per cent, as higher volumes in Transaction Banking, together with improved Cash Management margins, more than offset margin compression in Trade and Lending. Asset and Liability Management (ALM) was up year on year; the build-up of lower-yielding higher quality assets to support more stringent regulatory requirements was more than offset by growth in money market income on the back of improved spreads and a broadening of the depositor base driven by an enhanced product offering.

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

Non-interest income fell marginally by $108 million to $7,484 million. Net fees and commissions income fell by $192 million, or 5 per cent, to $4,046 million, as higher fee income in CB, on the back of increased sales of Wealth Management products, was offset by a drop in WB fees, reflecting lower corporate advisory, trade and capital market fees. The drop in fee income was partly compensated by higher trading income.

Net trading income increased $68 million, or 3 per cent, to $2,645 million, with a strong performance from Financial Markets, particularly in Foreign Exchange, on the back of client flows from Transaction Banking, Commodities and Rates.

Other operating income primarily comprises gains arising on sale from the available-for-sale (AFS) portfolio, aircraft and shipping lease income and dividend income. Other operating income was up $16 million, or 2 per cent, to $793 million, as higher income from leasing was largely offset by slightly reduced AFS income, with lower realisations from Principal Finance offsetting the benefit of higher realisations from ALM.

Operating expenses increased $894 million, or 10 per cent, to $9,917 million. At constant exchange rates the increase was 8 per cent. The increase includes some $206 million in staff expenses relating to the voluntary ERP in Korea and $165 million reflecting the full year charge for the UK bank levy. The cost of the UK bank levy has been reported within the Americas, UK & Europe region and has not been allocated to the businesses. These costs were partly offset by $96 million of recoveries on structured note payouts made previously, which is booked within the Other Asia Pacific region. General administrative expenses in 2010 included a $95 million provision for settlements in respect of certain other structured notes. Excluding these four items, expenses increased by 8 per cent as we continued to invest in both businesses to underpin income momentum. The increase was primarily in staff expenses, which grew 11 per cent reflecting the impact of prior and current year investment in client and customer facing staff together with inflationary pressures across our footprint. Other expenses included infrastructure spend in new branches (including renovations and relocations), distribution channels such as ATMs and technology systems, and marketing.

Operating profit before impairment losses and taxation (also referred to as Working Profit) was higher by $681 million, or 10 per cent, at $7,720 million.

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

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

Operating profit was up $653 million, or 11 per cent, to $6,775 million, with Hong Kong contributing over $1.5 billion, up 41 per cent from 2010 and Singapore exceeding $1 billion for the first time. CB profit was up 26 per cent whilst WB increased 9 per cent against 2010.

The Group's effective tax rate (ETR) was 27.2 per cent, down from 27.9 per cent in 2010. This reflects changing profit mix and reducing statutory rates across our footprint. Further, net utilisation of foreign tax credits relating to branch profits have increased, partly offset by the write-down of deferred tax assets on election into the Branch Profit Exemption Regime in the UK referred to in note 12 to the financial statements on page 187.

Acquisitions

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

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

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

The Group in 2011 continued

Group Summary Consolidated Balance Sheet

	2011 $million	2010 $million	Increase/ (Decrease) $million	Increase/ (Decrease) %
Assets				
Advances and investments				
Cash and balances at central banks	**47,364**	32,724	14,640	45
Loans and advances to banks	**65,981**	52,058	13,923	27
Loans and advances to customers	**263,765**	240,358	23,407	10
Investment securities held at amortised cost	**5,493**	4,829	664	14
	382,603	329,969	52,634	16
Assets held at fair value				
Investment securities held available-for-sale	**79,790**	70,967	8,823	12
Financial assets held at fair value through profit or loss	**24,828**	27,021	(2,193)	(8)
Derivative financial instruments	**67,933**	47,859	20,074	42
	172,551	145,847	26,704	18
Other assets	**43,916**	40,744	3,172	8
Total assets	**599,070**	516,560	82,510	16
Liabilities				
Deposits and debt securities in issue				
Deposits by banks	**35,296**	28,551	6,745	24
Customer accounts	**342,701**	306,992	35,709	12
Debt securities in issue	**47,140**	31,381	15,759	50
	425,137	366,924	58,213	16
Liabilities held at fair value				
Financial liabilities held at fair value through profit or loss	**19,599**	20,288	(689)	(3)
Derivative financial instruments	**65,926**	47,133	18,793	40
	85,525	67,421	18,104	27
Subordinated liabilities and other borrowed funds	**16,717**	15,939	778	5
Other liabilities	**30,316**	27,411	2,905	11
Total liabilities	**557,695**	477,695	80,000	17
Equity	**41,375**	38,865	2,510	6
Total liabilities and shareholders' funds	**599,070**	516,560	82,510	16

Balance Sheet

The Group demonstrated discipline and focus in sustaining a strong balance sheet, which continues to be highly liquid, diversified and conservative with limited exposure to problem assets classes. Growth across both businesses has been robust, with a good increase in both advances and deposits. We remain a strong net lender into the interbank market, particularly in Hong Kong, Singapore, Other Asia Pacific and Americas, UK & Europe. Our advances-to-deposits ratio continues to be low at 76.4 per cent, down from 77.9 per cent at the previous year end. This is reflective of our capability to grow deposits whilst optimising the use of surplus liquidity in markets such as Singapore and Hong Kong. The profile of our balance sheet remains stable as 70 per cent of our financial assets are held on amortised cost basis, which reduces the risk of short-term distress shocks. The Group is strongly capitalised, and generated good levels of organic equity during the year, although our Core Tier 1 ratio of 11.8 per cent was unchanged from 2010, partly due to the impact of Asian currency depreciation in the second half of the year.

Balance sheet footings grew by $83 billion, or 16 per cent during the year. On a constant currency basis, growth was marginally higher at 17 per cent as most of the Asian currencies depreciated against the US dollar in the latter half of 2011, particularly the Indian rupee, closing at 19 per cent lower than 2010. Balance sheet growth was largely driven by an increase in customer lending on the back of significant growth in customer deposits, with surplus liquidity being held with central banks. Derivative mark-to-market increased as volumes grew significantly. The Group has low exposure to problem asset classes, no direct sovereign exposure to Greece, Ireland, Italy, Portugal and Spain and immaterial direct exposure to the remainder of the eurozone.

Cash and balances at central banks

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

Loans and advances

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

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

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

Investment securities

Investment securities, including those held at fair value, grew by $9 billion, largely due to more stringent liquidity requirements that have necessitated higher holdings. The maturity profile of our investment book is largely consistent with around 50 per cent of the book having a residual maturity of less than 12 months.

Derivatives

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

Deposits

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

Debt securities in issue, subordinated liabilities and other borrowed funds

Debt securities in issue grew by $16 billion or 50 per cent, largely driven by the issue of non negotiable certificates of deposit to non-bank customers. Subordinated debt growth was marginal at 5 per cent or $0.8 billion, with redemptions and exchange translation of $0.7 billion offset by new issuance of $0.9 billion and fair value gains of $0.5 billion.

Equity

Total shareholders' equity increased by $2.5 billion to $41.4 billion due to profit accretion of $4.9 billion, partly offset by dividends paid to shareholders of $1.15 billion and translation loss of $1.0 billion due to the depreciation of most Asian currencies.

Consumer Banking
Here for customers

Steve Bertamini
Group Executive Director and
Chief Executive Consumer Banking

"Our strategy continues to deliver as evidenced by our financial performance and continued strong improvement in customer metrics. Our business is increasingly aligned to our customers' needs and we continue to invest for long-term growth."

Key highlights

Operating income

$6,791m

2010: $6,079m

Secured lending as % of the total book

More than

74%

2010: more than 75%

Our strategy

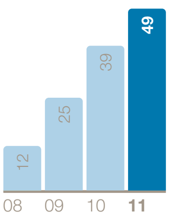
Our strategy is based on three pillars:

- Differentiated country business models with a focus on high value segments
- Distinctive customer focused value propositions
- Back to basics focus on cost, risk management and liquidity

Our priorities in 2012

- Continue implementing our strategy to drive sustainable growth
- Accelerate online channel usage and customer acquisition
- Maintain balance sheet momentum
- Drive standardisation to improve service, productivity and controls
- Maintain disciplined risk, cost and performance management

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.

Key changes in 2011

- Launched service guarantees in 19 countries
- Brought together our high value segments to accelerate growth
- Three core bundles launched in 10 countries, with one in three customers choosing bundled solutions

Strategy continues to deliver

Consumer Banking (CB) delivered strong results, with double digit income and operating profit growth, as we completed the first phase of our transition from a product-led to a customer-focused organisation in 2011.

CB delivered record income and grew operating profit by 26 per cent to over $1.6 billion.

Our balance sheet remained well positioned with balanced growth in assets and liabilities. Putting customer needs at the heart of our strategy has enabled us to grow at a double-digit rate across all our segments.

Our focus on risk management resulted in a 10-year historic low in terms of basic points of loan loss. This, combined with disciplined cost management, created headroom for further investments in our distribution network, frontline staff and marketing spend during 2011.

We see significant room for growth in our markets and within our customer base and we will continue to invest in order to underpin future income momentum. We finished the year with positive relative performance against competitors, all elements of the new strategy in play, and achieved strong improvement in customer metrics.

Aligned to customer needs

In 2010 we launched our Customer Charter (the Charter) which sets out our commitment to provide fast, friendly and accurate service, solve customer financial needs and reward their total relationship with us. This is central to achieving our aspiration to become the bank that our customers recommend to their friends, family and colleagues.

Next Generation Banking

Redefining the customer experience

"Today's consumers have a very different set of needs; digital innovation, mobile technology and customer demand are driving a complete transformation in the way people bank."

Consumers are looking for personalised experiences and they want to be treated as individuals. We have taken a proactive approach in developing solutions that meet customers' needs and offer a great lifestyle experience.

Design and usability is no longer an option in financial services, but a core requirement. This does not just apply to the digital channels – though these are set to dominate banking in the next decade – but to the entire distribution chain.

With our newly developed next generation capabilities, such as our branches and online and mobile offerings, we have changed our approach to our customers by offering them financial services in ways that matter and make a difference to their lives.

Mobile device sophistication, network speed and innovation are converging to place banking straight into consumers' hands – whether they prefer to bank online or in our branches. With this in mind, in addition to Breeze Mobile, we developed Breeze Places – a mobile application that helps consumers find our branches, ATMs and cash deposit machines.

This year we launched Breeze Banking with individuality at the heart of the offering.

In addition to card personalisation, we offer rewards personalisation where customers can choose particular spend categories to earn up to 10 times the number of reward points.

Another unique feature is the Wishlist tool, which allows customers to create personal account settings for building savings goals, trackers and deadlines with a social media function for sharing progress with friends and family. In India, we have virtual bankers available 24/7 to chat online in real time; our customers have the option to select a call back time that is convenient for them.

We have focused on adding value to customers' lives in addition to the products we offer. Breeze Living, for example, lets us engage broadly with consumers in ways that are not just about banking. It is a mobile application that we developed to let both customers and non-customers capture and share merchant discounts on the move.

We will continue to develop and design new products, features, tools and services to meet changing customer needs. Now, more than ever, we have a chance to make banking a true enabler in people's lives by helping to give customers greater control of their money.

Consumer Banking continued

The launch of the Charter was followed by the launch of Standard Chartered Bank Way (SCB Way), our standardised sales, service and relationship management model that brings the Charter to life and enables sales staff to build and deepen customer relationships through needs based conversations.

In 2011 we made further progress in aligning our business to the needs of our customers, fully embedding the Charter and SCB Way throughout our business, training and processes.

SCB Way is now in 22 countries and the training and coaching sessions have reached over 8,000 staff in almost 1,000 branches. Overall, we delivered a total of 4.8 training days per staff member in 2011.

We continued to roll out our distinctive Customer Value Propositions (CVPs) for private, small and medium-sized enterprises (SMEs), and Priority Banking customers. We also developed new CVPs for Personal and Islamic Banking customers.

In April we brought together our high value segments under one umbrella – High Value Client Coverage (HVCC) – to leverage the complementary CVPs of the Private, SME, Priority, and Islamic Banking segments to drive synergies and accelerate growth.

HVCC delivered double-digit income growth in all segments, and is a key differentiator in our markets. Client referrals and interactions increased between SME, Private Bank and Wholesale Banking, resulting in deepening of client relationships. This new approach has also enhanced service levels for our customers and provided attractive career opportunities for staff across the HVCC segments.

- Private Bank income grew by 21 per cent in 2011 and continues to be ranked in the top ten private banks in Asia. We won multiple awards including Best Global Private Bank at the Financial Times and Investors Chronicle Awards.
- SME income grew by 14 per cent and loans grew by 9 per cent. Our SME Banking CVP has been launched across nine markets and serves customers in 30 countries, helping businesses and economies to grow. Through our international network we continue to enable our customers to take advantage of existing and emerging trade corridors.
- Priority Banking income grew by 10 per cent. The CVP is now present in 23 markets and is centred on differentiated benefits, solutions and service. We have further expanded our international services and established booking centres in six markets to facilitate cross-border transactions.
- Our Islamic Banking proposition – Saadiq – offers Shariah compliant solutions through Saadiq counters, with dedicated staff in conventional and dedicated branches across six markets.

Personal Banking has shown steady momentum in 2011 and our Consumer Finance business continued to perform well, growing income by over 25 per cent. Overall the segment grew income by 10 per cent. We launched a new strategy and CVP for Personal Banking to provide solutions to our customers' everyday banking needs. Our Employee Banking proposition is now in 22 countries with over 1,000 companies signed up in 2011.

Across all segments we continued to reinforce our frontline and hire more Relationship Managers to further strengthen and deepen our customer relationships.

Our first call resolution rate improved, customer complaints continued to decrease, and we increased the number of products sold per customer. We also materially improved turnaround time for opening new accounts and rolled out 42 customer service guarantees across 19 countries.

Our NPS for 2011 jumped 10 points from 39 in 2010 to 49 reflecting the progress we have made in bringing the Charter to life in tangible ways for our customers.

We use NPS to measure the success of our Customer Charter. An increase in NPS has been shown to correlate with achieving deeper sustainable customer relationships. We ask our customers "How likely are you to recommend Standard Chartered to a friend or colleague?". We believe that ultimately an increased NPS will deliver greater shareholder value.

Investing for long-term growth

To accelerate the pace of our transformation we continued to improve our distribution network, opening, refurbishing or relocating more than 60 branches, and refreshed or replaced over 400 ATMs. We also have over 150 Express Banking Centres, with fully automated customer services and which are roughly a third of the size of our normal branches.

We continued rolling out our Next Generation branches and applying our customer-focused approach to enhance and improve the customer experience. In fact, our customers gave us valuable feedback and helped us in the design. The result is fewer barriers between staff and customers. The new design features touch sensitive screens for browsing that allow customers to email digital brochures to themselves, free Wi-Fi, video conferencing with specialist advisors, and comfortable waiting areas where our staff meet the needs of our customers using laptops and iPads. We have had a great response from customers and the media and now have over 160 Next Generation branches across 13 markets with a further six markets planned for 2012.

After launching Breeze Mobile, our first iPhone and iPad banking application in Singapore and Malaysia in 2010, we have expanded this offering across multiple platforms and extended its reach to India, China and Hong Kong. Further market launches are planned for 2012. New developments include a wider range of next generation online capabilities such as Breeze Banking, Breeze Places and Breeze Living.

Our strengthened internet and mobile banking offering was recognised at the Global Finance Awards when we were named as the World's Best Internet Bank. This was in addition to winning Asia's Best Internet Bank and Best Design for a Global Banking Website for the second year in a row.

We continued to invest heavily in training and now have 15 Consumer Banking Training Academies across our markets. By embedding the Charter and SCB Way in the way we work we ensure that our people truly understand their role in delivering on our Charter promises.

In addition to our innovative new segment-led offerings, we continued to extend our product range to meet customers' needs and introduced integrated bundled solutions such as our Home Sweet Home, EZ Banking and Employee Banking suites of products across our key markets. These three core bundles have been launched in 10 countries, with about one in three customers choosing bundled solutions. We also launched our 360º Rewards Scheme. This programme, which is a first in our markets, rewards customers for all aspects of their banking relationship and is designed to further deepen our relationships with our customers.

Our strategy continues to deliver. Our business is increasingly aligned to the needs of our customers and we are well positioned to navigate the challenges and opportunities ahead. We will continue to invest for long-term growth while maintaining disciplined risk, cost and performance management.

Consumer Banking

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

	2011								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	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

	2010								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Consumer Banking Total $million
Operating income	1,116	728	1,058	1,478	493	691	381	134	6,079
Operating expenses	(721)	(384)	(797)	(1,085)	(336)	(458)	(254)	(141)	(4,176)
Loan impairment	(45)	(33)	(139)	(122)	(56)	(159)	(19)	(5)	(578)
Other impairment	–	–	(4)	(1)	–	–	(5)	(2)	(12)
Operating profit/(loss)	350	311	118	270	101	74	103	(14)	1,313

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

Operating income by product	2011 $million	2010 $million	2011 vs 2010 Better/(worse) %
Cards, Personal Loans and Unsecured Lending	2,422	2,044	18
Wealth Management	1,272	1,138	12
Deposits	1,409	1,202	17
Mortgages and Auto Finance	1,478	1,513	(2)
Other	210	182	15
Total operating income	6,791	6,079	12

Consumer Banking continued

Performance in 2011

CB continued to execute a strategic repositioning of its business during 2011. Operating income increased $712 million, or 12 per cent, to $6,791 million. On a constant currency basis, income grew 9 per cent. Operating profit grew $337 million, or 26 per cent, to $1,650 million. On a constant currency basis, the increase was 24 per cent. Whilst CB has recorded four consecutive halves of income growth, the second half operating profit was affected by softening Wealth Management revenues across most geographies as investor sentiment was impacted by weaker markets. Expenses also increased in the second half of the year over the first half reflecting the non-recurrence of the recovery on structured notes booked in the first half; continuing investment; and a charge of $189 million in relation to the Korea Early Retirement Plan (ERP).

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

Net interest income increased by $546 million, or 14 per cent, to $4,584 million, largely driven by increased volumes. Asset margins remained under pressure, particularly in the mortgage book, and Term Deposit (TD) margins also continued to be under pressure as competition intensified in a number of our markets. However, increasing interest rates enabled higher Current Accounts and Savings Accounts (CASA) margins, which helped offset the impact of broader margin compression. The business continued to focus on liquidity and managing its deposits mix. CASA balances remain robust, and constitute 56 per cent of Consumer Banking deposits compared with 59 per cent at the end of 2010.

Non-interest income at $2,207 million was $166 million, or 8 per cent, higher compared with 2010. This was largely driven by Wealth Management and SMEs.

Expenses were up $429 million, or 10 per cent, to $4,605 million. On a constant currency basis, expenses were up 8 per cent. The growth in expenses included provisions of $189 million relating to the ERP in Korea, which was partly offset by $96 million of recoveries on certain structured notes payouts made in prior periods. 2010 also included a $95 million provision for settlements in respect of certain other structured notes. Excluding these items, the growth in expenses reflected investments in relationship managers and front office staff, increased marketing spend and enhancements to branches and systems architecture.

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

Product performance

Income from Cards, Personal Loans and Unsecured Lending grew $378 million, or 18 per cent, to $2,422 million, with increased volumes more than offsetting margin compression. We selectively increased unsecured lending, particularly in Hong Kong, Singapore and Korea. This was supported by increased marketing in these countries and the introduction of innovative product features, such as the 360° Reward Programme.

Wealth Management income grew by $134 million, or 12 per cent, to $1,272 million, primarily due to the sale of foreign exchange products and insurance, reflecting investor appetite on the back of relatively better economic indicators and equity market performance. In the second half of the year, however, weaker investor sentiment caused by events in the West impacted the sale of structured products and unit trusts and moderated growth for the full year.

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

Mortgages and Auto Finance income fell by $35 million, or 2 per cent, to $1,478 million, reflecting continuing pressure on mortgage margins, as competition, regulation and interest rates increased in most of our markets, impacting Korea in particular. This was partially offset by volume growth due to the acquisition of the GE Money Auto Finance business in Singapore, which contributed $59 million.

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

Geographic performance

Hong Kong

Income was up $210 million, or 19 per cent, to $1,326 million, with good volume growth across asset and liability products in addition to slightly improved liability margins, although asset margins remained under pressure. Income from Credit Cards and Personal Loans grew strongly, up 22 per cent, as we increased market share in Credit Cards supported by a successful marketing campaign. Income from SMEs also increased as we continued to drive growth in the trade book. Liability growth continued, with higher deposit volumes and increased CASA margins offsetting lower Time Deposits margins as competition intensified. During the year we also launched a number of innovative products, such as the Dual Currency ATM Card, in addition to expanding our range of renminbi services. Wealth Management income was up 26 per cent, with growth seen over a broad range of products and services.

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

Working profit was up $229 million, or 58 per cent, to $624 million. Loan impairment was higher at $71 million, reflecting higher volumes and growth in unsecured lending. Operating profit rose $203 million, or 58 per cent, to $553 million.

Singapore

Income was up $196 million, or 27 per cent, to $924 million. On a constant currency basis, income grew 20 per cent, especially in Cards, where we increased market share as we focused on selectively growing unsecured lending, and also reflecting the acquisition of GE Money Pte Limited. Mortgage margins remain compressed although this was more than offset by increased volumes resulting in strong income growth. Wealth Management improved considerably during the year registering significant growth as we focused on expanding Wealth Management products and services. Deposit income benefited from improved CASA margins and volume growth following successful marketing campaigns.

Operating expenses increased $119 million, or 31 per cent, to $503 million with investments in frontline staff, marketing and infrastructure to underpin future income momentum, together with flow through costs from prior years' investments and the acquisition of GE Money Pte Limited. On a constant currency basis, operating expenses were 21 per cent higher.

Working profit was up $77 million, or 22 per cent, at $421 million. Despite the 14 per cent growth in customer advances, loan impairment was marginally down by $4 million, or 12 per cent, to $29 million, as we continued to manage risk tightly in an improved credit environment. Operating profit was higher by $81 million, or 26 per cent, at $392 million. On a constant currency basis, operating profit was higher by 22 per cent.

Service Guarantees
Bringing the Customer Charter to life

"Our service guarantees were launched as a way to bring our Customer Charter to life."

In an increasingly commoditised market, the way we serve our customers and our focus on continually improving the customer experience are key differentiators for our brand.

Our service guarantees are time-bound assurances to serve our customers' needs within a set timeframe. We have backed these commitments by either making donations to charity or crediting a customer's account if we do not meet the specified timeframes.

They represent a tangible way to demonstrate our commitment to the Charter as we deliver fast, friendly and accurate service whilst solving our customers' financial needs and building relationships.

The first service guarantee we launched was our eight-minute service pledge. An industry first in many countries, this pledge is now across nine markets including those in Greater China. It reinforces our commitment to instil a strong service culture and demonstrates that we value our customers' time. In 2012, we will be extending our eight-minute service pledge in a further eight markets.

In 2011 SME Banking was the first to launch a series of guarantees across five markets for key services such as trade financing and unsecured business loans for our customers. In Singapore, we have reduced the turnaround time for Business Instalment Loans from ten to two days and SME trade services from 14 to two days.

Our personal loan guarantees are available in ten markets including Indonesia, Bangladesh, Uganda, Botswana and Bahrain, with a further ten planned for 2012. We have also launched credit card guarantees, which will be extended to more markets in 2012. Our mortgage guarantees are now in seven markets, including Hong Kong Mortgage Master where our staff provide mortgage solutions seven days a week, with a one-day service guarantee.

In total we have launched 42 guarantees across 19 markets and plan to continue expanding these across our markets.

Consumer Banking continued

Korea

Income was up $95 million, or 9 per cent, to $1,153 million. On a constant currency basis income was up 4 per cent despite the labour strike in the second half of 2011. Credit Cards and Personal Loans showed good growth, up 24 per cent, as we strategically focused on unsecured lending, coupled with higher margins on Personal Loans. SME income grew on the back of trade and deposit income driven by increased cross-sell opportunities. Wealth Management increased 3 per cent, although growth moderated in the second half of the year reflecting the impact of softening investor sentiment. Liability income grew strongly as CASA margins improved following interest rate rises during the year. Mortgage income was down 18 per cent, as price-led competition intensified, driving margins down 32 basis points compared with 2010. Mortgage volumes were also lower as we strategically reduced mortgage acquisitions in part due to regulatory constraints.

Operating expenses grew $226 million, or 28 per cent, to $1,023 million. On a constant currency basis, expenses were 23 per cent higher, largely due to a $189 million charge for the ERP. Excluding this, expenses were 5 per cent higher, as a result of the flow through from investments in reshaping our distribution network and rebranding.

Working profit was 50 per cent lower at $130 million. On a constant currency basis, this was 52 per cent lower. Loan impairment was up $27 million, or 19 per cent, to $166 million on the back of growth in unsecured lending, partially offset by recoveries on loan sales. Operating profit was down $159 million to a loss of $41 million. Excluding the impact of the ERP costs, operating profit was up 25 per cent.

Other Asia Pacific (Other APR)

Income was up $135 million, or 9 per cent, to $1,613 million. On a constant currency basis, income grew 4 per cent. All major markets except Taiwan saw positive income momentum. Income in China was up 12 per cent to $228 million, with strong growth in SME volumes, on the back of expansion in growth cities; improved deposit margins; and higher Wealth Management income, particularly in unit trust and index-linked structured deposits. Taiwan, however, saw income fall by 6 per cent to $421 million as Wealth Management income was impacted by uncertain global investment markets and asset margin compression. This was partially offset by volume-led income growth in Personal Loans. Mortgage volumes were impacted in the second half of the year by tightening regulation. Income in Malaysia was up 21 per cent to $358 million, benefiting from growth in Personal Loans and increased SME volumes reflecting improved market penetration. Indonesia also showed strong income growth of 22 per cent.

Operating expenses in Other APR were up $19 million, or 2 per cent, to $1,104 million. On a constant currency basis, expenses fell 4 per cent. Excluding the benefit of recoveries on payouts made in respect of structured notes in prior years, current year expenses were up $115 million, or 11 per cent. Expenses across the region were driven by focused investment as we grew frontline staff and enhanced infrastructure. China expenses were up 17 per cent at $321 million, as we continued to expand our distribution network, opening 19 new branches and increasing frontline staff.

Other APR working profit was up $116 million, or 30 per cent, to $509 million. On a constant currency basis, working profit increased 24 per cent. Loan impairment was down by $5 million, or 4 per cent, to $117 million, reflecting tight underwriting standards and recoveries on the sale of largely unsecured loan portfolios in Malaysia, Taiwan and Thailand, which offset market specific events in the region. Other APR delivered an operating profit of $392 million, up 45 per cent from 2010 (39 per cent on a constant currency basis), with Taiwan and Malaysia being the most significant contributors. The operating loss in China was $108 million, up from $78 million in 2010, as we continued to invest in the franchise.

India

Income was down $11 million, or 2 per cent, to $482 million. On a constant currency basis, income was flat. Income has been impacted by rising interest rates and increased levels of competition compressing lending margins. This has particularly impacted Mortgage income, although this was partially mitigated by repricing initiatives. Deposit income was up 31 per cent, driven by improved liability margins and increased time deposit volumes as we enhanced our internet and mobile banking capabilities. Wealth Management income was lower, impacted by weaker markets during the year.

Operating expenses were higher by $16 million, or 5 per cent, at $352 million. On a constant currency basis, expenses were higher by 7 per cent, reflecting inflationary pressures and sustained investment in the franchise to support future growth, offset by benefits from premises rationalisation.

Working profit was down $27 million, or 17 per cent, to $130 million. Loan impairment was, however, significantly lower by $24 million, or 43 per cent, at $32 million as a result of the focus on secured lending and improved portfolio quality. Operating profit was lower by $3 million, or 3 per cent, at $98 million. On a constant currency basis, operating profit was 1 per cent lower.

Middle East and Other South Asia (MESA)

Income was up $32 million, or 5 per cent, to $723 million, with the growth primarily within the UAE and Pakistan. UAE income grew 7 per cent due to good sales across Personal Loan and Mortgage products and higher Wealth Management fees, although SME margins were lower, in part due to the run-off of certain higher yielding portfolios. Income in Pakistan was up 11 per cent due to strong deposit growth. UAE income growth was partly offset by lower income in Qatar, as regulatory restrictions impacted asset volumes and asset and liability margins.

Operating expenses in MESA were higher by $29 million, or 6 per cent, at $487 million. UAE expenses were up 6 per cent as we invested to develop the franchise and increasing frontline staff. Pakistan expenses were higher by 9 per cent on the back of increased staff costs.

Working profit for MESA was up $3 million, or 1 per cent, to $236 million. Loan impairment continued to fall and was considerably lower at $89 million, down 44 per cent compared with 2010, primarily in the UAE, reflecting tighter underwriting criteria, an improved economic environment and a bias to secured lending. Consequently, MESA almost doubled operating profit compared with 2010, up $72 million to $146 million.

Africa

Income was up $41 million, or 11 per cent, at $422 million. On a constant currency basis, income was up 18 per cent, with strong momentum in Personal Loans, Wealth Management and SME volumes although asset and liability margins continued to be under pressure. CASA footings grew strongly, up 17 per cent. Nigeria, Kenya and Botswana drove income growth, with income in Nigeria up 20 per cent, benefiting from increasing liability margins. Kenya remains our largest revenue generator in the region.

Operating expenses were higher by $14 million, or 6 per cent, at $268 million. On a constant currency basis, expenses were 12 per cent higher, reflecting higher staff costs and investments to strengthen the distribution network in Nigeria.

Working profit in Africa was higher by $27 million, or 21 per cent, at $154 million. Loan impairment was down 11 per cent to $17 million. Operating profit was up $28 million, or 27 per cent, to $131 million. On a constant currency basis, operating profit increased 37 per cent.

Americas, UK & Europe

Income rose $14 million, or 10 per cent, to $148 million as we continued to focus on offering our product suite to international citizens from Asia, Africa and the Middle East. The business in this region is primarily Private Banking in nature. Whilst low interest rates continue to impact margins, these partly recovered during the year, driving growth in secured lending and Mortgage income together with increased volumes. Wealth Management revenues grew, although demand for structured investment products was impacted by market uncertainty in the region.

Operating expenses increased $25 million, or 18 per cent, to $166 million as staff costs increased on the back of our continued investment in relationship managers across the region together with costs incurred in exiting certain Private Banking operations. Impairment was lower by $2 million, or 40 per cent. The operating loss increased from $14 million to $21 million.

Wholesale Banking
Committing our consistent support to clients

Mike Rees
Group Executive Director and
Chief Executive Wholesale Banking

"Our commitment to helping our clients achieve their ambitions by continuing to serve them in challenging times has enabled us to further deepen our client relationships and deliver another record year."

Key highlights

Operating income

$10,846m

2010: $9,979m

Client income as % of total income

82%

2010: 80%

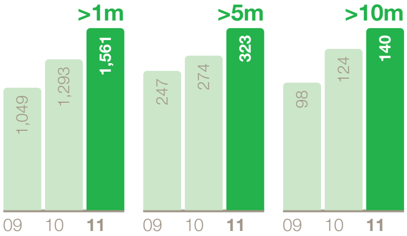
Our strategy

- Become the core bank to more of our clients
- Build scale in local markets and increase cross-border capabilities to better support our clients in achieving their ambitions
- Maintain our strong balance sheet to support our existing clients

Our priorities in 2012

- Stay focused on our business strategy
- Continue to deepen our client relationships by providing them with suitable solutions across our network
- Continue investing in the business through disciplined management of costs, capital and the balance sheet
- Position the business for ongoing market uncertainty and regulatory changes
- Strengthen our brand, people and culture to better serve our clients

Core bank to more clients
$ income



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.

Key changes in 2011

- Core bank to more of our clients with record numbers of client relationships contributing higher income
- Expanded our leadership in trade finance with innovative programmes to support further growth along trade flows
- Enhanced our mining and metals capabilities to strengthen our commodities coverage

Strategy driving continued performance

2011 was a challenging year for the global economy and the banking industry. Against this backdrop, Wholesale Banking (WB) remained true to our strategy. We stayed close to our clients and were disciplined in managing our balance sheet.

The outcome: a strong set of results with a decade of record profits in WB, generating long-term shareholder value.

Through further deepening our client relationships by extending our support to them, we achieved a 9 per cent increase in operating profit to $5.2 billion, continuing our story of consecutive profit growth over the last 10 years since 2001.

Total WB income grew to $10.8 billion. Consistent with previous years, income from clients continued to be the key driver of our growth at 82 per cent of total income.

Clients' performance drives our success

Supporting our clients in their businesses through challenging times is one of the many ways in which we demonstrate our commitment to our clients and our Here for good brand promise.

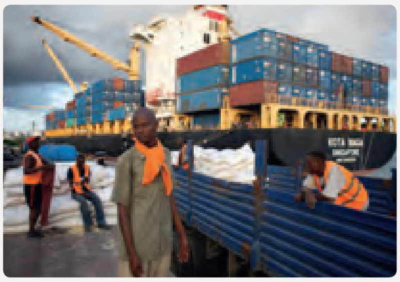
In 2011, our success with deepening relationships with our clients enabled us to become the core bank, or top three bank, to more of our clients. The number of clients that contributed more than $1 million, $5 million and $10 million in income grew substantially, and we now have 140 clients with income of more than $10 million in 2011, compared with 124 in 2010 and 98 in 2009.

All client segments – Global Corporates, Local Corporates, Financial Institutions Group and Commodity Traders and Agribusiness – recorded good income growth.

Demand for Transaction Banking solutions such as Cash Management contributed to a rise in income for the Financial Institutions Group, Local Corporates and Global Corporates clients with growth of 17 per cent, 13 per cent and 1 per cent respectively. For Commodity Traders and Agribusiness, income rose 24 per cent driven by a doubling of income from Corporate Finance solutions.

Trade finance

Supporting trade flows across emerging markets



"The strength and resilience of our trade business is unrivalled due to the longevity of our client relationships and our deep and intimate knowledge of markets in Asia, Africa and the Middle East."

Our position at the crossroads of world trade has allowed Standard Chartered to take full advantage of opportunities along trade flows for more than 150 years. Many of our long-standing client relationships are anchored by the trade business and trade clients often rely on us for other bank services such as cash management and foreign exchange.

Trade is the lifeblood of emerging markets. With market uncertainties affecting trade last year, we took the lead to form partnerships with other organisations to boost the growth of trade flows.

This included our agreement with the OPEC Fund for International Development (OFID) to expand our trade finance risk-sharing programme, which helps support an estimated incremental $4 billion of international trade flows each year. We also worked with Inter-American Development Bank (IDB) in negotiating a new Latin American Trade Co-lending Partnership to facilitate trade finance between Latin America and markets in Asia, Africa and the Middle East.

As part of our multi-award winning trade finance securitisation programme Sealane, the Bank successfully completed a second securitisation with Sealane II in August. Despite the challenging market environment, the transaction was oversubscribed and upsized to $3 billion from $2.5 billion. This programme created additional capacity for us to pursue further business with our clients.

By remaining open for business and extending our strong balance sheet to finance our existing clients, we have strengthened our reputation as a reliable banking partner.

Our ability to meet our clients' needs with products and expertise supported by consistent global service standards has been integral to Standard Chartered's position as one of the world's top trade finance banks.

Wholesale Banking continued

Growing from our foundation in Commercial Banking
Our strong foundation in Commercial Banking – Lending, Transaction Banking and related Foreign Exchange – remains the core engine anchoring our client relationships and our business.

As the industry comes under funding pressures and we increase our ability to provide reliable and consistent service standards, more clients are looking to the Group for Transaction Banking services. We are pleased that Standard Chartered was again recognised for continuing to lead as a primary and secondary transaction bank for corporates' Asian operations[1].

We continue to grow our Financial Markets solutions, as our clients have more sophisticated needs. This has earned us a reputation as one of Asia's top commodities, syndicated loan and local currency bond houses. We have further differentiated ourselves from the competition with our strong showing in the industry league tables. To better support our clients, we have grown our Equity Research coverage to now cover more than 500 stocks across sectors and countries, making Standard Chartered an even more credible content-led broker to our clients.

We continued to add specialist capabilities in sectors of relevance to our clients with the acquisition of advisory firm Gryphon Partners to grow our presence in the mining and metals sector. Highly complementary to our existing Corporate Finance capabilities, the added specialty enhances our coverage in commodities and is already helping to strengthen our relationships with clients.

Principal Finance actively invested in asset classes that play to the Group's strengths and in a range of companies across Asia, Africa and the Middle East taking advantage of the growth momentum in our footprint. Our client franchise remains an attractive source of investment opportunity.

Ready for the future
In 2012, we strive to make further progress in becoming the core bank for our clients by seamlessly helping them to achieve their ambitions across our network through supporting them with our strong balance sheet.

This singular focus has driven our success for the last decade. As a result, we now increasingly have our clients' trust and confidence in being their preferred source for advice and support. We deeply value the quality and longevity of these relationships.

We are confident that we will realise our aspirations by serving as the best banking partner for our clients to help them take advantage of business opportunities in the world's fastest-growing regions. We look forward to continuing to be here for our clients now and into the future.

1 According to East & Partners Asian Institutional Transaction Banking Markets report (2011) which covered 937 Asian Corporates

Wholesale Banking

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

	2011								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Wholesale Banking Total $million
Operating income	**1,723**	**1,262**	**565**	**1,940**	**1,323**	**1,496**	**918**	**1,619**	**10,846**
Operating expenses	**(693)**	**(602)**	**(312)**	**(972)**	**(477)**	**(598)**	**(435)**	**(1,058)**	**(5,147)**
Loan impairment	**(32)**	**(19)**	**(32)**	**(17)**	**(80)**	**(197)**	**(8)**	**1**	**(384)**
Other impairment	**–**	**(31)**	**(8)**	**31**	**(60)**	**(13)**	**(10)**	**(8)**	**(99)**
Operating profit	**998**	**610**	**213**	**982**	**706**	**688**	**465**	**554**	**5,216**

	2010								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Wholesale Banking Total $million
Operating income	1,384	1,010	640	1,687	1,531	1,476	865	1,386	9,979
Operating expenses	(634)	(602)	(283)	(885)	(413)	(537)	(399)	(1,087)	(4,840)
Loan impairment	2	–	(87)	(30)	(23)	(143)	(5)	(19)	(305)
Other impairment	1	(1)	–	(1)	(3)	(29)	(5)	(26)	(64)
Operating profit	753	407	270	771	1,092	767	456	254	4,770

Operating income by product	**2011 $million**	2010 $million	2011 vs 2010 Better/(worse) %
Lending and Portfolio Management	**841**	868	(3)
Transaction Banking			
Trade	**1,595**	1,467	9
Cash Management and Custody	**1,652**	1,303	27
	3,247	2,770	17
Global Markets[1]			
Financial Markets	**3,688**	3,303	12
Asset and Liability Management (ALM)	**921**	912	1
Corporate Finance	**1,873**	1,710	10
Principal Finance	**276**	416	(34)
	6,758	6,341	7
Total operating income	**10,846**	9,979	9

Financial Markets operating income by desk	**2011 $million**	2010 $million	2011 vs 2010 Better/(worse) %
Foreign Exchange	**1,434**	1,200	20
Rates	**893**	837	7
Commodities and Equities	**603**	411	47
Capital Markets	**548**	541	1
Credit and Other	**210**	314	(33)
Total Financial Markets operating income	**3,688**	3,303	12

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 2011

In a challenging economic and competitive environment, WB has performed well, strengthening and deepening relationships with existing clients and sustaining growth in client income, which was up 10 per cent, with broad-based growth across product lines. Client income continues to constitute over 80 per cent of total WB income. Operating income grew $867 million, or 9 per cent, to $10,846 million. Net interest income was up $1,137 million, or 26 per cent, to $5,569 million while non-interest income fell by $270 million, or 5 per cent, to $5,277 million.

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

Income from Financial Markets (FM) rose by 12 per cent, with strong growth in Commodities and FX. The macroeconomic environment impacted Principal Finance, which saw a significantly lower level of mark-to-market gains and realisations compared with 2010, driving income down by $140 million. Corporate Finance income increased by 10 per cent, with good growth in Structured Finance and the Structured Trade Finance business. ALM income was marginally higher by 1 per cent.

Operating expenses grew $307 million, or 6 per cent, to $5,147 million, reflecting disciplined expense management and generating positive jaws for the year. The increase in expenses was primarily due to focused investments in systems architecture and the flow through in staff costs arising from prior year initiatives on resourcing in specialist areas such as sales, equities trading and financial institutions teams, offset by operating efficiencies.

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

Other impairment was higher by $35 million, or 55 per cent, at $99 million, driven by a charge against an Indian bond exposure and incremental Private Equity charges, offset by recoveries on disposal of previously impaired investments.

Operating profit increased by $446 million, or 9 per cent, to $5,216 million. On a constant currency basis, operating profit was up 10 per cent.

Product performance

Lending and Portfolio Management income fell by $27 million, or 3 per cent, to $841 million as an increase in lending balances was offset by margin compression as liquidity costs increased across most markets.

Transaction Banking income was up $477 million, or 17 per cent, at $3,247 million and was a key driver of the growth in client income. Income from Trade grew by 9 per cent with a 25 per cent growth in assets and contingents more than offsetting a 14 basis points drop in margins, although margins started to stabilise in the second half of the year as we repriced across a number of geographies. Cash Management and Custody income grew strongly, increasing by $349 million, or 27 per cent, to $1,652 million on the back of a 25 per cent growth in average balances and improved cash margins, which were up 11 basis points as rates began to rise across our markets, particularly during the first half of the year.

Global Markets income increased by $417 million, or 7 per cent, to $6,758 million. Within Global Markets, the FM business continued to be the largest contributor. FM primarily comprises sales and trading of foreign exchange and interest rate products and has, over the past couple of years, seen diversification of income streams, with higher contributions from Commodities and Capital Markets.

FM income increased by $385 million, or 12 per cent, to $3,688 million and client income has remained strong, increasing by 5 per cent compared with 2010. Own account income rose 39 per cent as we successfully leveraged client flows. Income growth was driven by Foreign Exchange and also Commodities and Equities, which was up $192 million as we continued to expand this business, increasing product capability and providing structured solutions to clients in response to volatility seen across the sector, particularly during the first half of the year.

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

Credit and other income dropped by $104 million, or 33 per cent, as volumes decreased on the back of reduced portfolio turnover by clients.

ALM income was $9 million, or 1 per cent higher, at $921 million as higher-yielding assets ran off. These were replaced by lower yielding higher credit quality assets used primarily to support regulatory requirements.

Corporate Finance income rose by $163 million, or 10 per cent, to $1,873 million. Deals closed increased by 15 per cent compared with 2010, with a greater volume of small to mid-size transactions across multiple geographies driving an increasingly diversified income stream. In addition, a larger proportion of income was sourced from stable annuity flows.

Principal Finance income was down $140 million, or 34 per cent, at $276 million as the market was not conducive to realisations from the portfolio and also impacted mark-to-market at the balance sheet date.

Geographic performance

Hong Kong

Income was up $339 million, or 24 per cent, to $1,723 million. Growth was broad-based and seen across FM sales, and Lending and Trade as we continued to leverage the increasing internationalisation of RMB. Client income grew strongly, up 36 per cent as volumes from Lending and Trade increased, driven by growth in cross-border trades with China, which offset a fall in own account income. FX income increased reflecting increasing market demand for hedging and investment RMB products, whilst Rates income fell on the back of flattening rate curves. Lending and Trade saw significant asset and volume growth that helped offset margin compression. Cash Management income grew strongly as liability margins improved and volumes increased significantly following successful deposit drives. Corporate Finance income grew strongly, fuelled by a number of cross-border deals and expansion into transport leasing in the second half of the year. Hong Kong continued to leverage the Group's network, with inbound revenues up 59 per cent compared with 2010 as Hong Kong further enhances its position as both a hub into and out of China.

Operating expenses grew by $59 million, or 9 per cent, to $693 million due to further investments into our structuring and research capabilities and depreciation from transport leasing assets.

Working profit was up $280 million, or 37 per cent, to $1,030 million. Loan impairment was higher by $34 million reflecting lower levels of recoveries in the current year. Operating profit was up $245 million, or 33 per cent, at $998 million.

Renminbi
One currency, one expert

"We are a leading player in RMB trade settlement and offshore RMB services and closed 2011 with several landmark bond deals."

As the internationalisation of the RMB continues with China's expanding economic influence, Standard Chartered is taking a proactive role in encouraging its use as a global currency for investment, trade and funding.

Our early participation has enabled us to demonstrate our expertise and develop strong relationships with clients and regulators to solidify our position as the leading RMB adviser for corporates and institutions.

Building on the earlier successes we made with expanding the use of RMB for trade, we opened the first onshore RMB trading account in Africa for South African metals trader Portland Steel in May 2011.

The Group also developed innovative trade settlement solutions to support our clients' greater use of the currency. All payments and collections for IKEA's RMB-settled merchandised transactions are now centralised in Hong Kong. We also put in place a financing solution for Daewoo International's RMB-settled exports to China, which enabled further expansion of trading volumes while carefully managing counterparty exposure and foreign exchange risk.

2011 also saw our involvement in several landmark deals in Hong Kong's 'dim sum' bond market including the largest issue on record at RMB20 billion for China's Ministry of Finance where we were a joint bookrunner.

We were the sole bookrunner in the largest 'dim sum' bond from a Western multinational and the first repeat transaction from a non-Chinese issuer with Caterpillar Financial's RMB2.3 billion two-year bond in July. Similarly, we were the co-ordinating bookrunner and joint lead manager for ORIX when it returned to the market in November with a RMB500 million three-year bond. ORIX issued the first 'dim sum' bond from a Japanese non-bank issuer with our participation earlier in March.

In 2011, Standard Chartered was the top RMB clearing bank in China among foreign banks and the second-largest bank in Hong Kong for RMB bond issuance.

Wholesale Banking continued

Singapore

Income grew by $252 million, or 25 per cent, to $1,262 million. On a constant currency basis, income was up 22 per cent, with client income growing 32 per cent, reflecting double-digit growth across all segments. Transaction Banking income grew strongly, up 34 per cent, on the back of higher Trade Finance volumes as we leveraged increased trade flows across the region and strong Cash Management growth as volumes increased and margins improved. As with Hong Kong, Singapore is also a highly integrated business outside of its domestic economy. This enabled growth, especially in Corporate Finance, which grew strongly, driven by a higher number of deals and increased cross-border business. Income from Commodities increased following a number of energy related deals and Rates also saw good growth on the back of increased deal volumes. ALM income fell, however, as lower interest rates impacted reinvestment yields.

Operating expenses were well managed and were flat at $602 million. On a constant currency basis, expenses decreased by 7 per cent, with higher staff costs due to wage inflation and flow through of prior year investments offset by operating efficiencies through disciplined cost management.

Working profit rose by $252 million, or 62 per cent, to $660 million. Loan impairment increased reflecting a small number of corporate exposures. Other impairment of $31 million represents provisions made against certain private equity investments. Operating profit increased by $203 million, or 50 per cent, to $610 million. On a constant currency basis, operating profit was up 59 per cent.

Korea

Income fell by $75 million, or 12 per cent, to $565 million. On a constant currency basis, income was 15 per cent lower. This was primarily due to client income, which was down 7 per cent, as Lending and Trade margins were compressed, competition intensified and regulatory changes impacted FM sales activity. Corporate Finance income fell due to a lower number of large deals compared with 2010. Own account income fell 28 per cent, reflecting reduced volatility, narrowing spreads and increased regulatory pressures. Income originated by subsidiaries of Korean corporates booked across our network increased by 11 per cent against 2010 as they continued to expand across our network.

Operating expenses were higher by $29 million, or 10 per cent, at $312 million. On a constant currency basis, expenses rose 6 per cent, largely due to flow through costs from previous year investments in infrastructure expansion and Early Retirement Plan related costs.

Working profit was lower by $104 million, or 29 per cent, at $253 million. On a constant currency basis, working profit fell 32 per cent. Loan impairment was significantly lower at $32 million, down $55 million from 2010, as the prior period charge was driven by a small number of shipbuilding exposures. Operating profit was lower by $57 million, or 21 per cent, at $213 million. On a constant currency basis, operating profit fell 24 per cent.

Other Asia Pacific (Other APR)

Income was up $253 million, or 15 per cent, at $1,940 million. On a constant currency basis, income grew by 10 per cent. Income grew in most of the major markets in this region, on the back of a strong FM flow business. Income in the Philippines fell as 2010 benefited from a large ticket deal. China delivered income growth of 19 per cent to $597 million, as volumes and margins increased, particularly in Cash Management where income grew 76 per cent as we focused on building core banking relationships. FM income in China grew on the back of strong commodity flows, with market volatility driving demand. This was offset by lower Rates income, as the business was impacted by regulatory controls and significant fluctuations in onshore yield curves following volatile market conditions. There continued to be strong growth in income originated by China clients and booked across our networks, with Hong Kong as the main cross-border partner. Income in Taiwan was up 22 per cent, driven by increased Capital Markets and FX income. Income in Malaysia was flat, whilst income in Thailand increased 17 per cent, largely due to growth in our Rates business. Indonesia also delivered healthy growth, up 26 per cent on the back of improved margins on the fixed income business and increased Corporate Finance revenues.

Operating expenses in Other APR were up $87 million, or 10 per cent, to $972 million. On a constant currency basis, expenses increased by 5 per cent. The increase in expenses reflects higher staff and premises costs and flow through from prior year investments. China operating expenses were up 3 per cent to $346 million.

Working profit in Other APR was higher by 21 per cent at $968 million. Loan impairment was significantly lower by $13 million, to $17 million in 2011, as the prior year included charges relating to disputes on certain foreign exchange transactions. Other impairment had recoveries amounting to $31 million relating to sales of private equity securities impaired in prior years. Operating profit was higher by $211 million, or 27 per cent, at $982 million. On a constant currency basis, operating profit grew by 23 per cent. China contributed $278 million of operating profit, with Indonesia and Malaysia as the other key profit contributors in this region.

India

Income fell $208 million, or 14 per cent, to $1,323 million. On a constant currency basis, income fell 12 per cent. Income has been impacted by softening business sentiment, reflecting wider governance issues in the broader economy. This was compounded by global headwinds and increasing competition, in addition to a series of interest rate rises as the government sought to address inflationary concerns. This has particularly affected the Capital Markets business with some flow through impact on FM sales. Corporate Finance also fell significantly due to a lower number of big ticket transactions. Partially offsetting this was an increase in income from the Cash and Custody business, as volumes increased and margins improved. Trade revenues improved in the second half of the year as demand increased and margins rose as we actively repriced. Income originated by Indian clients but booked across our network more than doubled compared with 2010 as we continue to leverage on the Group's network capabilities.

Operating expenses were up $64 million, or 15 per cent, at $477 million. On a constant currency basis, expenses were higher by 18 per cent largely driven by premises related costs, inflationary pressures and flow through of investments related to the set up of the equities business in 2010.

Working profit was down $272 million, or 24 per cent, at $846 million. Loan impairment increased by $57 million to $80 million as we have taken a higher portfolio provision given market uncertainty. Other impairment primarily relates to a bond exposure where we have concerns over the issuer. Operating profit was down $386 million, or 35 per cent, to $706 million. On a constant currency basis, operating profit fell 34 per cent.

Middle East and Other South Asia (MESA)

Income was up marginally by $20 million to $1,496 million with increases in own account income compensating for a fall in client income. Client income was impacted by lower margins despite volume growth in Lending and Trade. Growth in own account income was fuelled by the commodities business, as volatility in the early part of the year provided structuring opportunities. Islamic Banking continued to be a key focus, with revenues in the UAE up 65 per cent compared with 2010. UAE income grew 3 per cent, with growth in the Commodities and Rates businesses. This offset a fall in UAE client income, which was impacted by Lending margin compression and reducing loan balances following certain big ticket repayments. Bangladesh grew income by 25 per cent, partly due to growth in FX as we continue to deepen client relationships. These increases were offset by a drop in income in Bahrain as credit appetite in the region reduced due to the political climate. Pakistan registered 17 per cent growth, primarily due to higher Trade volumes.

MESA operating expenses were up $61 million, or 11 per cent, to $598 million, reflecting staff and investment expenditure.

MESA working profit was down $41 million, or 4 per cent, to $898 million. Loan impairment ended at $197 million, and continues to reflect a small number of specific provisions on historically troubled assets. Operating profit fell 10 per cent to $688 million.

Africa

Income was up $53 million, or 6 per cent, to $918 million. On a constant currency basis, income was up 11 per cent, driven by a strong Transaction Banking, FX flow business and Lending performance, which helped offset a fall in Corporate Finance income as 2010 benefited from a number of landmark deals that did not repeat in 2011. The Transaction Banking performance also reflects the successful integration of the Barclays custody business. Income from Nigeria, the largest WB market in the region, was down 1 per cent as higher Transaction Banking revenues were offset by lower Corporate Finance revenues, which moderated in the second half of the year. Botswana, Tanzania and Uganda delivered good income growth, with a strong increase in commodity linked transactions and Trade finance. Income in Kenya was up 2 per cent, with higher Trade volumes and improved Cash Management margins more than offsetting lower ALM income. The region continued to see increasing levels of income being booked across our network originated out of Africa.

Operating expenses were up $36 million, or 9 per cent, to $435 million. On a constant currency basis, expenses were 13 per cent higher, reflecting investments in people and infrastructure and integration costs associated with our acquisition of the Barclays custody business at the end of 2010.

Working profit was up $17 million, or 4 per cent, to $483 million. Loan impairment remained low at $8 million. Operating profit was $9 million higher at $465 million, up 2 per cent. On a constant currency basis, operating profit was up 8 per cent.

Americas, UK & Europe

This region continues to originate and support our clients' cross-border business within our footprint countries. Income was up 17 per cent to $1,619 million, with a 15 per cent growth in client income, primarily across Cash and Corporate Finance. Commodities saw good growth, benefiting from the volatility in prices in the first half of the year. ALM income grew 24 per cent, primarily due to the build-up of the investment portfolio to deploy surplus liquidity.

Operating expenses were lower by $29 million, or 3 per cent, as increased staff costs were offset by tight cost management. Working profit increased by $262 million, or 88 per cent, to $561 million. Impairment was lower by $20 million, or 105 per cent. Other impairment was lower by $18 million, or 69 per cent, at $8 million. Operating profit was significantly higher, increasing by 118 per cent to $554 million.

People
Enabling the sustainable delivery of performance

Our highlights in 2011

- We reinforced the importance of our values in relation to business performance and the Group's culture by making them central to the way we manage performance and reward
- We sustained our high level of employee engagement, scoring 4.23 on a scale of 1 to 5 in our Gallup Q[12] Employee Engagement Survey
- We strengthened our employer brand across our recruitment marketing and processes and grew our headcount by nearly 2,000

Our priorities in 2012

- Continue to embed our brand promise, Here for good, making our culture and values a source of differentiation
- Strengthen the capabilities of our leadership and management population focusing on improving our ability to anticipate and respond to change
- Continue to enhance talent development and retention through the reinforcement of performance differentiation in reward and diversity of pipeline
- Deepen community and employee volunteering activities as a source of engagement

Employees

86,865
people

130
nationalities

71
markets

We employ nearly 87,000 people, representing 130 nationalities and working across 71 markets. Our diversity is a real strength and through our inclusive approach we enable our people to deliver exceptional results within a culture that embodies our brand promise, Here for good.

Here for good articulates our commitment to making a positive impact in every element of our business, whether through the people who work for and with us or the people in the communities we touch. Combined with our deeply-felt values, this forms the backbone of our moral compass and unifies us across our different markets and business functions. It is our unique culture that enables us to deliver strong performance for all our stakeholders and we therefore nurture it carefully.

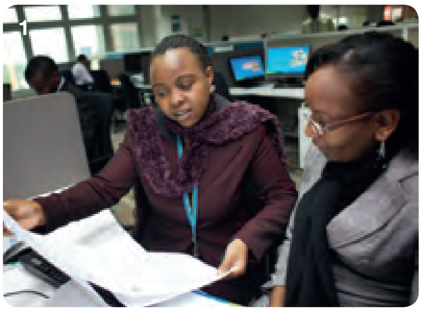
Growing our talent

In 2011, the Group increased its net headcount by nearly 2,000 in markets spanning Asia, Africa and the Middle East. With nearly 87,000 people, one of our best sources of talent is our own employees and we always seek to strike a balance between developing our people and the strategic acquisition of new talent.

Our focus is on building teams with deep local knowledge, providing real benefit for the customers and clients we serve. As such, our customer facing roles in both our Consumer and Wholesale Banking businesses remain a high priority for us.

2011 saw us strengthen our employer brand across our approach to recruitment – refreshing our recruitment websites, developing integrated marketing across a range of media and updating our selection processes. We are embracing leading edge technologies to drive long-term relationships with candidates as we seek to attract the best people for the Group.

Our graduate programmes continue to be a key source of future talent for the organisation and in 2011 we refreshed our flagship International Graduate programme to better meet the needs of the business and our graduates.



1 Employees at our new East Africa office in Nairobi

2 Supporting a customer at a Mumbai branch

Developing our leadership capabilities

Our leadership population has greatly expanded over the last five years and its capacity to deliver the Group's ambitious agenda has grown with it. We aim to develop our leaders with equal emphasis on their individual strengths and their collective capabilities across the Group. Our most senior leadership programme, Leading the Journey, provides a forum for current and future senior leaders to come together across markets and functions. This has helped to deepen cohesion within our leadership community, improving our organisational agility and succession planning.

Last year, we enhanced our Great Manager Programme, which is available to over 17,000 managers Group-wide, and refreshed the content and tools for all our automated people processes. Our research has shown that our leaders' success is strongly related to their ability to think about the Group in the context of its contribution to local communities and the broader context in which we operate.

More than 200 leaders had access to a leadership facilitator in 2011 to support them and their senior teams through major leadership transitions and in adapting collectively to significant current and future challenges.

Enabling Diversity and Inclusion

Diversity and Inclusion (D&I) is part of our DNA and is central to our brand and culture – we endeavour to ensure that all of our employees are supported and valued as equals. Our aim is that our employees are truly representative of the Group's diverse markets and the profile of our clients.

In 2011, we welcomed a new D&I Council of senior leaders from across the Group's network. The new Council supports and drives the Group's D&I agenda and strategy, while more than 60 Country Champions in our markets are responsible for local implementation.

Within the workplace, we aim to provide arrangements that meet the unique needs and circumstances of our people and our businesses. This includes a focus on more agile and flexible working in 16 of our largest markets. Aligned to this approach, the Group has also launched a new sabbaticals framework in many of our largest markets; an important element of our lifetime career strategy and brand promise.

Our targeted diversity programmes were expanded to reach more employees – more than 200 participated in career development programmes specifically for women at middle management level and our Global Mentoring Programme, targeted at emerging leaders, reached more than 100 employees.

Our employees play a critical role in supporting our commitment to D&I in their communities. Last year, we successfully surpassed our 2008 Clinton Global Initiative commitment to provide financial literacy training to at least 5,000 women in Asia. Numerous employees across India, Indonesia, Singapore, Malaysia, the Philippines, Thailand, Taiwan, Cambodia, Korea, Pakistan and China were involved and helped us improve the financial education of almost 7,000 girls and women.

Building our employee engagement

We recognise the importance of a strong sense of connection between our employees and the Group. The commitment of our employees is fundamental to our business success and as such, we continue to strengthen our managers' accountability for good people management.

2011 was once again notable for a high level of employee engagement, despite the challenging and uncertain external environment. Ninety-five per cent of employees participated in the Gallup Organisation's Q^{12} Employee Engagement Survey, resulting in a score of 4.23 out of a possible 5. We believe this demonstrates the close attention we pay to the employee experience and our commitment to building a great place to work.

China significantly increased its score achieving 4.42, which equates to a world class level of engagement – a differentiating factor for us in this part of our footprint. This means all three markets in Greater China (China, Hong Kong and Taiwan) have now achieved world class levels of engagement. Europe and the UAE also saw significant improvement. The concerted effort of local managers to tailor recognition and communicate clearly and consistently contributed to this success.

In recognition of our achievements, we were awarded the 2011 Great Workplace award by Gallup.

Our culture and values

Our distinctive culture is one of the reasons why our clients and customers choose to bank with us and why employees want to join and stay with us. It is what aligns us as One Bank across a diverse global footprint.

Our values – Courageous, Responsive, International, Creative, and Trustworthy – act as a guide, underpinning all our activities on our journey to create long-term value for our shareholders, while having a positive social and economic impact on the communities we serve.

People continued

Our brand promise, Here for good, captures our genuine commitment to customers and clients. It reaches out to all of our stakeholders, including our employees, through a simple and compelling promise. It describes who we are, what we stand for and what makes us different.

We have continued to deliver on our commitment to bring Here for good to life in everything we do. We introduced a five-point values rating scale with enhanced descriptive behaviours, helping illustrate how our employees can bring the values to life and how best to continue doing even more in the future. This has also provided a catalyst for managers and their team members to have more detailed, integrated performance conversations, and reasserts our emphasis on 'how' we achieve results, as well as 'what' is achieved.

In Consumer Banking, a number of online assessment tools are used when recruiting for roles in frontline sales and customer service. This enables us to identify the individuals with the strengths best suited for the role, helping us to deliver the best possible customer and employee experience. In addition, we have consolidated the customer focused ways of working introduced in 2010, by extending the reach and attention paid to the 'SCB Way' in our sales and customer management processes.

Wholesale Banking also built on the foundation of work undertaken in 2010 to reinforce the best of our culture and values. In March 2011, we launched a Culture Toolkit to our leaders enabling them to integrate conversations about culture and values into key people processes such as selection and performance. It has provided a framework for structured conversations within teams and improved understanding of expected ways of working.

Employee relations

Employee relations have become increasingly important to our business as we respond to external uncertainty and develop effective workplace practices. We have developed close working relationships with Group and country regulators as well as local unions and continually provide regulatory support to countries across our footprint, ensuring that our governance policies are fully aligned.

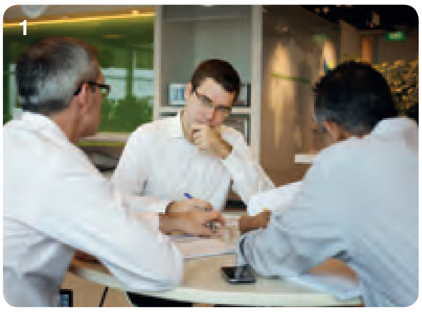
Responding to a strike of union members in Korea last year, we reiterated our consultative approach with the union. We have also developed a learning programme to ensure our mandatory regulatory requirements are transparent and well communicated.

The well-being of our employees remains at the heart of Standard Chartered's people agenda. We further embedded our Speaking Up policy and our grievance handling procedures, demonstrating our commitment to enhancing our employee relations.

Performance and reward

Our success depends upon the performance, behaviours and commitment of our employees. Through our performance and reward practices, our employees are motivated to focus on business and personal objectives and to deliver and sustain outstanding performance, in line with the Group's values and risk appetite. We remain committed to an extremely high level of governance and are both supportive of and aligned to the Financial Stability Board's principles on sound remuneration practices.

2011 was a year of continued volatility and uncertainty with remuneration remaining under close scrutiny from regulators and investors. There is also continued buoyancy in terms of competitive pressures, particularly in junior positions across many countries in Asia. This follows a trend, evident in recent years, for expectations of higher than inflation salary increases. We have therefore sought to balance the need for competitive reward structures within our total compensation approach, whilst maintaining prudence towards the cost and risk posed to the business.



1 Staff at our Singapore office

2 Traders at our Jakarta office

In 2011, we focused on improving our performance review process, simplifying the online system to achieve an enhanced employee experience. We improved our performance review guidelines for managers, providing four key discussion points (performance, value behaviours, development, and risk) to help them achieve more in-depth and integrated conversations with their teams. We also further empowered our managers to make decisions in a robust and informed way, creating greater local ownership and accountability for the process.

We recognise the importance of sustained performance and have structured our reward packages accordingly. Our deferral levels are meaningful and are designed to increase with seniority and quantum of variable compensation. Following a review of market practice, we introduced an element of deferred cash to maintain a variable compensation structure that both satisfies our regulators' requirements and remains competitive.

Creating long-term value for our shareholders is our core business objective. Last year, shareholders approved our 2011 Standard Chartered Performance Share Plan. The entire Group's discretionary share awards, such as deferred and performance shares are now made under this plan. In respect of performance shares, we have introduced Return on Risk Weighted Assets as a specific measure.

We also made a number of enhancements to our existing reward policies. The Group's claw-back policy has been improved and we have strengthened our shareholding requirement policy for senior management.

Summary

In 2011, our people strategy remained consistent and focused on enabling the sustainable delivery of performance. We have increased employee engagement, strengthened our leadership capability and further embedded our values. Our continued focus on the simplification of our people processes has also enhanced our employee experience by creating capacity for managers and HR teams to focus on the strategic people issues that deliver business performance. The unique culture of Standard Chartered remains a source of strength for us as we continue to grow.

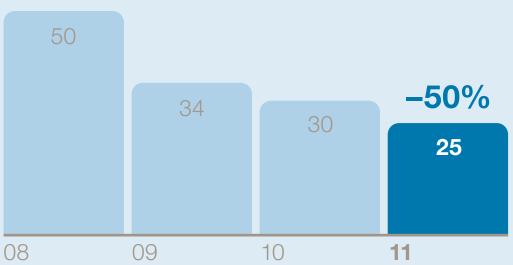
We are committed to providing an exceptional and compelling employment experience, which both understands and meets the needs of our diverse employees and managers as well as reinforcing Here for good. Our priorities for sustaining this throughout the year ahead will include ongoing improvements to our organisational and leadership agility and a continued focus on the strengths of our people.

Sustainability
Our role in society

Our highlights in 2011

- $19.2bn of credit provided to small and medium-sized enterprises
- 5.5 million people estimated to have been impacted by our lending to microfinance institutions since 2005
- 750,000 smallholder farmers benefiting from structured warehouse financing facility in Zambia
- $13bn of Islamic financing arranged for our clients
- 76,000 employees completed anti-bribery training
- $8.43bn mobilised towards renewable energy and clean technology since 2007
- 65,880 days volunteered by our employees
- 16 per cent reduction in air travel emissions
- 44 per cent of Consumer Banking statements delivered electronically, saving an estimated 15,000 trees
- 25 million people reached with essential eye care through Seeing is Believing since 2003
- 18,865 girls empowered through sport with Goal since 2006

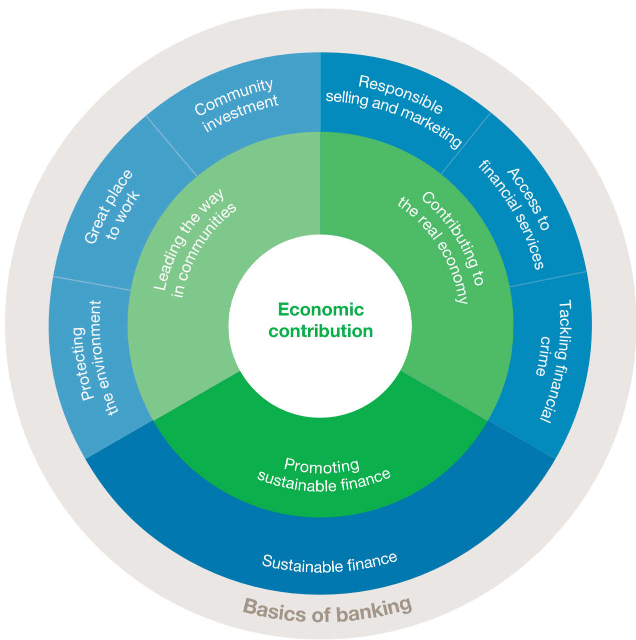
Total paper consumption
Kilos/full-time employee (2008-11)

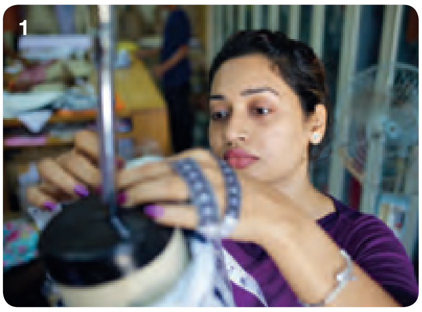


Our priorities in 2012

- Improve access to finance for the under-banked by deepening our partnerships with microfinance institutions
- Continue to embed our Customer Charter throughout Consumer Banking to enhance customer satisfaction
- Complete transformation of Group's financial crime risk management framework
- Apply our financing position statements to SME customers
- Continue to develop our people and embed our brand promise, Here for good
- Work towards target of reducing energy use by 40 per cent between 2009 and 2019
- Increase our employee volunteering to more than 70,000 days

Our sustainable business priorities





1 A designer measures a shirt at Esjay International in Mumbai, a Standard Chartered SME client

2 Children read with a Standard Chartered volunteer at the Dream Children's Home in Nairobi, Kenya

Our approach

Our ability to create sustained value for our shareholders is intrinsically linked to the health and prosperity of the communities in which we operate.

In the next few decades, our markets in Asia, Africa and the Middle East are set for rapid growth, opening up huge opportunities for people to better their lives. At the same time, meeting the rise in demand for energy, food and water will throw up significant challenges. As a bank, we will face tough trade-offs in deciding who and what to finance. Our approach is not to avoid these, but to seek a balance that minimises any negative consequences of our decisions. We are determined to use our business model and influence to deliver value broadly in society. Our three key priorities remain unchanged: we aim to contribute to the real economy, promote sustainable finance and lead the way in communities.

Contributing to the real economy

Our aim is to promote sustainable growth in the real economy through our core business of banking. That means providing finance efficiently and responsibly, while helping to widen access to finance in our markets. Focusing on what our customers need, and treating them fairly at all times, is a key part of this commitment. We are also determined to prevent our products and services from being used for criminal financing activity, which can erode the positive impact of banking on the economy.

Access to finance

Millions of people across our markets remain unbanked or have limited access to banking services. We continue to explore new ways of increasing financial inclusion.

Small and medium-sized enterprises (SMEs) play a crucial role in generating jobs and economic growth across our markets. In 2011, we continued to demonstrate our support for SMEs, increasing our lending to the sector by more than 9 per cent to $19.2 billion, and enhancing our SME products and services.

We remain committed to microfinance as a means of increasing financial inclusion in our markets. Our approach is to support the sector by providing a range of financial services to microfinance institutions (MFIs). Since 2005, we have provided a total of $850 million to MFIs, with lending of $95 million in 2011.

We continue to develop innovative financing solutions for the African agricultural sector, helping to grow its output and contribution to global food security. At the end of 2011, our structured agricultural finance portfolio in Africa was valued at over $2 billion.

Providing solutions to populations with very specific financing needs is a key part of our strategy to promote financial inclusion. Our Islamic Banking brand, Standard Chartered Saadiq, offers a comprehensive range of products and services spanning both Wholesale and Consumer Banking. Since 2004, we have arranged in excess of $56 billion in Islamic financing for our clients, $13 billion in 2011 alone. Standard Chartered Saadiq is also a leader in Islamic capital markets, having arranged a number of sukuk deals, or Islamic bonds, for sovereigns, companies and financial institutions.

Responsible selling and marketing

We aim to treat our customers fairly at all times, providing them with solutions that meet their needs. In 2011, 35,000 Consumer Banking employees completed e-Learning on our Customer Charter, which includes our commitment to fair treatment of customers. We also continued to improve our handling of complaints, increasing the number of cases resolved within 48 hours by 11 per cent to 76 per cent.

In Wholesale Banking, treating clients fairly is a requirement of both our Code of Conduct and our Financial Markets' Dealers Code of Conduct. We have a series of procedures and controls in place to ensure that these codes are adhered to at all times.

Sustainability continued

Tackling financial crime

To guard against the risk of financial crime within our business, we focus on training our employees, strengthening our screening systems and ensuring that our policies and procedures are effective and up to date. In 2011 we aligned our existing anti-bribery controls with the requirements of the new UK Bribery Act 2010. More than 76,000 staff completed anti-bribery e-Learning during 2011, representing over 95 per cent of our full-time employees (FTEs). We also amended our sanctions compliance programme to reflect considerable change in the number and type of sanctions imposed by the UK and US governments, particularly in North Africa and the Middle East.

To strengthen the general effectiveness of our response to financial crime risk, we commenced a Group wide transformation programme, due to complete in 2012. This will provide us with an improved financial crime risk framework based on regional centres of excellence.

Promoting sustainable finance

Our main impact on people and the environment stems from the business activities we finance. Our approach is to manage the environmental, social and governance risks that come with our financing decisions, working with our clients to encourage compliance with international standards.

In 2011, we launched a review of our financing position statements to ensure that they remain aligned with international guidelines and emerging risk issues. To further deepen our employees' understanding of environmental and social risk in key industry sectors, we also launched a one-day classroom course. In 2011 this was rolled out to frontline staff in Singapore, Mumbai and Dubai.

As part of our commitment to sustainable finance, we aim to capture the growing opportunities presented by the renewable energy and clean technology sector. In 2007, we committed to a five-year target of mobilising $8-10 billion of financing towards this sector by 2012. In 2011, we passed the lower end of that commitment, reaching a total of $8.43 billion.

Leading the way in communities

We aim to have a positive impact on people and communities. That means making Standard Chartered a great place to work, minimising our operational impact on the environment and focusing on investing in community programmes that promote tangible, positive outcomes in the markets where we operate. Employee volunteering is at the heart of this commitment. This year, our staff donated 65,880 days to the community, an increase of 42 per cent on 2010.

Unleashing the growth potential of SMEs

SME businesses are engines of economic growth and job creation across our markets. We have shown consistent support for SMEs, increasing our lending by 60 per cent to $19.2 billion since the financial crisis began in mid-2007. However, we recognise that SMEs need training, not just financing, to grow their businesses.

In 2011 we launched a partnership with PwC to deliver a tailored training programme to SMEs. We started out by co-hosting a series of two-day workshops in Ghana, Nigeria and Zambia, reaching 131 SMEs.

The SME owners received training on financial management and accounting along with an overview of how we work with our SME customers. The aim was to help SMEs manage their finances more efficiently, while accessing appropriate products and services to grow their business.

Our partnership with PwC builds on successful pilots for SME training, which we completed in Pakistan in 2009 and Kenya in 2010. Following the pilots, participating SMEs reported increased awareness of financial management and the process involved when applying for bank credit.

The SME training programme is in line with a commitment we made in 2008 to train SMEs as part of the UN's Business Call to Action initiative. Since 2009, we have provided training to 337 SMEs in five of our markets.

We plan to expand our collaboration with PwC into additional markets in 2012.

1 A village co-operative in Jakarta, supported by loans from Mitra Bisnis Keluarga, Indonesia's largest microfinance institution and a client of Standard Chartered

2 Standard Chartered is committed to raising $100 million for tackling avoidable blindness through Seeing is Believing by 2020

Great place to work

Our culture and values – encapsulated in our brand promise, Here for good – are a key reason why employees want to join and stay with us. We focus on creating a working environment that respects our employees as individuals and offers opportunities for them to develop, both personally and professionally. This is reflected in our high levels of employee engagement, with a 2011 score of 4.23 out of 5 in the Gallup Organisation's Q[12] Employee Engagement Survey.

Protecting the environment

We continually look for ways to minimise our direct impact on the environment, and set stringent targets for reducing our consumption of energy, air travel, water and paper. In 2008, we set a target of halving our paper use from 50 kg per FTE over three years. In 2011, we met this target, reducing paper use to 25kg per FTE. We have put significant effort into implementing water saving devices and improving energy efficiency across our entire portfolio, and since 2009 have reduced our water consumption by 35 per cent and total energy consumption by 6 per cent. We also maintain strict controls on air travel across all departments, working towards a goal of reducing air travel emissions to 0.5 tonnes per FTE. In 2011, we reached 0.57 tonnes per FTE, a decrease of 16 per cent. Meanwhile, we continued to invest in video conference facilities. In 2011, we held more than 6,000 video conferences, a 77 per cent increase on 2010.

Community investment

Since 2003, we have reached more than 25 million people through our global campaign to tackle avoidable blindness. In 2011 we renewed our commitment to Seeing is Believing, announcing a new fundraising target of $100 million by 2020. This pledge underscores our determination to take a long-term, strategic approach to community investment.

Launched by Standard Chartered in 2006, Goal uses sport, life skills and financial education to help transform the lives of adolescent girls. Operating in cities across China, India, Jordan, Nigeria and Zambia, by the end of 2011 Goal had reached 18,865 girls.

In 2010 we met our Clinton Global Initiative commitment to educate one million people on HIV and AIDS – through Living with HIV, our workplace education programme, and by working with partners across the public, private and NGO sectors. This year, our dedicated network of staff volunteers have continued to help deliver education on HIV and AIDS, supporting our partner organisations and sharing our HIV education materials with others free of charge.

In 2006 we joined forces with five other donors to launch Nets for Life with the aim of distributing malaria-preventing nets across 15 African countries. In 2011 we reached a total of 6.6 million nets distributed.

For further information please visit
www.standardchartered.com

Our performance

We have an ongoing dialogue with socially responsible investors and researchers. Our sustainability performance is also evaluated by trade publications as well as ratings agencies and indices specialised in the socially responsible investment market.

In 2011, we were proud to receive the Financial Inclusion Award at The Banker's 2011 Bank of the Year Awards, recognising our leadership in improving access to finance across our markets.

Dow Jones Sustainability Indexes
Member 2011/12

For the second 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, human capital development, corporate citizenship, financial inclusion, sustainable finance and climate change governance.

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 2011, we achieved an above average performance score for the financial services sector in the CDP Global 500 report.

Risk review
Maintaining discipline in risk management

Standard Chartered's balance sheet remains strong and diversified. We also remain highly liquid. We have a robust risk governance structure and an experienced risk team.

Risk profile

Diversified portfolio	• No individual country accounts for more than 20 per cent of our loans and advances to customers or operating income • We have low exposure to sovereigns and banks in Greece, Ireland, Italy, Portugal and Spain, and our exposure to commercial real estate, asset backed securities and leveraged loans is non-material from a Group perspective • More than 74 per cent of Consumer Banking assets are secured and more than 64 per cent of Wholesale Banking loans and advances are short-term
Strong liquidity position	• We have a strong advances-to-deposit 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 approved by the Board and sets the risk parameters within which our businesses operate • We have a Board Risk Committee, consisting exclusively of non-executive directors, which reviews the effectiveness of the Group's risk management systems and controls • 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 that assigns accountability and responsibility for the management and control of risk

The following parts of the Risk review form part of the audited financial statements: from the start of the 'Risk management' section on page 54 to the end of the 'Operational risk' section on page 86, with the exception of the 'Asset backed securities' section on page 75.

Risk overview

Standard Chartered has a defined risk appetite, approved by the Board, which is an expression of the amount of risk we are prepared to take and plays a central role in the development of our strategic plans and policies. We also regularly conduct stress tests to ensure that we are operating within our approved risk appetite.

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

Our lending portfolio is diversified across a wide range of products, industries and customer segments, which serves to mitigate risk. We operate in 71 markets and there is no single market that accounts for more than 20 per cent of loans and advances to customers, or operating income. Our cross-border asset exposure is diversified and reflects our strategic focus on our core markets and customer segments. Approximately 48 per cent of our loans and advances to customers are of short maturity, and within Wholesale Banking more than 64 per cent of loans and advances have a tenor of one year or less. More than 74 per cent of Consumer Banking assets are secured.

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

We also have low exposure to asset classes and segments outside of our core markets and target customer base. We have no direct sovereign exposure to Greece, Ireland, Italy, Portugal or Spain. Our total gross exposure to all counterparties in these countries, more than half of which relates to currency and interest rate derivatives, is 0.5 per cent of total assets. Our direct sovereign exposure (as defined by the European Banking Authority (EBA)) to the remainder of the eurozone is immaterial. Please refer to page 76 for details.

Our commercial real estate exposure accounts for less than 2 per cent of our total assets. Our exposure to leveraged loans and to asset backed securities (ABS) each account for less than 1 per cent and 0.3 per cent of our total assets, respectively.

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

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

We have a well-established risk governance structure and an experienced senior team. Members of our Group Management Committee sit on our principal risk committees, which ensures that risk oversight is a critical focus for all our directors, while common membership between these committees helps us address the inter-relationships between risk types.

Risk performance review

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

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

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

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

Risk review continued

Principal uncertainties

Risk	Description	Mitigants
Deteriorating macroeconomic conditions in footprint countries	• Deteriorating macroeconomic conditions can have an impact on our performance via their influence on personal expenditure and consumption patterns; demand for business products and services; the debt service burden of consumers and businesses; the general availability of credit for retail and corporate borrowers; and the availability of capital and liquidity funding for our business	• We balance risk and return taking account of changing conditions through the economic cycle • We monitor economic trends in our markets very closely and continuously review the suitability of our risk policies and controls
Changes in regulations and laws	• The nature and impact of future changes in economic policies, laws and regulations are not predictable and may run counter to our strategic interests. These changes could also affect the volatility and liquidity of financial markets, and more generally the way we conduct business and manage capital and liquidity	• We keep a close watch on key regulatory developments in order to anticipate changes and their potential impact on our performance • Both unilaterally and through our participation in industry forums we respond to consultation papers and discussions initiated by regulators and governments. The focus of these is to develop the framework for a stable and sustainable financial sector and global economy
Financial markets dislocation	• Financial market volatility or a sudden dislocation could affect our performance, through its impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios or the availability of capital or liquidity • Financial market instability also increases the likelihood of default by our corporate customers and financial institution counterparties	• We assess carefully the performance of our financial institution counterparties, rate them internally according to their systemic importance, adjusting our exposure accordingly • We maintain robust suitability and appropriateness processes
Geopolitical events	• We face a risk that geopolitical tensions or conflict in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital across borders	• We actively monitor the political situation in all of our principal markets, and conduct regular stress tests of the impact of such events on our portfolios, which inform assessments of risk appetite and any need to take mitigating action
Risk of fraud	• The risk of fraud and other criminal activities is growing as criminals become more sophisticated and as they take advantage of the increasing use of technology in society	• We have a broad range of measures in place to monitor and mitigate this risk • Controls are embedded in our policies and procedures across a wide range of the Group's activities, such as origination, recruitment, physical and information security
Exchange rate movements	• Changes in exchange rates affect the value of our assets and liabilities denominated in foreign currencies, as well as the earnings reported by our non-US dollar denominated branches and subsidiaries • Sharp currency movements can also impact trade flows and the wealth of clients, both of which could have an impact on our performance	• We actively monitor exchange rate movements and adjust our exposure accordingly • Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to protect our capital ratios from the effects of changes in exchange rates

Principal uncertainties

We are in the business of taking selected risks to generate shareholder value, and we seek to contain and mitigate these risks to ensure they remain within our risk appetite and are adequately compensated. However, risks are by their nature uncertain and the management of risk relies on judgments and predictions about the future.

The key uncertainties we face in the coming year are set out below. This should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties that we may experience.

Deteriorating macroeconomic conditions in footprint countries

Macroeconomic conditions have an impact on personal expenditure and consumption, demand for business products and services, the debt service burden of consumers and businesses, the general availability of credit for retail and corporate borrowers and the availability of capital and liquidity funding for our business. All these factors may impact our performance.

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

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

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

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

We balance risk and return taking account of changing conditions through the economic cycle, and monitor economic trends in our markets very closely. We also continuously review the suitability of our risk policies and controls.

Regulatory changes and compliance

Our business as an international bank is subject to a complex regulatory framework comprising legislation, regulation and codes of practice, in each of the countries in which we operate.

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

The nature and impact of future changes in laws, regulations and economic policies are not predictable and could run counter to our strategic interests. We support changes to laws, regulations or codes of practice that will improve the overall stability of the financial system. However, we also have concerns that certain proposals may not achieve this desired objective and may have unintended consequences, either individually or in terms of aggregate impact. Proposed changes could affect the volatility and liquidity of the financial markets and, consequently, the way we conduct business and manage capital and liquidity. These effects may directly or indirectly impact our financial performance.

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

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

Risk review continued

We have a commitment to maintain strong relationships with governments and regulators in the countries in which we operate. At any time the Group may be in discussion with a range of authorities and regulatory bodies in different countries on matters that relate to its past or current business activities. These discussions may lead to financial penalties or other enforcement actions that are not usually material to the Group.

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

Financial markets dislocation

There is a risk that a sudden financial market dislocation, perhaps as a result of further deterioration of the sovereign debt crisis in the eurozone, could significantly increase general financial market volatility, which could affect our performance or the availability of capital or liquidity. These factors may have an impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios. The potential losses incurred by certain clients holding derivative contracts during periods of financial market volatility could also lead to an increase in disputes and corporate defaults. At the same time, financial market instability could cause some financial institution counterparties to experience tighter liquidity conditions or even fail. There is no certainty that Government action to reduce the systemic risk will be successful and it may have unintended consequences.

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

Geopolitical events

We operate in a large number of markets around the world, and our performance is in part reliant on the openness of cross-border trade and capital flows. We face a risk that geopolitical tensions or conflict in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital or operations across borders.

We actively monitor the political situation in all our principal markets, such as the recent upheaval in the Middle East and North Africa. We conduct stress tests of the impact of extreme but plausible geopolitical events on our performance and the potential for such events to jeopardise our ability to operate within our stated risk appetite.

Risk of fraud

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

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

Exchange rate movements

Changes in exchange rates affect, among other things, the value of our assets and liabilities denominated in foreign currencies, as well as the earnings reported by our non-US dollar denominated branches and subsidiaries. Sharp currency movements can also impact trade flows and the wealth of clients, both of which could have an impact on our performance.

We monitor exchange rate movements closely and adjust our exposures accordingly. Under certain circumstances, we may take the decision to hedge our foreign exchange exposures in order to protect our capital ratios from the effects of changes in exchange rates. The effect of exchange rate movements on the capital adequacy ratio is mitigated to the extent that there are proportionate movements in risk weighted assets.

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

	2011	2010
Indian rupee		
Average	**46.63**	45.72
Period end	**53.03**	44.68
Korean won		
Average	**1,107.84**	1,156.34
Period end	**1,151.56**	1,134.61
Singapore dollar		
Average	**1.26**	1.36
Period end	**1.30**	1.28

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

Risk management

The management of risk lies at the heart of Standard Chartered's business. One of the main risks we incur arises from extending credit to customers through our trading and lending operations. Beyond credit risk, we are also exposed to a range of other risk types such as country cross-border, market, liquidity, operational, pension, reputational and other risks that are inherent to our strategy, product range and geographical coverage.

Risk management framework

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

Through our risk management framework we manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our risk appetite.

As part of this framework, we use a set of principles that describe the risk management culture we wish to sustain:

- Balancing risk and return: risk is taken in support of the requirements of our stakeholders, in line with our strategy and within our risk appetite
- Responsibility: it is the responsibility of all employees to ensure that risk-taking is disciplined and focused. We take account of our social responsibilities and our commitments to customers in taking risk to produce a return
- Accountability: risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk-taking must be transparent, controlled and reported
- Anticipation: We seek to anticipate future risks and ensure awareness of all known risks
- Competitive advantage: We seek to achieve competitive advantage through efficient and effective risk management and control

Risk governance

Ultimate responsibility for setting our risk appetite and for the effective management of risk rests with the Board.

Acting within an authority delegated by the Board, the Board Risk Committee (BRC), whose membership consists exclusively of non-executive directors of the Group, has responsibility for oversight and review of prudential risks including but not limited to credit, market, capital, liquidity, operational and reputational. It reviews the Group's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, considering the implications of material regulatory change proposals, ensuring effective due diligence on material acquisitions and disposals, and monitoring the activities of the Group Risk Committee (GRC) and Group Asset and Liability Committee (GALCO).

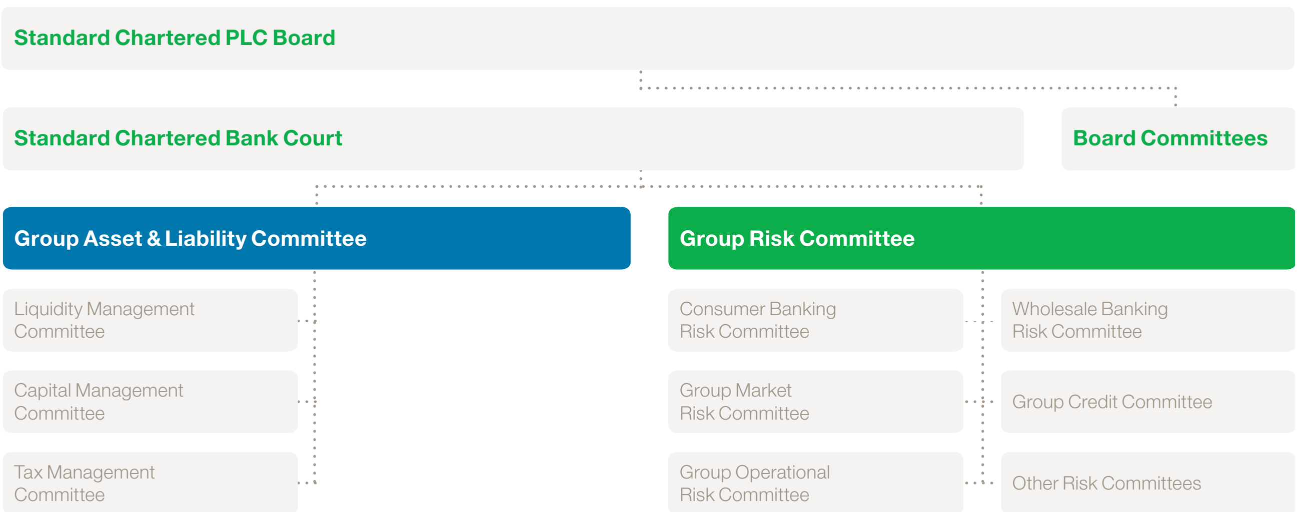
The BRC receives regular reports on risk management, including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference.

The Brand and Values Committee (BVC) oversees the brand, values and good reputation of the Group. It ensures that the management of reputational risk is consistent with the risk appetite approved by the Board and with the creation of long-term shareholder value.

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

The Court delegates authority for the management of risk to the GRC and the GALCO.

Group risk committee structure[1]



1 More information on Board committees can be found under Corporate governance on page 108

Risk review continued

Risk policy framework

Global Policies and Procedures

Wholesale and Consumer Banking Policies and Procedures

Countries Local Policy Addenda and Procedures

Assurance

The GRC is responsible for the management of all risks other than those delegated by the Court to the GALCO. The GRC is responsible for the establishment of, and compliance with, policies relating to credit risk, country cross-border risk, market risk, operational risk, pension risk and reputational risk. The GRC also defines our overall risk management framework.

The GALCO is responsible for the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate risk.

Members of the Court are also members of both the GRC and the GALCO. The GRC is chaired by the Group Chief Risk Officer (GCRO). The GALCO is chaired by the Group Finance Director. Risk limits and risk exposure approval authority frameworks are set by the GRC in respect of credit risk, country cross-border risk, market risk and operational risk. The GALCO sets the approval authority framework in respect of liquidity risk. Risk approval authorities may be exercised by risk committees or authorised individuals.

The committee governance structure ensures that risk-taking authority and risk management policies are cascaded down from the Board through to the appropriate functional, divisional and country-level committees. Information regarding material risk issues and compliance with policies and standards is communicated to the country, business, functional and Group-level committees.

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence describes a specific set of responsibilities for risk management and control.

The first line of defence is that all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities. Business, function and geographic governance heads are accountable for risk management in their respective businesses and functions, and for countries where they have governance responsibilities.

The second line of defence comprises the Risk Control Owners, supported by their respective control functions. Risk Control Owners are responsible for ensuring that the risks within the scope of their responsibilities remain within appetite. The scope of a Risk Control Owner's responsibilities is defined by a given Risk Type and the risk management processes that relate to that Risk Type. These responsibilities cut across the Group and are not constrained by functional, business and geographic boundaries. The major risk types are described individually in the following sections.

The third line of defence is the independent assurance provided by the Group Internal Audit (GIA) function. Its role is defined and overseen by the Audit Committee.

The findings from GIA's audits are reported to all relevant management and governance bodies – accountable line managers, relevant oversight function or committee and committees of the Board.

GIA provides independent assurance of the effectiveness of management's control of its own business activities (the first line) and of the processes maintained by the Risk Control Functions (the second line). As a result, GIA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

The Risk function

The GCRO directly manages a Risk function that is separate from the origination, trading and sales functions of the businesses. The GCRO also chairs the GRC and is a member of the Group Management Committee.

The role of the Risk function is:

- To maintain the Risk Management Framework, ensuring it remains appropriate to the Group's activities, is effectively communicated and implemented across the Group and for administering related governance and reporting processes
- To uphold the overall integrity of the Group's risk/return decisions, and in particular for ensuring that risks are properly assessed, that risk/return decisions are made transparently on the basis of this proper assessment, and are controlled in accordance with the Group's standards
- To exercise direct Risk Control Ownership for Credit, Market, Country Cross-Border, Short-term Liquidity and Operational risk types

The Group appoints Chief Risk Officers (CROs) for its two business divisions and principal countries and regions. CROs at all levels of the organisation fulfil the same role as the GCRO, in respect of the business, geography or legal entity for which they are responsible. The roles of CROs are aligned at each level.

The Risk function is independent of the origination, trading and sales functions to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This is particularly important given that revenues are recognised from the point of sale while losses arising from risk positions typically manifest themselves over time.

In addition, the Risk function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the wider organisation.

Risk appetite

We manage our risks to build a sustainable franchise in the interests of all our stakeholders.

Risk appetite is an expression of the amount of risk we are willing to take in pursuit of our strategic objectives, reflecting our capacity to sustain losses and continue to meet our obligations arising from a range of different stress trading conditions.

We define our risk appetite in terms of both volatility of earnings and the maintenance of minimum regulatory capital requirements under stress scenarios. We also define a risk appetite with respect to liquidity risk and reputational risk.

Our quantitative risk profile is assessed through a bottom-up analytical approach covering all of our major businesses, countries and products.

The Group's risk appetite statement is approved by the Board and forms the basis for establishing the risk parameters within which the businesses must operate, including policies, concentration limits and business mix.

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

Stress testing

Stress testing and scenario analysis are used to assess the financial and management capability of Standard Chartered to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental and social factors.

Our stress testing framework is designed to:

- Contribute to the setting and monitoring of risk appetite
- Identify key risks to our strategy, financial position and reputation
- Examine the nature and dynamics of the risk profile and assess the impact of stresses on our profitability and business plans
- Ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing
- Inform senior management
- Ensure adherence to regulatory requirements

Our stress testing activity focuses on the potential impact of macroeconomic, geopolitical and physical events on relevant geographies, customer segments and asset classes.

A Stress Testing Committee, led by the Risk function with participation from the businesses, Group Finance, Global Research and Group Treasury, aims to ensure that the earnings and capital implications of specific stress scenarios are fully understood. The Stress Testing Committee generates and considers pertinent and plausible scenarios that have the potential to adversely affect our business and considers impact across different risk types and countries.

Stress tests are also performed at country and business level.

Credit risk

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Group in accordance with agreed terms. Credit exposures may arise from both the banking and trading books.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

Credit policies

Group-wide credit policies and standards are considered and approved by the GRC, which also oversees the delegation of credit approval and loan impairment provisioning authorities.

Policies and procedures specific to each business are established by authorised risk committees within Wholesale and Consumer Banking. These are consistent with our Group-wide credit policies, but are more detailed and adapted to reflect the different risk environments and portfolio characteristics.

Credit rating and measurement

Risk measurement plays a central role, along with judgment and experience, in informing risk taking and portfolio management decisions. It is a primary area for sustained investment and senior management attention.

Since 1 January 2008, Standard Chartered has used the advanced Internal Ratings Based (IRB) approach under the Basel II regulatory framework to calculate credit risk capital.

For IRB portfolios, a standard alphanumeric credit risk grade (CG) system is used in both Wholesale and Consumer Banking. The grading is based on our internal estimate of probability of default over a one-year horizon, with customers or portfolios assessed against a range of quantitative and qualitative factors. The numeric grades run from 1 to 14 and some of the grades are further sub-classified A, B or C. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1A to 12C are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers.

Our credit grades in Wholesale Banking are not intended to replicate external credit grades, and ratings assigned by external ratings agencies are not used in determining our internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

Advanced IRB models cover a substantial majority of our exposures and are used extensively in assessing risks at a customer and portfolio level, setting strategy and optimising our risk/return decisions.

IRB risk measurement models are approved by the responsible risk committee, on the recommendation of the Group Model Assessment Committee (MAC). The MAC supports risk committees in ensuring risk identification and measurement capabilities are objective and consistent,

Risk review continued

so that risk control and risk origination decisions are properly informed. Prior to review by the MAC, all IRB models are validated in detail by a model validation team, which is separate from the teams that develop and maintain the models. Models undergo a detailed annual review. Reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process.

Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group Credit Committee (GCC). The GCC derives its authority from the GRC.

All other credit approval authorities are delegated by the GRC to individuals based both on their judgment and experience and a risk-adjusted scale that takes account of the estimated maximum potential loss from a given customer or portfolio. Credit origination and approval roles are segregated in all but a very few authorised cases. In those very few exceptions where they are not, originators can only approve limited exposures within defined risk parameters.

Concentration risk

Credit concentration risk is managed within concentration caps set by counterparty or groups of connected counterparties, by country and industry in Wholesale Banking; and tracked by product and country in Consumer Banking. Additional targets are set and monitored for concentrations by credit rating.

Credit concentrations are monitored by the responsible risk committees in each of the businesses and concentration limits that are material to the Group are reviewed and approved at least annually by the GCC.

Credit monitoring

We regularly monitor credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports are presented to risk committees, containing information on key environmental, political and economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance; and IRB portfolio metrics including credit grade migration.

The Wholesale Banking Credit Issues Forum (WBCIF) is a sub-committee of the Wholesale Banking Risk Committee, which in turn is a sub-committee of and derives its authority from the GRC. The WBCIF meets regularly to assess the impact of external events and trends on the Wholesale Banking credit risk portfolio and to define and implement our response in terms of appropriate changes to portfolio shape, portfolio and underwriting standards, risk policy and procedures.

Clients or portfolios are placed on early alert when they display signs of actual or potential weakness. For example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, non-performance of an obligation within the stipulated period, or there are concerns relating to ownership or management.

Such accounts and portfolios are subjected to a dedicated process overseen by Early Alert Committees in countries. Client account plans and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Group Special Assets Management (GSAM), our specialist recovery unit.

In Consumer Banking, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and is considered for lending decisions. Accounts that are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by specialist recovery teams. In some countries, aspects of collections and recovery functions are outsourced.

The small and medium-sized enterprise (SME) business is managed within Consumer Banking in two distinct customer sub-segments: small businesses and medium enterprises, differentiated by the annual turnover of the counterparty. The credit processes are further refined based on exposure at risk. Larger exposures are managed through the Discretionary Lending approach, in line with Wholesale Banking procedures, and smaller exposures are managed through Programmed Lending, in line with Consumer Banking procedures. Discretionary Lending and private banking past due accounts are managed by GSAM.

Credit mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and other guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Risk mitigation policies determine the eligibility of collateral types. Further details on collateral are set out on the next page.

Where appropriate, credit derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility, such derivatives are used in a controlled manner with reference to their expected volatility.

Traded products

Credit risk from traded products is managed within the overall credit risk appetite for corporates and financial institutions.

The credit risk exposure from traded products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements.

For derivative contracts, we limit our exposure to credit losses in the event of default by entering into master netting agreements with certain counterparties. As required by IAS 32 *Financial Instruments: Presentation* (IAS 32) exposures are not presented net in the financial statements.

In addition, we enter into Credit Support Annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Further details on CSAs are set out on page 60.

Securities

Within Wholesale Banking, the Underwriting Committee approves the portfolio limits and parameters by business unit for the underwriting and purchase of all pre-defined securities assets to be held for sale. The Underwriting Committee is established under the authority of the GRC. Wholesale Banking operates within set limits, which include country, single issuer, holding period and credit grade limits.

Day to day credit risk management activities for traded securities are carried out by Traded Credit Risk Management, whose activities include oversight and approval within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, is controlled by Wholesale Banking Risk, while price risk is controlled by Group Market Risk.

The Underwriting Committee approves individual proposals to underwrite new security issues for our clients. Where an underwritten security is held for a period longer than the target sell-down period, the final decision on whether to sell the position rests with the Risk function.

Maximum exposure to credit risk

The table below presents the Group's maximum exposure to credit risk of its on-balance sheet and off-balance sheet financial instruments at 31 December 2011, before taking into account any collateral held or other credit enhancements. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

The Group's exposure to credit risk is spread across our markets. The Group is affected by the general economic conditions in the territories in which it operates. The Group sets limits on the exposure to any counterparty and credit risk is spread over a variety of different personal and commercial customers.

The Group's maximum exposure to credit risk has increased by $73.9 billion when compared with 2010. Exposure to loans and advances to banks and customers has increased by $37.3 billion since 2010 due to growth in the mortgage portfolio and broad-based growth across several industry sectors in Wholesale Banking. Further details of the loan portfolio are set out on page 61. Improving customer appetite for derivatives has increased the Group's exposure by $20.1 billion when compared with 2010.

	2011 $million	2010 $million
Financial assets held at fair value through profit or loss[1]	**23,235**	25,267
Derivative financial instruments	**67,933**	47,859
Loans and advances to banks and customers	**329,746**	292,416
Investment securities[1]	**82,740**	73,279
Contingent liabilities	**42,880**	41,804
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	**52,700**	45,624
Documentary credits and short term trade-related transactions	**8,612**	7,505
Forward asset purchases and forward deposits placed	**733**	877
	608,579	534,631

1 Excludes equity shares

Collateral

Collateral is held to mitigate credit risk exposures and risk mitigation policies determine the eligibility of collateral types. Collateral types that are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit. Standard Chartered also enters into collateralised reverse repurchase agreements.

For certain types of lending – typically mortgages, asset financing – the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default.

Collateral is reported in accordance with our risk mitigation policy, which prescribes the frequency of valuation for different collateral types, based on the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Where appropriate, collateral values are adjusted to reflect current market conditions, its probability of recovery and the period of time to realise the collateral in the event of possession. The collateral values reported are also adjusted for the effects of over-collateralisation.

Loans and advances

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. In determining the financial effect of collateral held against loans neither past due 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 Group held the following amounts of collateral, adjusted where appropriate as discussed above.

Risk review continued

	Consumer Banking			Wholesale Banking			Total		
	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
As at 31 December 2011									
Collateral	**88,471**	**2,481**	**568**	**53,790**	**328**	**459**	**142,261**	**2,809**	**1,027**
Amount outstanding[1]	**122,225**	**4,035**	**1,089**	**213,839**	**984**	**3,494**	**336,064**	**5,019**	**4,583**
As at 31 December 2010									
Collateral	86,418	2,244	381	49,436	268	460	135,854	2,512	841
Amount outstanding[1]	117,150	3,403	927	183,280	556	3,458	300,430	3,959	4,385

1 Includes loans held at fair value through profit or loss

Within Consumer Banking, 74 per cent of lending is secured, with a loan-to-value ratio of 49 per cent in respect of the mortgages portfolio.

Wholesale Banking includes collateral held in respect of reverse repo transactions undertaken by the Group, further details of which are set out in note 43 to the financial statements on page 230.

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.

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 they are 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 at 31 December 2011 and 31 December 2010:

	2011			2010		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Property	**79**	**–**	**79**	67	–	67
Debt securities and equity shares	**–**	**–**	**–**	–	3	3
Other	**3**	**–**	**3**	2	–	2
	82	**–**	**82**	69	3	72

Traded products

With respect to derivatives the Group enters into master netting arrangements that 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 2011 $40,605 million (2010: $26,789 million) is available for offset as a result of master netting agreements. Under a variation margin process, additional collateral is called from the counterparty if total uncollateralised mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is reciprocal and requires us to post collateral if the overall mark-to-market values of positions is in the counterparty's favour and exceeds an agreed threshold. The Group holds $2,452 million (2010: $2,128 million) under CSAs.

The Group holds cash collateral against derivative and other financial instruments of $3,145 million (2010: $2,527 million) as disclosed in note 31 to the financial statements on page 212.

Off-balance sheet exposures

For certain types of exposures such as Letters of Credit and Guarantees the Group obtains collateral such as cash depending on internal credit risk assessments. However, for trade finance products such as Letters of Credit the Group will also hold legal title to the underlying assets should a default take place.

Other risk mitigants

The Group has transferred to third parties by way of securitisation the rights to any collection of principal and interest on customer loan assets with a face value of

$2,212 million (2010: $3,072 million). The Group continues to be exposed to related credit and foreign exchange risk on these assets. The Group continues to recognise these assets in addition to the proceeds and related liability of $1,843 million (2010: $2,385 million) arising from the securitisations.

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $20.3 billion (2010: $18.7 billion). The Group continues to hold the underlying assets referenced in the credit default swaps.

Loan portfolio

Loans and advances to customers have grown by $22.3 billion since 31 December 2010 to $268.8 billion.

The loans to customers are originated and booked in the respective geographic segments.

Consumer Banking

The Consumer Banking portfolio in 2011 has grown by $5.1 billion, or 4 per cent since 2010.

The proportion of mortgages in the Consumer Banking portfolio is maintained at 57 per cent. Mortgage growth has slowed since the second half of 2011 in most markets due to intensified competition, rising interest rates and regulatory restrictions. This has particularly impacted Korea, where mortgages fell by $2.2 billion.

Other loans to individuals has grown particularly significantly in 2011 due to the acquisition of the GE Money consumer finance portfolio in Singapore and strong growth in Private Banking.

SME lending has grown by $1.7 billion, or 9 per cent, since 2010. There was particularly strong growth in the first half of this year in Korea, Hong Kong and China – mainly in trade finance and working capital products.

	2011								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans to individuals									
Mortgages	18,790	10,823	20,835	14,895	1,755	1,486	216	749	69,549
Other	5,558	8,909	6,098	6,218	626	2,388	962	2,686	33,445
Small and medium enterprises	2,751	3,029	4,613	5,790	2,142	741	163	2	19,231
Consumer Banking	27,099	22,761	31,546	26,903	4,523	4,615	1,341	3,437	122,225
Agriculture, forestry and fishing	356	472	16	486	13	248	810	781	3,182
Construction	345	639	371	704	463	790	201	291	3,804
Commerce	4,858	7,645	439	4,000	547	4,067	677	5,999	28,232
Electricity, gas and water	523	908	–	709	7	300	256	1,771	4,474
Financing, insurance and business services	3,824	4,107	167	4,623	645	3,247	508	8,837	25,958
Governments	–	1,312	11	1,949	2	230	9	2,160	5,673
Mining and quarrying	1,019	1,325	–	923	353	300	251	8,103	12,274
Manufacturing	7,248	2,602	3,818	8,978	2,461	2,604	1,260	7,904	36,875
Commercial real estate	3,136	1,952	1,416	1,332	1,131	681	64	543	10,255
Transport, storage and communication	1,905	3,223	228	1,123	776	1,257	577	5,607	14,696
Other	218	630	180	293	9	233	159	143	1,865
Wholesale Banking	23,432	24,815	6,646	25,120	6,407	13,957	4,772	42,139	147,288
Portfolio impairment provision	(72)	(41)	(126)	(188)	(84)	(138)	(45)	(66)	(760)
Total loans and advances to customers[1]	50,459	47,535	38,066	51,835	10,846	18,434	6,068	45,510	268,753
Total loans and advances to banks[1]	19,097	7,301	3,777	8,506	362	2,426	437	24,643	66,549

1 Amounts include financial instruments held at fair value through profit or loss (see note 15 to the financial statements on page 190)

Risk review continued

Wholesale Banking

The Wholesale Banking portfolio has continued to grow at a consistent rate, by $17.3 billion or 13 per cent compared with December 2010.

Growth in 2011 has been spread across all regions and most customer segments, with most of our key regions showing double digit growth in percentage terms. Two thirds of the growth is due to Trade Finance, Corporate Finance and commercial lending activity as Wholesale Banking deepens relationships with clients in core markets.

Exposure to bank counterparties at $66.5 billion increased by $13.3 billion compared with 2010. We remain highly liquid and a net lender to the interbank money market.

The Wholesale Banking portfolio remains diversified across both geography and industry. There are no significant concentrations within the broad industry classifications of Manufacturing; Financing, insurance and business services; Commerce; or Transport, storage and communication.

Single borrower concentration risk has been mitigated by active distribution of assets to banks and institutional investors, some of which is achieved through credit default swaps and synthetic risk transfer structures.

	2010								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans to individuals									
Mortgages	18,245	10,689	23,061	14,679	2,124	1,331	194	339	70,662
Other	4,237	6,306	5,549	6,034	721	2,593	774	2,699	28,913
Small and medium enterprises	2,314	2,944	4,568	4,938	2,102	575	132	2	17,575
Consumer Banking	24,796	19,939	33,178	25,651	4,947	4,499	1,100	3,040	117,150
Agriculture, forestry and fishing	320	360	36	708	186	110	879	1,278	3,877
Construction	193	119	356	389	387	764	67	179	2,454
Commerce	3,975	5,852	780	4,382	570	4,186	575	6,227	26,547
Electricity, gas and water	406	347	119	949	5	279	177	1,378	3,660
Financing, insurance and business services	4,359	3,363	385	3,611	984	3,135	174	7,479	23,490
Governments	–	1,542	3	572	2	293	70	1,971	4,453
Mining and quarrying	554	884	–	571	225	197	266	6,390	9,087
Manufacturing	4,965	1,468	3,426	8,975	2,598	2,858	1,128	6,895	32,313
Commercial real estate	2,365	2,775	1,314	967	675	819	1	472	9,388
Transport, storage and communication	1,462	2,362	409	1,063	762	763	391	5,944	13,156
Other	182	369	179	328	6	253	87	185	1,589
Wholesale Banking	18,781	19,441	7,007	22,515	6,400	13,657	3,815	38,398	130,014
Portfolio impairment provision	(61)	(41)	(114)	(199)	(54)	(207)	(39)	(45)	(760)
Total loans and advances to customers[1]	43,516	39,339	40,071	47,967	11,293	17,949	4,876	41,393	246,404
Total loans and advances to banks[1]	14,591	7,215	3,193	8,648	523	1,478	420	17,196	53,264

1 Amounts include financial instruments held at fair value through profit or loss (see note 15 to the financial statements on page 190)

Maturity analysis

Approximately half of our loans and advances to customers are short-term having a contractual maturity of one year or less. The Wholesale Banking portfolio remains predominantly short-term, with 64 per cent (2010: 67 per cent) of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 57 per cent (2010: 60 per cent) of the portfolio is in the mortgage book, which is traditionally longer term in nature and well secured. Whilst Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer terms in the normal course of business.

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

	2011			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	3,011	8,867	57,671	69,549
Other	20,194	10,502	2,749	33,445
Small and medium enterprises	10,474	3,450	5,307	19,231
Consumer Banking	33,679	22,819	65,727	122,225
Agriculture, forestry and fishing	2,607	468	107	3,182
Construction	2,300	1,366	138	3,804
Commerce	23,705	4,114	413	28,232
Electricity, gas and water	1,117	1,649	1,708	4,474
Financing, insurance and business services	16,797	8,818	343	25,958
Governments	4,301	1,372	–	5,673
Mining and quarrying	5,912	3,602	2,760	12,274
Manufacturing	25,704	9,380	1,791	36,875
Commercial real estate	4,146	5,785	324	10,255
Transport, storage and communication	7,267	5,160	2,269	14,696
Other	971	874	20	1,865
Wholesale Banking	94,827	42,588	9,873	147,288
Portfolio impairment provision				(760)
Total loans and advances to customers				**268,753**

Risk review continued

	2010			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	2,871	8,947	58,844	70,662
Other	18,019	8,303	2,591	28,913
Small and medium enterprises	9,464	3,369	4,742	17,575
Consumer Banking	30,354	20,619	66,177	117,150
Agriculture, forestry and fishing	3,108	662	107	3,877
Construction	1,721	692	41	2,454
Commerce	22,605	3,667	275	26,547
Electricity, gas and water	1,486	907	1,267	3,660
Financing, insurance and business services	16,493	6,846	151	23,490
Governments	3,155	1,230	68	4,453
Mining and quarrying	4,610	2,818	1,659	9,087
Manufacturing	22,507	8,495	1,311	32,313
Commercial real estate	4,440	4,615	333	9,388
Transport, storage and communication	6,195	4,655	2,306	13,156
Other	1,276	242	71	1,589
Wholesale Banking	87,596	34,829	7,589	130,014
Portfolio impairment provision				(760)
Total loans and advances to customers				246,404

Problem credit management and provisioning
A non-performing loan is any loan that is more than 90 days past due or is otherwise individually impaired (which represents those loans against which individual impairment provisions have been raised) and excludes:

- Loans renegotiated before 90 days past due and on which no default in interest payments or loss of principal is expected
- Loans renegotiated at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables. Individually impaired loans are those loans against which individual impairment provisions have been raised. The Group's accounting policy on loan loss provisioning is discussed in note 1 to the financial statements on page 175.

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 that the Group operates in. Economic and credit conditions are interdependent within each geography and as a result there is no single factor to which the Group's loan impairment allowances as a whole are sensitive. It is possible that actual events over the next year differ from the assumptions built into the model resulting in material adjustments to the carrying amount of loans and advances.

Consumer Banking

In Consumer Banking, where there are large numbers of small value loans, a primary indicator of potential impairment is delinquency. A loan is considered delinquent (past due) when the counterparty has failed to make a principal or interest payment when contractually due. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired. For delinquency reporting purposes we follow industry standards, measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are more closely monitored and subject to specific collections processes.

Provisioning within Consumer Banking reflects the fact that the product portfolios (excluding medium-sized enterprises among SME customers and private banking customers) consist of a large number of comparatively small exposures. Mortgages are assessed for individual impairment on an account by account basis, but for other products it is impractical to monitor each delinquent loan individually and individual impairment is therefore assessed collectively.

For the main unsecured products and loans secured by automobiles, the entire outstanding amount is generally written off at 150 days past due. Unsecured consumer finance loans are 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 page 66, because non-performing loans include all those over 90 days past due. This difference reflects the fact that, while experience shows that an element of delinquent loans are impaired it is not possible to identify which individual loans the impairment relates to until the delinquency is sufficiently prolonged that loss is almost certain, which, in the Group's experience, is generally around 150 days in Consumer Banking. Up to that point the inherent impairment is captured in portfolio impairment provision (PIP).

The PIP methodology provides for accounts for which an individual impairment provision has not been raised, either individually or collectively. PIP is raised on a portfolio basis for all products, and is set using expected loss rates, based on past experience supplemented by an assessment of specific factors affecting the relevant portfolio. These include an assessment of the impact of economic conditions, regulatory changes and portfolio characteristics such as delinquency trends and early alert trends. The methodology applies a larger provision against accounts that are delinquent but not yet considered impaired.

The procedures for managing problem credits for the Private Bank and the medium-sized enterprises in the SME segment of Consumer Banking are similar to those adopted in Wholesale Banking (described on page 58).

Consumer Banking non-performing loans have declined compared with 2010, largely due to portfolio disposals during 2011 in the Other Asia Pacific region.

The total net impairment charge in Consumer Banking in 2011 improved by $54 million, or 9 per cent, over 2010. Individual impairment in the period is generally lower across all major markets compared with 2010, with particular improvement in MESA. In addition, net individual impairment provisions in Other Asia Pacific have reduced as a result of the loan portfolio sales in Malaysia and Taiwan.

There was a portfolio impairment release of $10 million in 2011 (release of $85 million 2010) as portfolio performance indicators continue to show improvement in most markets.

The cover ratio is a common metric used in considering trends in provisioning and non-performing loans. It should be noted, as explained above, a significant proportion of the PIP is intended to reflect losses inherent in the loan portfolio that is less than 90 days delinquent and hence recorded as performing. This metric should be considered in conjunction with other credit risk information including that contained on page 73.

Risk review continued

The following tables set out the total non-performing loans for Consumer Banking:

2011

	Asia Pacific								
	Hong Kong $million	**Singapore $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas UK & Europe $million**	**Total $million**
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

2010

	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances									
Gross non-performing	50	47	145	395	76	342	29	89	1,173
Individual impairment provision	(20)	(20)	(57)	(160)	(32)	(141)	(16)	(60)	(506)
Non-performing loans net of individual impairment provision	30	27	88	235	44	201	13	29	667
Portfolio impairment provision									(451)
Net non-performing loans and advances									216
Cover ratio									82%

The tables below set out the net impairment charge on loans and advances by geography:

	2011								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	**92**	**51**	**178**	**304**	**58**	**166**	**27**	**8**	**884**
Recoveries/provisions no longer required	**(28)**	**(23)**	**(26)**	**(179)**	**(23)**	**(52)**	**(14)**	**(5)**	**(350)**
Net individual impairment charge	**64**	**28**	**152**	**125**	**35**	**114**	**13**	**3**	**534**
Portfolio impairment provision release									**(10)**
Net impairment charge									**524**

	2010								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	76	57	171	299	119	237	31	11	1,001
Recoveries/provisions no longer required	(29)	(19)	(29)	(166)	(33)	(45)	(12)	(5)	(338)
Net individual impairment charge	47	38	142	133	86	192	19	6	663
Portfolio impairment provision release									(85)
Net impairment charge									578

Wholesale Banking

Loans are classified as impaired and considered non-performing in line with the definition on page 64 and where analysis and review indicates that full payment of either interest or principal is questionable, or as soon as payment of interest or principal is 90 days overdue. Impaired accounts are managed by our specialist recovery unit, GSAM, which is separate from our main businesses. Where any amount is considered irrecoverable, an individual impairment provision is raised. This provision is the difference between the loan carrying amount and the present value of estimated future cash flows.

The individual circumstances of each customer are taken into account when GSAM estimates future cash flow. All available sources, such as cash flow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees, are considered. In any decision relating to the raising of provisions, we attempt to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount will be written off.

As with Consumer Banking, a PIP is held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any loan portfolio. In Wholesale Banking, this is set with reference to historic loss rates and subjective factors such as the economic environment and the trends in key portfolio indicators. The PIP methodology provides for accounts for which an individual impairment provision has not been raised.

Gross non-performing loans in Wholesale Banking have decreased by $371 million, or 11 per cent, since December 2010. The decrease is predominantly due to certain large exposures and related provisions in the MESA region being reclassified in 2011 as they met the 180-day renegotiation policy.

Risk review continued

The total net individual impairment charge of $333 million in 2011 was marginally lower by $6 million than the charge in 2010 ($339 million) as credit conditions remained relatively stable.

Portfolio provisions were reduced in most markets in 2011 to reflect the continued good performance in the portfolio. The exception to this was India, where uncertainties in specific sectors of the economy have led to an increase in portfolio provision in the period. The net portfolio impairment charge was $24 million compared with a release of $45 million in 2010.

The cover ratio reflects the extent to which gross non-performing loans are covered by individual and portfolio impairment provisions. The cover ratio as at 31 December 2011 was 58 per cent, up from 50 per cent at 31 December 2010 largely as a result of the reclassification of the renegotiated loan in the MESA region noted on the previous page. The balance uncovered by individual impairment provisions represents the value of collateral held and the Group's estimate of the net outcome of any work-out strategy.

The following tables set out the total non-performing loans to banks and customers for Wholesale Banking:

	2011								
	Asia Pacific								
	Hong Kong $million	**Singapore $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas UK & Europe $million**	**Total $million**
Loans and advances									
Gross non-performing	**83**	**18**	**202**	**773**	**260**	**1,476**	**146**	**129**	**3,087**
Individual impairment provision[1]	**(61)**	**(24)**	**(68)**	**(325)**	**(80)**	**(791)**	**(45)**	**(65)**	**(1,459)**
Non-performing loans net of individual impairment provision	**22**	**(6)**	**134**	**448**	**180**	**685**	**101**	**64**	**1,628**
Portfolio impairment provision									**(328)**
Net non-performing loans and advances									**1,300**
Cover ratio									**58%**

1 The difference to total individual impairment provision at 31 December 2011 reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days

	2010								
	Asia Pacific								
	Hong Kong $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	111	21	305	817	272	1,707	103	122	3,458
Individual impairment provision	(82)	(5)	(136)	(347)	(80)	(641)	(44)	(76)	(1,411)
Non-performing loans net of individual impairment provision	29	16	169	470	192	1,066	59	46	2,047
Portfolio impairment provision									(311)
Net non-performing loans and advances									1,736
Cover ratio									50%

The tables below set out the net impairment charge on loans and advances and other credit risk provisions by geography:

	2011								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	**19**	**21**	**36**	**29**	**40**	**229**	**8**	**–**	**382**
Recoveries/provisions no longer required	**(10)**	**–**	**(4)**	**(8)**	**(6)**	**(9)**	**(7)**	**(5)**	**(49)**
Net individual impairment charge/(credit)	**9**	**21**	**32**	**21**	**34**	**220**	**1**	**(5)**	**333**
Portfolio impairment provision charge									**24**
Net loan impairment charge									**357**
Other credit risk provisions									**27**
Total impairment									**384**

	2010								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	12	–	88	51	28	199	13	26	417
Recoveries/provisions no longer required	(14)	–	(7)	(23)	(8)	(7)	(4)	(15)	(78)
Net individual impairment (credit)/charge	(2)	–	81	28	20	192	9	11	339
Portfolio impairment provision release									(45)
Net loan impairment charge									294
Other credit risk provisions									11
Total impairment									305

Risk review continued

Impairment provisions on loans and advances

The following table sets out the impairment provisions on loans and advances as at 31 December by each principal category of borrowers' business or industry:

	2011 $million	2010 $million
Loans to individuals		
Mortgages	137	128
Other	152	180
Small and medium enterprises	202	198
Consumer Banking	491	506
Agriculture, forestry and fishing	40	42
Construction	68	57
Commerce	473	467
Electricity, gas and water	6	7
Financing, insurance and business services	167	120
Mining and quarrying	1	1
Manufacturing	551	558
Commercial real estate	24	23
Transport, storage and communication	40	23
Other	29	20
Wholesale Banking	1,399	1,318
Individual impairment provision against loans and advances to customers (note 19)	1,890	1,824
Individual impairment provision against loans and advances to banks (note 18)	82	93
Portfolio impairment provision (note 18, 19)	762	762
Total impairment provisions on loans and advances	2,734	2,679

The following table sets out the movements in individual and portfolio impairment provisions:

	2011			2010		
	Individual Impairment Provisions $million	Portfolio Impairment Provisions $million	Total $million	Individual Impairment Provisions $million	Portfolio Impairment Provisions $million	Total $million
At 1 January	1,917	762	2,679	1,985	876	2,861
Exchange translation differences	(40)	(14)	(54)	36	16	52
Amounts written off	(957)	–	(957)	(1,252)	–	(1,252)
Releases of acquisition fair values	(10)	–	(10)	(27)	–	(27)
Recoveries of amounts previously written off	265	–	265	236	–	236
Discount unwind	(70)	–	(70)	(62)	–	(62)
Other	–	–	–	(1)	–	(1)
New provisions	1,266	130	1,396	1,418	110	1,528
Recoveries/provisions no longer required	(399)	(116)	(515)	(416)	(240)	(656)
Net impairment charge/(release) against profit	867	14	881	1,002	(130)	872
Provisions held at 31 December	1,972	762	2,734	1,917	762	2,679

Movement in individual impairment by geography

The following tables set out the movements in our total individual impairment provision against loans and advances by geography:

2011

	Asia Pacific								
	Hong Kong $million	**Singapore $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas UK & Europe $million**	**Total $million**
Provisions held at 1 January 2011	**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 2011	**78**	**38**	**136**	**471**	**112**	**972**	**61**	**104**	**1,972**

2010

	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Provisions held at 1 January 2010	181	27	267	620	91	560	63	176	1,985
Exchange translation differences	–	2	5	28	3	(4)	(2)	4	36
Amounts written off	(151)	(55)	(297)	(391)	(99)	(165)	(27)	(67)	(1,252)
Releases of acquisition fair values	–	–	(8)	(16)	–	(3)	–	–	(27)
Recoveries of amounts previously written off	30	13	16	128	19	26	–	4	236
Discount unwind	(3)	–	(13)	(18)	(7)	(17)	(1)	(3)	(62)
Other	–	–	–	(5)	(1)	1	–	4	(1)
New provisions	88	57	259	350	147	436	43	38	1,418
Recoveries/provisions no longer required	(43)	(19)	(36)	(189)	(41)	(52)	(16)	(20)	(416)
Net impairment charge against profit	45	38	223	161	106	384	27	18	1,002
Provisions held at 31 December 2010	102	25	193	507	112	782	60	136	1,917

Forbearance and other renegotiated loans

Forbearance

Forbearance strategies assist customers that are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the customer, the Group or a third party (including Government sponsored programmes or a conglomerate of credit institutions) and includes debt restructuring, such as a new repayment schedule, payment deferrals, tenor extensions and interest only payments.

The Group's impairment policy generally requires higher impairment charges for restructured assets than for fully performing assets. A discount provision is raised if there is a shortfall when comparing the present value of future cash flows under the revised terms and the carrying value of the loan before restructuring. Individual impairment recognition is accelerated compared with those under normal contractual policy.

Risk review continued

In Consumer Banking excluding Medium Enterprises and Private Banking, all loans subject to forbearance (in addition to other renegotiated loans) are managed within a separate portfolio. If such loans subsequently become past due, write-off and IIP is accelerated to 90 days past due (unsecured loans and automobile finance) or 120 days past due (secured loans). The accelerated loss rates applied to this portfolio are derived from experience with other renegotiated loans, rather than the Consumer Banking portfolio as a whole, to recognise the greater degree of inherent risk.

As at 31 December 2011, $708 million (2010: $747 million) of Consumer Banking loans were subject to forbearance programmes, which represents 0.6 per cent of total loans and advances to Consumer Banking customers. These loans were largely concentrated in countries that have active government sponsored forbearance programmes. Provision coverage against these loans was 16 per cent (2010: 18 per cent), reflecting collateral held and expected recovery rates.

For Wholesale Banking and Medium Enterprise and Private Banking accounts, forbearance and other renegotiations are applied on a case-by-case basis and are not subject to business wide programmes. In some cases, a new loan is granted as part of the restructure and in others, the contractual terms and repayment of the existing loans are changed or extended (for example, interest only for a period).

These accounts are managed by GSAM even if they are not impaired (that is the present value of the new cash flows is the same or greater than the present value of the original cash flows) and are reviewed at least quarterly to assess and confirm the client's ability to adhere to the restructured repayment strategy. Accounts are also reviewed if there is a significant event that could result in 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 58.

Renegotiated loans that would otherwise be past due or impaired

Renegotiated loans, which are included within forborne loans, that would otherwise be past due or impaired if their terms had not been renegotiated were $837 million (2010: $1,475 million), $228 million (2010: $312 million) of which relates to Consumer Banking loans to customers and $609 million (2010: $1,163 million) of which relates to Wholesale Banking loans to customers. Loans whose terms have been renegotiated to include concessions that the Group would not ordinarily make will usually be classified as impaired. Renegotiated loans that have not defaulted on interest or principal payments for 180 days, post renegotiation and against which no loss of principal is expected are excluded from non-performing loans but remain impaired because they are subject to discount provisions.

Analysis of the loan portfolio

The table on page 73 sets out an analysis of the loan portfolio between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired.

Loans to banks have increased by $13.3 billion in 2011 since 31 December 2010. Most of the Group's loans to financial institutions are in the credit grade 1-5 category as we lend in the interbank market to highly rated counterparties. Exposure in the credit grade 6-8 category predominantly relates to trade finance business with financial institutions in our core markets.

In the Wholesale Banking corporate portfolio, the negative credit grade migration observed during 2009 stabilised in 2010, and in 2011 the trend has been largely positive. This is also reflected in the level of early alert accounts throughout the period, which remain at a low level.

Total loans to Wholesale Banking customers increased by $17.3 billion, or 13 per cent, since December 2010. As at 31 December 2011 only 2.8 per cent of the loans are either past due or individually impaired remaining stable from 31 December 2010. The increase in loans to customers is due to increased commercial lending, corporate finance and trade financing activity as Wholesale Banking deepens relationships in core markets.

Consumer Banking loans to customers increased by $5.1 billion, or 4 per cent, since December 2010. The mortgage portfolio makes up 57 per cent of the Consumer Banking portfolio as at 31 December 2011, is well collateralised and has an average loan to value ratio of 49 per cent. The proportion of past due or individually impaired loans has increased to 4.2 per cent as at 31 December 2011 compared with 3.7 per cent as at 31 December 2010, largely driven though by an increase in loans in the less than 30 days past due category. In a high proportion of cases the overdue amounts are collected well before they reach more than 30 days past due.

	2011				2010			
	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	**54,838**	**59,755**	**52,940**	**112,695**	42,979	48,518	54,603	103,121
– Grades 6-8	**10,432**	**60,162**	**40,238**	**100,400**	9,263	55,577	35,521	91,098
– Grades 9-11	**980**	**22,925**	**22,579**	**45,504**	843	21,914	21,219	43,133
– Grade 12	**76**	**1,674**	**1,835**	**3,509**	19	1,564	1,983	3,547
	66,326	**144,516**	**117,592**	**262,108**	53,104	127,573	113,326	240,899
Past due but not individually impaired loans								
– Up to 30 days past due	**75**	**577**	**3,187**	**3,764**	5	223	2,587	2,810
– 31-60 days past due	**–**	**129**	**477**	**606**	1	190	412	602
– 61-90 days past due	**–**	**203**	**217**	**420**	–	137	223	360
– 91-150 days past due	**–**	**–**	**154**	**154**	–	–	181	181
	75	**909**	**4,035**	**4,944**	6	550	3,403	3,953
Individually impaired loans	**232**	**3,262**	**1,089**	**4,351**	249	3,209	927	4,136
Individually impairment provisions	**(82)**	**(1,399)**	**(491)**	**(1,890)**	(93)	(1,318)	(506)	(1,824)
Net individually impaired loans	**150**	**1,863**	**598**	**2,461**	156	1,891	421	2,312
Total loans and advances	**66,551**	**147,288**	**122,225**	**269,513**	53,266	130,014	117,150	247,164
Portfolio impairment provision	**(2)**	**(326)**	**(434)**	**(760)**	(2)	(309)	(451)	(760)
	66,549	**146,962**	**121,791**	**268,753**	53,264	129,705	116,699	246,404
Of which, held at fair value through profit or loss:								
Neither past due nor individually impaired								
– Grades 1-5	**217**	**1,599**	**–**	**1,599**	295	1,174	–	1,174
– Grades 6-8	**351**	**2,651**	**–**	**2,651**	904	4,118	–	4,118
– Grades 9-11	**–**	**563**	**–**	**563**	7	586	–	586
– Grade 12	**–**	**175**	**–**	**175**	–	168	–	168
	568	**4,988**	**–**	**4,988**	1,206	6,046	–	6,046

Risk review continued

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

	2011			2010		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
Net impaired securities:						
Impaired securities	432	–	432	241	–	241
Impairment	(187)	–	(187)	(180)	–	(180)
	245	–	245	61	–	61
Securities neither past due nor impaired:						
AAA	15,164	3,285	18,449	10,427	2,791	13,218
AA- to AA+	18,806	7,959	26,765	19,689	8,562	28,251
A- to A+	23,849	8,712	32,561	18,384	8,378	26,762
BBB- to BBB+	7,090	4,396	11,486	8,078	2,516	10,594
Lower than BBB-	2,435	1,347	3,782	2,947	1,361	4,308
Unrated	6,541	590	7,131	7,615	485	8,100
	73,885	26,289	100,174	67,140	24,093	91,233
	74,130	26,289	100,419	67,201	24,093	91,294
Of which:						
Assets at fair value[1]						
Trading	13,025	4,609	17,634	11,781	5,933	17,714
Designated at fair value	45	–	45	36	265	301
Available-for-sale	55,567	21,680	77,247	50,555	17,895	68,450
	68,637	26,289	94,926	62,372	24,093	86,465
Assets at amortised cost[1]						
Loans and receivables	5,475	–	5,475	4,804	–	4,804
Held-to-maturity	18	–	18	25	–	25
	5,493	–	5,493	4,829	–	4,829
	74,130	26,289	100,419	67,201	24,093	91,294

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

The impaired debt securities includes the Group's holdings of asset backed securities, on which a $7 million (2010: $22 million) impairment charge was taken in 2011. The increase in impaired securities in 2011 is due to a bond investment in India arising from credit concerns around the issuer. The movement in impairment provisions for securities classified as loans and receivables is set out in note 21 to the financial statements.

The above table also analyses debt securities and treasury bills that are neither past due nor impaired by external credit rating. The standard credit ratings used by the Group are those used by Standard & Poor's or their equivalent. Debt securities held that have a short-term rating are reported against the long-term rating of the issuer. For securities that are unrated, the Group applies an internal credit rating as described under Loans and advances.

Unrated securities primarily relate to corporate issuers. Using internal credit ratings, $6,254 million (2010: $6,775 million), of these securities are considered to be equivalent to investment grade.

Asset backed securities

Total exposures to asset backed securities

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

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

The carrying value of asset backed securities (ABS) represents 0.3 per cent (2010: 0.5 per cent) of our total assets.

The notional value of the ABS portfolio fell by approximately $251 million during 2011 due to natural redemptions in the portfolio and some asset sales. The difference between carrying value and fair value of the remaining portfolio is $26 million as at 31 December 2011 (2010: $77 million), benefiting from both the redemptions and a recovery in market prices in certain asset classes.

The credit quality of the asset backed securities portfolio remains strong. With the exception of those securities subject to an impairment charge 80 per cent of the overall portfolio is rated A or better, and 15 per cent of the overall portfolio is rated as AAA. The portfolio is broadly diversified across asset classes and geographies, and there is no direct exposure to the US sub-prime market. The portfolio has an average credit grade of A+.

The Group reclassified some ABS from trading and available-for-sale to loans and receivables with effect from 1 July 2008. The securities were reclassified at their fair value on the date of reclassification. Note 15 to the financial statements provides details of the remaining balance of those assets reclassified in 2008. No assets have been reclassified since 2008.

Financial statement impact of asset backed securities

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

Risk review continued

Selected European country exposures

The following table summarises the Group's exposure (both on and off balance sheet) to certain specific European countries within the eurozone that have been identified on the basis of their higher bond yields experienced during the year compared with the rest of the eurozone. Direct gross exposures represent balance sheet outstandings (including any accrued interest but before provisions) and positive mark-to-market amounts on derivatives, before netting. Exposures are assigned to a country based on incorporation country of the counterparty.

The Group has no direct sovereign exposure (as defined by the EBA) to Greece, Ireland, Italy, Portugal and Spain (GIIPS) and only $0.2 billion direct sovereign exposure to other eurozone countries.

The Group's non-sovereign exposures to GIIPS is $3.2 billion ($1.8 billion after collateral and netting). Non-sovereign exposure to other eurozone countries is $23.2 billion after collateral and netting, and primarily relates to France, Germany and the Netherlands. Of this, $16 billion relates to banks (including central banks) and other financial institutions. The Group conducts stress tests around eurozone scenarios in order to assess second order impact on the portfolio and take mitigating actions.

	2011					
Country	Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
Direct sovereign exposure	–	–	–	–	–	–
Banks	5	1,143	411	121	401	2,081
Other financial institutions	–	752	4	–	16	772
Other corporate	42	47	208	23	55	375
Total gross exposure	**47**	**1,942**	**623**	**144**	**472**	**3,228**
Direct sovereign exposure	–	–	–	–	–	–
Banks	–	(1,136)	(29)	–	(196)	(1,361)
Other financial institutions	–	–	(4)	–	–	(4)
Other corporate	(5)	(43)	(2)	–	–	(50)
Total collateral/netting	**(5)**	**(1,179)**	**(35)**	**–**	**(196)**	**(1,415)**
Direct sovereign exposure	–	–	–	–	–	–
Banks	5	7[1]	382	121	205	720
Other financial institutions	–	752[2]	–	–	16	768
Other corporate	37	4	206	23	55	325
Total net exposure	**42**	**763**	**588**	**144**	**276**	**1,813**

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

Approximately 70 per cent of the Group's gross exposures to GIIPS relate to derivatives, and this also forms nearly all of the exposures in Ireland. Derivative exposures to GIIPS are primarily interest rate and foreign exchange related. Of the remaining 30 per cent, the majority represents trade-related instruments carried at amortised cost or held off balance sheet. The amount of gross off-balance sheet exposures included in the table above is $1.1 billion. The majority of the GIIPS total exposures have a tenor of less than three years. There was no objective evidence of impairment in respect of these exposures as at 31 December 2011.

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, Indonesia and Singapore has risen significantly over the past year, reflecting our business focus and continued expansion in our core countries.

For China the increase was driven initially by banks making increased use of foreign currency funding for their trade finance activities and latterly by significant increases in CNY deposits with our Hong Kong offices that were placed with Chinese banks. A sizeable portion of these deposits were also placed with Hong Kong banks boosting our exposure there.

India cross-border exposure reflects financing of overseas acquisitions by Indian corporate clients and continued growth in short-term trade business.

In Indonesia there is significant growth in cross-border exposure due to increased client demand for US dollar loans, principally from local corporates.

For Singapore, increased exposure reflected growth across businesses but particularly higher fixed income trading and interbank lending.

The growth in onshore client commodity holdings in the US has contributed significantly to the higher cross-border exposure.

Cross-border exposure to countries in which we do not have a significant presence predominantly relates to short-dated money market activity, and some global corporate business. Such business is originated in our footprint countries with counterparties domiciled outside our footprint. This explains our significant exposure in the US and Switzerland.

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

	31 December 2011			31 December 2010		
	One year or less $million	**Over one year $million**	**Total $million**	One year or less $million	Over one year $million	Total $million
China	**24,351**	**10,497**	**34,848**	12,623	7,131	19,754
India	**12,061**	**16,904**	**28,965**	13,117	12,706	25,823
US	**17,581**	**4,728**	**22,309**	13,857	4,226	18,083
Hong Kong	**16,796**	**4,586**	**21,382**	12,781	5,542	18,323
Singapore	**13,372**	**5,158**	**18,530**	11,692	3,514	15,206
UAE	**6,691**	**10,687**	**17,378**	5,927	10,717	16,644
South Korea	**6,931**	**7,138**	**14,069**	7,488	5,846	13,334
Switzerland	**4,897**	**3,939**	**8,836**	3,918	2,362	6,280
Indonesia	**3,949**	**3,395**	**7,344**	2,782	2,231	5,013

Risk review continued

Market risk

We recognise market risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. Our exposure to market risk arises principally from customer-driven transactions. The objective of our market risk policies and processes is to obtain the best balance of risk and return whilst meeting customers' requirements.

The primary categories of market risk for Standard Chartered are:

- interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options
- currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options
- commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; covering energy, precious metals, base metals and agriculture
- equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options

Market risk governance

The GRC approves our market risk appetite taking account of market volatility, the range of products and asset classes, business volumes and transaction sizes. Market risk exposures have remained broadly stable in 2011.

The Group Market Risk Committee (GMRC), under authority delegated by the GRC, is responsible for setting VaR and stress loss triggers for market risk within our risk appetite. The GMRC is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books of the Group. The trading book is defined as per the FSA Handbook's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). This is more restrictive than the broader definition within IAS 39 'Financial Instruments: Recognition and Measurement', as the FSA only permits certain types of financial instruments or arrangements to be included within the trading book. Limits by location and portfolio are proposed by the businesses within the terms of agreed policy.

Group Market Risk (GMR) approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to a one basis point increase in yields, whereas foreign exchange, commodity and equity sensitivities are measured in terms of the underlying values or amounts involved. Option risks are controlled through revaluation limits on underlying price and volatility shifts, limits on volatility risk and other variables that determine the option's value.

Value at Risk (VaR)

We measure the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit and loss outcome.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

We apply two VaR methodologies:

- historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors
- Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for credit spread VaR

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

VaR is calculated as our exposure as at the close of business, generally London time. Intra-day risk levels may vary from those reported at the end of the day.

Back testing

To assess their predictive power, VaR models are back tested against actual results. In 2011 there have been four exceptions in the regulatory back testing, compared with one in 2010. This is within the 'green zone' applied internationally to internal models by bank supervisors, and implies that model reliability is statistically greater than 95 per cent.

Stress testing

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations.

GMR complements the VaR measurement by weekly stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. The GMRC has responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. The GRC considers the results of stress tests as part of its supervision of risk appetite.

Regular stress test scenarios are applied to interest rates, credit spreads, exchange rates, commodity prices and equity prices. This covers all asset classes in the Financial Markets banking and trading books.

Ad hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

Market risk changes

Total average VaR and Trading book average VaR in 2011 have dropped slightly compared with 2010. Non-trading book average VaR has risen by 10 per cent, with increased non-trading equity risk in the Private Equity portfolio. Within the Trading book, Commodities average VaR in 2011 was 16 per cent higher than in 2010, which reflects increased volatility in the commodities markets in 2011. Foreign exchange average VaR, however was 23 per cent lower.

Daily value at risk (VaR at 97.5%, 1 day)

	2011				2010			
	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]	20.4	25.1	15.2	23.5	20.1	25.5	16.3	19.2
Foreign exchange risk	4.3	8.8	2.6	3.4	5.6	12.5	3.1	7.6
Commodity risk	2.2	3.7	1.1	1.2	1.9	4.0	0.7	3.5
Equity risk	11.2	13.9	9.0	12.7	9.5	11.3	6.9	10.7
Total[2]	21.4	27.7	15.3	24.5	22.1	31.0	17.3	25.2
Trading								
Interest rate risk[1]	8.4	11.4	5.4	8.7	8.7	11.9	5.1	6.7
Foreign exchange risk	4.3	8.8	2.6	3.4	5.6	12.5	3.1	7.6
Commodity risk	2.2	3.7	1.1	1.2	1.9	4.0	0.7	3.5
Equity risk	1.9	3.1	1.1	1.1	1.9	2.9	1.2	1.4
Total[2]	10.7	14.4	7.0	9.7	11.2	16.7	8.1	9.6
Non-trading								
Interest rate risk[1]	16.0	21.6	11.1	20.1	15.0	22.2	11.2	14.3
Equity risk	11.4	13.7	9.4	12.7	9.4	10.8	8.1	10.0
Total[2]	19.2	25.3	11.0	22.6	17.4	23.2	13.5	16.9

1 Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale
2 The total VaR shown in the tables above is not a sum of the component risks due to offsets between them
3 Highest and lowest VaR for each risk factor are independent and usually occur on different days
4 Actual one day VaR at period end date

Risk review continued

Average daily income earned from market risk related activities

	2011 $million	2010 $million
Trading		
Interest rate risk	**4.6**	4.8
Foreign exchange risk	**5.7**	4.7
Commodity risk	**2.0**	1.3
Equity risk	**0.3**	0.4
Total	**12.6**	11.2
Non-Trading		
Interest rate risk	**3.6**	3.6
Equity risk	**(0.4)**	0.5
Total	**3.2**	4.1

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 next column) in the same way as for the trading book, including listed available for sale securities. Securities classed as Loans and receivables or Held to maturity are not reflected in VaR or stress tests since they are accounted on an amortised cost basis and are match funded, so market price movements have no effect on either profit and loss or reserves.

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

Equity risk relating to non-listed Private Equity and strategic investments is not included within the VaR. It is separately managed through delegated limits for both investment and divestment, and is also subject to regular review by an investment committee. These are included as Level 3 assets as disclosed in note 15 to the financial statements.

Group Treasury market risk

Group Treasury raises debt and equity capital and the proceeds are invested within the Group as capital or placed with ALM. Interest rate risk arises due to the investment of equity and reserves into rate-sensitive assets, as well as some tenor mismatches between debt issuance and placements. This risk is measured as the impact on net interest income (NII) of an unexpected and instantaneous adverse parallel shift in rates and is monitored over a rolling one-year time horizon (see table below).

This risk is monitored and controlled by the Group's Capital Management Committee (CMC).

NII sensitivity to parallel shifts in yield curves

	2011 $million	2010 $million
+25 basis points	**30.9**	29.9
–25 basis points	**(30.9)**	(29.9)

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. At 31 December 2011, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial instruments) of $1,115 million (2010: $1,112 million) to partly cover its exposure to Korean won.

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

	2011 $million	2010 $million
Hong Kong dollar	**5,712**	5,817
Korean won	**5,316**	5,266
Indian rupee	**3,305**	3,400
Taiwanese dollar	**2,847**	2,606
Chinese yuan	**1,993**	1,420
Singapore dollar	**1,791**	841
Thai baht	**1,514**	1,495
UAE dirham	**1,490**	1,343
Malaysian ringgit	**1,213**	1,047
Indonesian rupiah	**892**	882
Pakistani rupee	**639**	614
Other	**3,152**	2,838
	29,864	27,569

An analysis has been performed on these exposures to assess the impact of a one per cent fall in the US dollar exchange rates adjusted to incorporate the impacts of correlations of these currencies to the US dollar. The impact on the positions above would be an increase of $221 million (2010: $197 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 *Financial Instruments: Recognition and Measurement* (IAS 39), hedges are classified into three types: fair value hedges, predominantly where fixed rates of interest or foreign exchange are exchanged for floating rates; cash flow hedges, predominantly where variable rates of interest or foreign exchange are exchanged for fixed rates; and hedges of net investments in overseas operations translated to the parent company's functional currency, US dollars.

The use of interest rate swaps for the purpose of fair value and cash flow hedging increased in 2011 compared with December 2010, as we continued to focus on liquidity management together with an active balance sheet hedging strategy. The notional amounts of interest rate swaps used for fair value hedges increased by $12 billion compared with 2010, largely due to the hedging of increased debt security positions in the UK. The notional amounts of interest rate swaps used for cash flow hedging increased by $5 billion compared with 2010, primarily to hedge floating rate mortgages in Singapore and reflecting increased time deposit growth in Hong Kong. Forward foreign exchange contracts used for cash flow hedging increased as we switched from using foreign exchange options to hedge costs.

We may also, under certain individually approved circumstances, enter into economic hedges that do not qualify for IAS 39 hedge accounting treatment, and which are accordingly marked to market through the profit and loss account, thereby creating an accounting asymmetry. These are entered into primarily to ensure that residual interest rate and foreign exchange risks are being effectively managed. Current economic hedge relationships include hedging the foreign exchange risk on certain debt issuances and on other monetary instruments held in currencies other than US dollars.

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 that the balance sheet remains structurally sound and aligned to our strategy.

Risk review continued

The GALCO is the responsible governing body that approves our liquidity management policies. The Liquidity Management Committee (LMC) receives authority from the GALCO and is responsible for setting or delegating authority to set liquidity limits and proposing liquidity risk policies. Liquidity in each country is managed by the Country ALCO within the pre-defined liquidity limits set by the LMC and in compliance with Group liquidity policies and practices and local regulatory requirements. GMR and Group Treasury propose and oversee the implementation of policies and other controls relating to the above risks.

We seek to manage our liquidity prudently in all geographical locations and for all currencies. Exceptional market events can impact us adversely, thereby affecting our ability to 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 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, repo'd or used as collateral in the event that there is a need for liquidity in a crisis. In addition, liquidity crisis management plans are maintained by Group and within each country, and are reviewed and approved annually. The liquidity crisis management plan lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by senior management.

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

Primary sources of funding

A substantial portion of our assets is funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. The ALCO in each country monitors trends in the balance sheet and ensures that any concerns that might impact the stability of these deposits are addressed effectively. The ALCO also reviews balance sheet plans to ensure that projected asset growth is matched by growth in the stable funding base.

We maintain access to wholesale funding markets in all major financial centres and countries in which we operate as well as to commercial paper issuance. This seeks to ensure that we have flexibility around maturity transformation, have market intelligence, maintain stable funding lines and can obtain optimal pricing when we perform our interest rate risk management activities.

Encumbered assets

Encumbered assets include those assets pledged or used as collateral and primarily relate to assets pledged as collateral in respect of repo transactions. Details of the amount and types of assets pledged in relation to repo is set out in note 43 to the financial statements on page 230. Hong Kong government certificates of indebtedness (included within other assets) are also considered to be encumbered as they secure the equivalent amount of Hong Kong currency notes in circulation (included with other liabilities). Taken together, these encumbered assets comprise 1 per cent (2010: 1 per cent) of total assets.

Liquidity metrics

We also monitor key liquidity metrics on a regular basis, both on a country basis and in aggregate across the Group. The key metrics are:

Advances-to-deposits ratio

This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances-to-deposits ratio demonstrates that customer deposits exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.

	2011 $million	2010 $million
Loans and advances to customers[1]	**268,753**	246,404
Customer accounts[2]	**351,819**	316,502
	%	%
Advances-to-deposits ratio	**76.4**	77.9

1 See note 19 to the financial statements on page 202
2 See note 29 to the financial statements on page 212

Liquid asset ratio

This is the ratio of liquid assets to total assets. The significant level of holdings of liquid assets in the balance sheet reflects the application of our liquidity policies and practices. The following table shows the ratio of liquid assets to total assets:

	2011 %	2010 %
Liquid assets[1] to total assets ratio	**27.5**	26.6

1 Liquid assets are the total of Cash (less restricted balances), net unsecured interbank, treasury bills and debt securities less illiquid securities

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 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.

	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	24,679	12,019	67,933
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	65,405	75,602	268,753
Investment securities[1]	20,695	32,456	41,208	10,196	104,555
Other assets	14,898	5,966	310	22,742	43,916
Total assets	217,796	115,352	134,871	131,051	599,070
Liabilities					
Deposits by banks[1]	34,092	1,488	524	284	36,388
Customer accounts[1]	297,054	40,242	7,284	7,239	351,819
Derivative financial instruments	11,621	19,232	23,251	11,822	65,926
Debt securities in issue[1]	24,549	7,993	16,518	2,513	51,573
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	386,481	71,271	49,451	50,492	557,695
Net liquidity gap	(168,685)	44,081	85,420	80,559	41,375

1 Amounts include financial instruments held at fair value through profit or loss (see note 15 to the financial statements on page 190)

Risk review continued

	2010				
	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	25,339	–	–	7,385	32,724
Derivative financial instruments	9,204	12,182	19,596	6,877	47,859
Loans and advances to banks[1]	39,800	10,715	2,391	358	53,264
Loans and advances to customers[1]	81,268	35,921	55,450	73,765	246,404
Investment securities[1]	20,269	32,564	29,091	13,641	95,565
Other assets[2]	13,831	5,839	65	21,009	40,744
Total assets	189,711	97,221	106,593	123,035	516,560
Liabilities					
Deposits by banks[1]	26,565	2,258	498	153	29,474
Customer accounts[1]	269,213	37,464	6,943	2,882	316,502
Derivative financial instruments	9,159	11,887	19,606	6,481	47,133
Debt securities in issue[1]	10,817	9,052	13,691	1,131	34,691
Other liabilities[2]	16,153	2,602	911	14,290	33,956
Subordinated liabilities and other borrowed funds	5	290	918	14,726	15,939
Total liabilities	331,912	63,553	42,567	39,663	477,695
Net liquidity gap	(142,201)	33,668	64,026	83,372	38,865

1 Amounts include financial instruments held at fair value through profit or loss (see note 15 to the financial statements on page 190)
2 Amounts have been restated. See note 46 to the financial statements

Behavioural maturity of financial liabilities

As discussed on page 83, 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 83 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:

	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**
Deposits by banks	**33,717**	**1,745**	**628**	**298**	**36,388**
Customer accounts	**139,369**	**57,673**	**125,291**	**29,486**	**351,819**
Total	**173,086**	**59,418**	**125,919**	**29,784**	**388,207**

	2010				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Total $million
Deposits by banks	25,306	3,124	892	152	29,474
Customer accounts	130,275	49,199	113,105	23,923	316,502
Total	155,581	52,323	113,997	24,075	345,976

Financial liabilities (excluding derivative financial instruments) on an undiscounted basis

The following table analyses the contractual cash flows payable for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the table below will not agree to the balances reported in the consolidated balance sheet as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

Within the 'More than five years and undated' maturity band are undated financial liabilities of $3,417 million (2010: $3,318 million), all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful. Interest payments on these instruments are included within the maturities up to five years.

	2011				2010			
	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[2]	**34,184**	**1,549**	**635**	**330**	24,463	2,623	523	169
Customer accounts[2]	**298,211**	**41,538**	**8,151**	**5,954**	263,081	38,288	7,644	4,488
Debt securities in issue[1,2]	**24,967**	**8,475**	**17,512**	**3,393**	11,426	11,512	12,301	3,274
Subordinated liabilities and other borrowed funds[1]	**166**	**600**	**4,436**	**18,505**	205	876	3,391	24,718
Other liabilities	**23,151**	**2,322**	**771**	**9,332**	22,560	2,683	659	9,155
Total liabilities	**380,679**	**54,484**	**31,505**	**37,514**	321,735	55,982	24,518	41,804
Gross loan commitments	**70,558**	**22,349**	**3,968**	**1,120**	61,642	18,746	13,476	1,739

1 Amounts have been re-presented for 2010
2 Amounts include financial instruments held at fair value through profit and loss (see note 15 to the financial statements on page 190)

Derivatives financial instruments on an undiscounted basis

Derivative financial instruments include those net settled derivative contracts in a net liability position, together with the pay leg of gross settled contracts regardless of whether the overall contract is in an asset or liability position. The receiving leg is not shown in this table and as a result the derivative amounts in this table are inflated by their exclusion.

	2011				2010			
	Three months or less $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	**352,344**	**272,637**	**169,305**	**24,964**	285,164	187,036	126,684	21,961

Operating and financial review

Risk review continued

Operational risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. We seek to minimise our exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The Group Operational Risk Committee oversees the management of operational risks across the Group, supported by business, functional, and country-level committees. This formal structure of governance provides the GRC with confidence that operational risks are being proactively identified and effectively managed.

Group Operational Risk is responsible for setting and maintaining standards for operational risk management and measurement. In addition specialist operational Risk Control Owners have responsibility for the management of operational risk arising from the following activities Group-wide: legal processes, people management, technology management, vendor management, property management, security management, accounting and financial control, tax management, corporate authorities and structure and regulatory compliance. (See additional information relating to regulatory compliance under 'Regulatory changes and compliance' on page 53).

Each Risk Control Owner is responsible for identifying risks that are material to the Group and for maintaining an effective control environment, which includes defining appropriate policies and procedures for approval by authorised risk committees.

Reputational risk

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

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

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

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

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

- Promote awareness and application of our policies and procedures regarding reputational risk
- Encourage business and functions to take account of our reputation in all decision-making, including dealings with customers and suppliers
- Implement effective in-country reporting systems to ensure they are aware of all potential issues in tandem with respective business committees
- Promote effective, proactive stakeholder management through ongoing engagement

Pension risk

Pension risk is the potential for loss due to having to meet an actuarially assessed shortfall in the Group's pension schemes. Pension risk exposure is not concerned with the financial performance of our pension schemes but is focused upon the risk to our financial position arising from our need to meet our pension scheme funding obligations. The risk assessment is focused on our obligations towards our major pension schemes, ensuring that our funding obligation to these schemes is comfortably within our financial capacity. Pension risk is monitored on a quarterly basis, taking account of the actual variations in asset values and updated expectations regarding the progression of the pension fund assets and liabilities.

The Group Pension Risk Committee is the body responsible for governance of pension risk and it receives its authority from GRC.

Capital
Strong capital position to meet customers' and clients' needs

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

Our highlights and achievements in 2011

- Strongly capitalised with a focus on Tier 1, 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 customers and clients
- Whilst we have greater clarity on global regulatory standards and the timelines for transition, significant uncertainty still remains around the specific application and the combined impact of these proposals

The following parts of Capital form part of the audited financial statements: from the start of 'Capital management' on page 87 to the end of 'Movement in Core Tier 1' capital on page 90.

Capital management

Our approach to capital management is driven by our desire to maintain a strong capital base to support the development of our business, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic, business and capital plans are drawn up annually covering a five-year horizon and are approved by the Board. The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained to support our strategy.

The capital plan takes the following into account:

- current regulatory capital requirements and our assessment of future standards
- demand for capital due to business growth forecasts, loan impairment outlook and market shocks or stresses
- forecast demand for capital to support credit ratings and as a signalling tool to the market
- available supply of capital and capital-raising options

We use a capital model to assess the capital demand for material risks, and support this with our internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined. The capital modelling process is a key part of our management disciplines.

A strong governance and process framework is embedded in our capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board. The Board Risk Committee reviews specific risk areas and the issues discussed at the key capital management committees, namely the Capital Management Committee and the Group Asset and Liability Committee (GALCO).

Current compliance with Capital Adequacy Regulations

Our lead supervisor is the UK's Financial Services Authority (FSA). The capital that we are required to hold by the FSA is determined by our balance sheet, off-balance sheet, counterparty and other risk exposures. Further detail on counterparty and risk exposures is included in the Risk review on pages 50 to 86.

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 89 summarises the consolidated capital position of the Group.

Capital continued

Basel II

The Group complies with the Basel II framework, which has been implemented in the UK through the FSA's general prudential sourcebook and its prudential sourcebook for banks, building societies and investment firms.

From 1 January 2008, we have been using the advanced Internal Ratings Based (IRB) approach for the measurement of credit risk capital. This approach builds on our risk management practices and is the result of a significant investment in data warehousing and risk models.

We use Value at Risk (VaR) models for the measurement of market risk capital for part of our trading book exposures where permission to use such models has been granted by the FSA. Where our market risk exposures are not approved for inclusion in VaR models, the capital requirements are determined using standard rules provided by the regulator.

We apply the Standardised Approach for determining the capital requirements for operational risk.

Basel III

The Basel III rules text published in December 2010 by the Basel Committee on Banking Supervision (BCBS) serves to bring together the details of global regulatory standards on bank capital adequacy and liquidity. While these give us greater clarity on the global regulatory standards and the various timelines for transition, significant uncertainty remains around the specific application and the combined impact of these proposals, in particular their effect at Group level via the implementation of changes to European Union legislation (the package of reforms commonly referred to as the Capital Requirements Directive IV (CRD IV)).

In light of the uncertain economic environment and evolving regulatory debate on banks' capital structures, we continue to believe it is appropriate to remain strongly capitalised.

Capital base

	2011 $million	2010 $million
Shareholders' equity		
Parent company shareholders' equity per balance sheet	**40,714**	38,212
Preference share classified as equity included in Tier 1 capital	**(1,494)**	(1,494)
	39,220	36,718
Non-controlling interests		
Non-controlling interests per balance sheet	**661**	653
Non-controlling Tier 1 capital included in other Tier 1 capital	**(320)**	(321)
	341	332
Regulatory adjustments		
Unrealised losses on available-for-sale debt securities	**282**	175
Unrealised gains on available-for-sale equity securities included in Tier 2 capital	**(241)**	(530)
Cash flow hedge reserve	**13**	(58)
Other adjustments	**(46)**	(46)
	8	(459)
Deductions		
Goodwill and other intangible assets	**(7,061)**	(6,998)
50 per cent of excess of expected losses[1]	**(702)**	(664)
50 per cent of tax on expected losses	**186**	185
50 per cent of securitisation positions	**(106)**	(132)
Other regulatory adjustments	**(53)**	(60)
	(7,736)	(7,669)
Core Tier 1 capital	**31,833**	28,922
Other Tier 1 capital		
Preference shares included within shareholder's equity	**1,494**	1,494
Preference shares included within 'Subordinated debt and other borrowings'	**1,194**	1,192
Innovative Tier 1 securities (excluding non-controlling Tier 1 capital)	**2,506**	2,507
Non-controlling Tier 1 capital	**320**	321
	5,514	5,514
Deductions		
50 per cent of tax on expected losses	**186**	185
50 per cent of material holdings	**(521)**	(326)
	(335)	(141)
Total Tier 1 capital	**37,012**	34,295
Tier 2 capital:		
Qualifying subordinated liabilities:[2]		
Subordinated liabilities and other borrowed funds per balance sheet	**16,717**	15,939
Preference shares eligible for Tier 1 capital	**(1,194)**	(1,192)
Innovative Tier 1 securities eligible for Tier 1 capital	**(2,506)**	(2,507)
Adjustments relating to fair value hedging and non-eligible securities	**(1,669)**	(1,144)
	11,348	11,096
Regulatory adjustments		
Reserves arising on revaluation of available-for-sale equities	**241**	530
Portfolio impairment provision	**239**	266
	480	796
Deductions		
50 per cent of excess of expected losses[1]	**(702)**	(664)
50 per cent of material holdings	**(521)**	(326)
50 per cent of securitisation positions	**(106)**	(132)
	(1,329)	(1,122)
Total Tier 2 capital	**10,499**	10,770
Deductions from Tier 1 and Tier 2 capital	**(4)**	(3)
Total capital base	**47,507**	45,062

1 Excess of expected losses in respect of advanced IRB portfolios are shown gross
2 Consists of perpetual subordinated debt $1,489 million (2010: $1,494 million) and other eligible subordinated debt $9,859 million (2010: $9,602 million)

Capital continued

Movement in Core Tier 1 capital

	2011 $million	2010 $million
Opening Core Tier 1 capital	**28,922**	19,102
Ordinary shares issued during the year and share premium	**64**	719
Rights issue	**–**	5,137
Profit for the year	**4,849**	4,332
Dividends, net of scrip	**(1,152)**	(745)
Change in goodwill and other intangible assets	**(63)**	(378)
Foreign currency translation differences	**(982)**	773
Other	**195**	(18)
Closing Core Tier 1 capital	**31,833**	28,922

Non-Core Tier 1 capital decreased by $194 million since 31 December 2010 due to increased material holdings deductions. Tier 2 capital decreased by $271 million since 31 December 2010 largely due to increased material holdings deductions and excess expected losses.

Risk weighted assets and capital ratios

	2011 $million	2010 $million
Risk weighted assets		
Credit risk	**220,394**	202,333
Operational risk	**28,762**	26,972
Market risk	**21,354**	15,772
Total risk weighted assets	**270,510**	245,077
Capital ratios		
Core Tier 1 capital	**11.8%**	11.8%
Tier 1 capital	**13.7%**	14.0%
Total capital ratio	**17.6%**	18.4%

Risk weighted assets by business and geography

	2011 $million	2010 $million
Consumer Banking	**71,970**	67,551
Wholesale Banking	**198,540**	177,526
Total risk weighted assets	**270,510**	245,077
Hong Kong	**31,528**	31,138
Singapore	**36,465**	29,294
Korea	**25,447**	25,707
Other Asia Pacific	**54,349**	46,896
India	**21,266**	19,247
Middle East & Other S Asia	**33,477**	32,952
Africa	**12,047**	11,220
Americas, UK & Europe	**63,976**	55,505
	278,555	251,959
Less: Intra-group balances[1]	**(8,045)**	(6,882)
Total risk weighted assets	**270,510**	245,077

1 Intra-group balances are netted in calculating capital ratios

Risk weighted contingent liabilities and commitments[2]

	2011 $million	2010 $million
Contingent liabilities	**12,917**	15,266
Commitments	**10,135**	10,394

2 Include amounts relating to the Group's share of its joint ventures

Risk weighted assets (RWA) increased by $25.4 billion, or 10 per cent, compared with 31 December 2010, with an increase in Wholesale Banking and Consumer Banking of $21.0 billion and $4.4 billion respectively. Wholesale Banking RWA growth was concentrated in Hong Kong, Singapore, Other Asia Pacific and in the UK and Europe. Consumer Banking RWA growth was mainly in Singapore and Hong Kong.

Wholesale Banking credit risk RWA increased by $13.4 billion. $15.1 billion was driven by asset growth in Americas, UK & Europe, Singapore, Hong Kong and Other Asia Pacific mitigated by RWA efficiencies of $0.5 billion due to higher collateral recoveries. Credit migration further reduced RWA by $1.2 billion driven by internal rating upgrades in Americas, UK & Europe.

The growth in Consumer Banking credit risk RWA, of $4.6 billion is attributable to Retail $2.7 billion, SME $2.4 billion and Wealth Management $1.4 billion less $1.1 billion due to foreign exchange movements and a $0.8 billion decline in mortgage assets.

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. Positions outside the CAD2 scope are assessed according to standard FSA rules.

At 31 December 2011 our market risk RWA was $21.4 billion (2010: $15.8 billion). The increase was primarily driven by the introduction of CRD3, which increased the market risk RWA by $3.5 billion. Also the equities derivatives RWA increased by $2.1 billion as the business grew during the year. The Equity business is not covered under CAD2 and therefore follows the standard capital rules. There was also movement in RWA caused by changes in the underlying positions with structured products increasing by $0.5 billion offset by bonds and credit derivatives decreasing by $0.5 billion. Of the total market risk RWA, 30 per cent is subject to CAD2 internal models and 70 per cent is under standard rules.

Operational risk RWA increased by $1.8 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

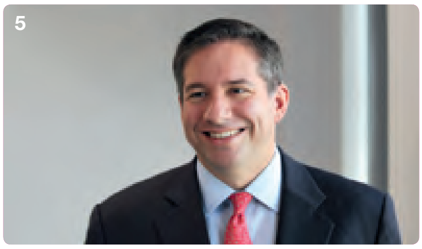
The Group estimates that the impact of adjustments to RWA and regulatory capital as a result of Basel III will reduce the Group's future Core Tier I capital ratio by around 100 basis points. The actual outcome will depend on how the emerging rules are implemented, what the future shape of the Group is and the extent to which the Group's regulators give recognition to the Group's schedule of model-based calculation of RWA.

Johannesburg, South Africa

Corporate governance

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, 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 Djanolgy City Academy in Nottingham since 1999, is deputy lieutenant of Nottinghamshire and in April 2011 became High Sheriff of Nottinghamshire. Sir John brings extensive international experience and exemplary governance credentials. He was knighted in 2011 for services to business and the voluntary sector. Age 63.

2. Peter Sands
Group Chief Executive

Peter was appointed Group Chief Executive on 20 November 2006. He joined the Board as Group Finance Director on 14 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 50.

3. Rudy Markham
Senior Independent
Non-Executive Director

Rudy joined the Board on 19 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, a member of the supervisory 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 and a member of the board of the Financial Reporting Council. 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. 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 which is invaluable to the Board, the Audit Committee, the Board Risk Committee, the Nomination Committee and the Governance Committee. Age 66.

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 based in London and 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, which prevents avoidable blindness for thousands of individuals around the world. Age 54.

5. Steve Bertamini
Group Executive Director

Steve joined Standard Chartered as Group Executive Director and Chief Executive Officer, Consumer Banking on 19 May 2008 and was appointed to the Board on 1 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. Steve is based in Singapore. Age 47.

6. Jaspal Bindra
Group Executive Director

Jaspal was appointed to the Board on 1 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 there across treasury markets and consumer banking in India and Singapore. Jaspal also leads Standard Chartered's award-winning work on diversity and inclusion. As chairman 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 Employers' Forum on Disability in the UK, and also sits on the board of governors of XLRI School of Business & Human Resources, India. Age 51.

7. Richard Delbridge
Non-Executive Director

Richard joined the Board on 1 January 2010. He is a non-executive director of University College London Hospitals NHS 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 69.

8. Jamie Dundas
Non-Executive Director

Jamie became a member of the Board on 15 March 2004 and is chairman of Jupiter Fund Management plc. Jamie was previously chief executive of 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 61.

Board of directors continued

9. Dr Han Seung-soo, KBE
Non-Executive Director

Dr Han is a former prime minister of the Republic of Korea and joined the Board on 1 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 chairman of the Global Green Growth Institute and International Advisory Board of the International Forum of China. Dr Han is based in Korea and brings with him valuable knowledge of Asia and economics. Age 75.

10. Val Gooding, CBE
Non-Executive Director

Val was appointed to the Board on 1 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, lead non-executive director of the departmental board at the Home Office and a member of the advisory committee of Virgin Group Holdings. Val was formerly a non-executive director of the BBC, a trustee of the British Museum, and chief executive officer of BUPA, the independent health and care company. She joined BUPA in 1996 and was appointed chief executive officer in 1998, stepping down in May 2008. Prior to that, she spent most of her career with British Airways. She joined British Airways in 1973 and became head of marketing in 1992 before being appointed as director of business units in 1993. Her last role with British Airways was director, Asia Pacific. She was previously a non-executive director at J Sainsbury plc, BAA, Cable and Wireless Communications plc and Compass plc and has also sat on the board of the Association of British Insurers (ABI). Val will be appointed as a non-executive director of XL Group plc with effect from 26 April 2012. One of Britain'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 61.

11. Simon Lowth
Non-Executive Director

Simon joined the Board on 1 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 worldwide consultants, McKinsey & Company, latterly as a senior director responsible for the firm's UK industrial practice. At McKinsey & Company, Simon advised leading multi-national companies on a wide range of strategic, financial and operational issues. Age 50.

12. Ruth Markland
Non-Executive Director

Ruth was appointed to the Board on 3 November 2003. She is chairman of the board of trustees of the WRVS and a non-executive director of The Sage Group plc. She was appointed to the supervisory board of Arcadis NV in May 2009. Previously, Ruth was managing partner, Asia for 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 59.

13. John Paynter
Non-Executive Director

John joined the Board on 1 October 2008. He is a non-executive director of Jardine Lloyd Thompson Group plc, chairman of Standard Life Investment Holdings and a non-executive director of Standard Life Plc. He was appointed a senior advisor to Greenhill & Co. Inc. on 1 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 externally 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. He has a deep understanding of financial markets and the corporate sector. Age 57.

14. Mike Rees
Group Executive Director

Mike was appointed to the Board on 4 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 late 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. Age 56.

15. V. Shankar
Group Executive Director

Shankar joined the Board on 1 January 2012. Based in Dubai, he is Chief Executive Officer, Europe, Middle East, Africa and Americas. He also serves as Executive Chairman of Principal Finance and Chairman of The Standard Chartered Private Bank. He is non-executive director of Majid Al Futtaim Holding LLC. Before joining Standard Chartered in September 2001, Shankar was with Bank of America in Asia and the USA for 19 years and his last position was as managing director, head of Asia-Pacific investment banking and chief executive officer of BA Asia Limited based in Hong Kong.

In addition to his responsibilities at Standard Chartered, Shankar is 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 54.

16. Paul Skinner
Non-Executive Director

Paul was appointed to the Board on 3 November 2003. He is chairman of Infrastructure UK, a division of HM Treasury, and 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 appointed a UK business ambassador by the UK Government in 2008.
He was previously chairman of Rio Tinto Plc from 2003 to 2009 and was also 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. He also served as a member of the Defence Board of the Ministry of Defence and as chairman of the Commonwealth Business Council. Age 67.

17. Oliver Stocken
Non-Executive Director

Oliver joined the Board on 1 June 2004. He is chairman of Home Retail Group plc, Stanhope Group Holdings Limited, the MCC and the trustees of the Natural History Museum. Previously, Oliver was 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 N M 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 70.

18. 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. Age 48.

Senior management

The Group Management Committee as at 29 February 2012, comprises the executive directors of Standard Chartered PLC and the following senior executives:

1. Tracy Clarke

Tracy joined Standard Chartered in 1985. She is Group Head of Human Resources and Communications. 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 was previously a non-executive director of eaga plc until its acquisition by Carillion plc in April 2011. Age 45.

2. Richard Goulding

Richard joined Standard Chartered in 2002. He is Group Chief Risk Officer and was previously Chief Operating Officer of Wholesale Banking. Prior to joining the Group, Richard was chief operating officer of Old Mutual Group Financial Services and before that was a member of the global executive board of UBS investment banking division. Age 52.

3. Tim Miller

Tim joined Standard Chartered in 2000. He is Director, Property, Research and Assurance and has responsibility for corporate real estate, compliance and regulatory risk, legal and global research. He also has functional responsibility for internal audit and the corporate secretariat. He was previously Group Head of Human Resources. He is Chairman of Standard Chartered Bank Korea. He is also a non-executive director of Michael Page International plc and chairman of the governing body of the School of Oriental and African Studies. Age 54.

4. Jan Verplancke

Jan joined Standard Chartered in 2004. 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, and is a non-executive director of Monitise Plc. Prior to joining the Group he was chief information officer – EMEA at Dell. Age 48.

Corporate governance
Exemplary corporate governance standards are a core aspect of the Group's strategic intent

Sir John Peace
Chairman

"Good corporate governance contributes to the long-term success of a company, creating trust and engagement between the company and its stakeholders."

Dear Shareholder

There continues to be much debate about what constitutes good corporate governance. We believe that good corporate governance is about creating the right culture throughout the entire organisation. Good corporate governance contributes to the long-term success of a company, creating trust and engagement between the company and its stakeholders. As a major international banking group that has dual primary listings, it is our responsibility both to practise high standards of corporate governance and to contribute to promoting an environment where such standards operate globally.

For good corporate governance to exist there must be robust processes underpinned by the right culture, values and behaviours permeating throughout the company. These culture, values and behaviours need to be adopted by the board and actively lived and promoted by the chief executive officer and all levels of management.

At Standard Chartered, our culture and values are deeply embedded within the organisation. Our culture stimulates transparency, accountability and collaboration. 'Living the values' is an integral component of every employee's performance assessment, and each employee's variable reward depends both on how they have met objectives, and also on how they live our five core values. Furthermore, our brand promise, Here for good, captures our genuine commitment to our customers and clients, our staff and the communities where we operate. It states our focus on consistently doing the right thing and acting responsibly through a simple yet compelling promise.

More broadly, banks exist to support the economies and societies in which they operate, helping spur economic growth and job creation. Reaffirming the fundamental role banks play in economies – and clearly articulating why it matters – will be paramount to rebuilding trust and making sure that banking reform produces the kind of banks we all need in the future.

We strive to create an inclusive environment for all employees. This helps us attract, retain and develop the best talent, and creates an environment where a diverse range of people are motivated to be at their best every day. This enables us to sustain strong business performance for the long-term. Standard Chartered's approach to diversity is underpinned by the Group's meritocratic and performance-based culture. We believe that this is a more sustainable approach in the long run. We have a strong track record in regularly refreshing the Board's composition. Since 2005 we have appointed 10 directors to the Board and 10 Directors have stepped down. 2011 was the first year since 1985 where there have been no changes to the Board's composition. This was a conscious choice given that there were four changes in 2010. In January 2012 we were pleased to welcome V. Shankar to the Board as an executive director. As a Singaporean national based in Dubai with a wealth of experience across our markets in Asia, Africa and the Middle East, Shankar brings further diversity to the Board's composition.

During 2011, we focused heavily on the future nature, shape and composition of the Board to 2015 and beyond. We have a multi-year board succession plan that we believe will maintain the Board's current high level of effectiveness, and as a result, it is likely that there will be further Board changes in 2012 and 2013. We will continue to focus on diversity in all its aspects (including gender diversity) in our succession planning.

We believe that there are myriad factors to consider when seeking to maximise a board's effectiveness through its composition. These include skills, expertise and knowledge that need to be matched to the company's current and future business activities; individuals with sufficient time commitment to devote to the board (both in stable and stressful times); and individuals who are able to offer a broad range of diverse perspectives to the board, including both geographic representation and gender diversity. Balancing all of these factors to maintain an effective board is a delicate matter and we do not believe that imposing quotas is appropriate in this context.

We continuously review and find ways to improve our Board's effectiveness. We approach this as an ongoing process rather than something that is done once a year just to satisfy UK Corporate Governance Code requirements. In 2011, we focused particularly on finding ways to further enhance the linkages between our Board and its committees. This is a very important element of our Board's effectiveness given that we have consciously decided to delegate a broader range of issues to the committees, and not all Board members sit on each committee.

Over the last three years we have been flexible in our approach to continuously assessing Board and committee effectiveness. In 2009, we conducted an intensive internal corporate governance review spanning a number of months. In 2010, we appointed an external provider to facilitate the Board's effectiveness evaluation. In 2011, the Financial Services Authority (FSA), through its core prudential programme, completed an in-depth review of the Group's corporate governance structures and practices. In addition, we conducted an internally facilitated effectiveness review of the Board and each committee. As you will see in the reports on each committee's activities, different mechanisms have been used by some of the committee chairs when assessing effectiveness. We encourage diverse approaches as this ensures that the review process remains fresh and meaningful.

In our 2010 Annual Report you will have noticed that we adopted a more informal and discursive approach to corporate governance reporting. Standard Chartered was recognised for this in the ICSA Hermes Transparency in Governance awards, being granted the award for the Best FTSE 100 Annual Report in 2010. Although it is heartening to be recognised in this way, the real benefit was to reinforce to us that shareholders valued our approach. As a result, we have maintained this discursive style in this year's annual report, with the intention of continuing to enhance our engagement with stakeholders. We value your continued feedback on our approach.

Sir John Peace
Chairman
29 February 2012

Our highlights

- Continued vigilance regarding the prevailing external conditions and the potential impact on our strategy and business models
- Maintained the right balance in pursuing growth opportunities in line with appropriate governance, systems, controls, processes and information flows
- Continued to nurture the Group's corporate culture, values and our Here for good brand promise as the Group continued to grow
- Created more space at full Board level to focus even more deeply on key strategic opportunities and risks
- Continued to focus on dynamic yet structured Board, committee and senior executive succession planning
- Continued to balance formal and informal Board interactions to further enhance the Board's effectiveness
- Held three overseas Board meetings that added real value by enabling a greater understanding of our markets and providing the opportunity to meet with employees, local management, customers and regulators
- The Financial Services Authority conducted an assessment of our governance arrangements as part of its core prudential programme

Our priorities for 2012

- Delivery of the first phase of our 2015 Board composition plan
- Taking risk governance to the next level of effectiveness
- Continued focus on the effective linkages between the Board and its committees
- Refreshing our approach to the interfaces between the main Board and the boards of our banking subsidiaries across our network
- Reviewing our governance practices in the light of the changing regulatory landscape to ensure that decisions continue to be taken at the right levels within the Group's governance structure
- Maximising further opportunities for external input and perspectives during Board conversations
- Distinguishing even more rigorously between information our directors must have in order to fulfil their duties and optional reading

Corporate governance continued

Our integrated approach to corporate governance

We adopt an 'apply **and** explain' approach to corporate governance. We believe that this gives our stakeholders a better insight into our governance practices than the 'comply or explain' approach espoused by the UK Financial Reporting Council's UK Corporate Governance Code (the Code).

The diagram below demonstrates our approach to corporate governance. It depicts the interactive nature of the elements we view as being key in embracing the spirit of best practice corporate governance principles. It also illustrates our belief in the importance that a company's underlying culture and values play in ensuring effective corporate governance.

It is vital for companies to have an underlying culture with behaviours and values that stimulate and sustain effective corporate governance. Without being exhaustive, key elements of the culture include a spirit of transparency, open-mindedness, inquiry and constructive challenge. We outline how our Board displays these characteristics on pages 103 to 104. Such a culture is defined and exemplified within a framework of an integrated cohesive unitary board with the chairman and chief executive officer playing particularly critical roles at both board level and throughout the entire company. We recognise that the chairman plays a crucial role in ensuring board effectiveness. Also, alongside the chairman, the company secretary has a key role in influencing the effectiveness of the board.

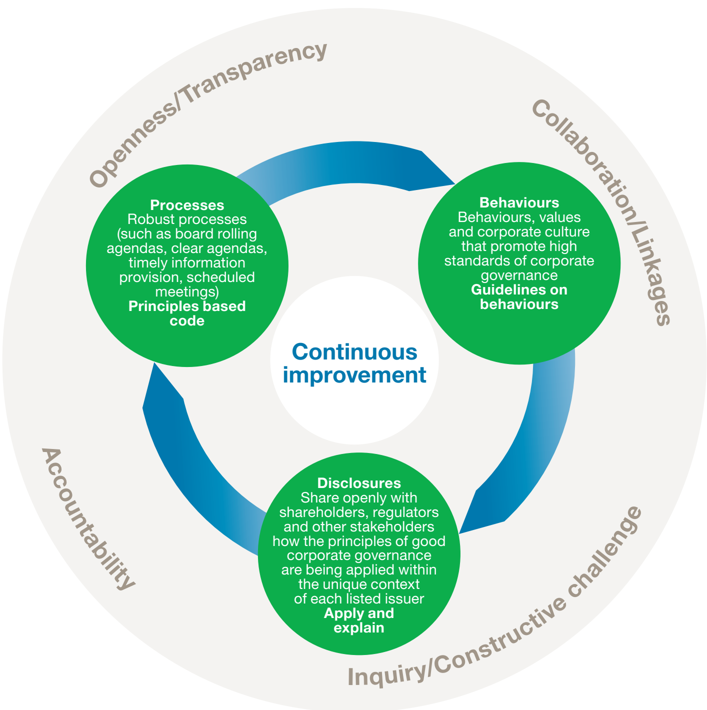
We aim for the highest standards of corporate governance and apply the provisions of the Code and the Hong Kong Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules. Copies of the Code and the Hong Kong Listing Rules (the Hong Kong Listing Rules) can be found at www.frc.org.uk/corporate/ukcgcode.cfm and www.hkex.com.hk/eng/rulesreg/listrules/mbrules /documents/appendix_14.pdf respectively.

Who is on our Board?

We have 17 Board members: the chairman, six executive directors and 10 non-executive directors. A list of individual directors and their biographies are set out on pages 94 to 96. Details of board committee membership are set out on page 108 of this report.

We continuously refresh our Board membership to ensure that it retains the right dynamics. Since 2005, 10 directors have joined our Board and 10 directors have left the Board. 2011 was the first year since 1985 where there have been no Board changes during the year. This was a conscious choice given that there were four changes in 2010 (three independent non-executive directors and one executive director).

Standard Chartered's integrated approach to corporate governance



As part of one of the three overseas Board meetings, Ruth Markland and Val Gooding were panel speakers at the Women's Forum in Nairobi. In addition to Ruth and Val, the panel also included five other senior women at Standard Chartered (two female Chief Executive Officers, our Group Head of Human Resources and Communications, and Head of Research for Africa).

The objectives of the forum were to build a sustainable awareness of the gender business case, identify, advance and retain high potential women; develop policies that promote work life balance; equip women to succeed in the workplace and to create an awareness on the possibilities available to women in Standard Chartered and beyond.

We welcomed V. Shankar to our Board as an executive director with effect from 1 January 2012. Shankar's appointment further supports our belief that it is important to have a broad representation of executive directors on the Board. Shankar is based in Dubai and has been a valued member of Standard Chartered's strong executive management team since 2007. His appointment will further strengthen the Board, particularly with his international outlook and client focused experience.

We have a number of relatively long-standing Board directors on our Board, particularly those that chair our committees. Given the complexity of 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 whilst still ensuring that the Board composition is regularly refreshed.

During 2011, the Board (through its Nomination Committee) focused heavily on its future composition with an emphasis both on executive and non-executive succession planning. We have formulated a multi-year plan aimed at ensuring a smooth transition through to 2015 and beyond. This balances our need both to maintain stability and longevity on the Board while regularly refreshing its composition. As a result, there are likely to be further changes to our Board through 2012 and 2013 as we look to deliver the next phases of our 2015 Board composition plan.

How do we support board members?

We have a very extensive and robust independent director induction and ongoing development programme in place that is tailored to the needs of each director. This has continued to evolve over the last four years. Each engagement plan typically consists of a mix of briefings on specialist topics (the number of which increased in 2011), attendance at key management meetings such as the Group Risk and/or Group Asset and Liability Committees and additional visits to our markets. Typically, in addition to the overseas board visits, directors will undertake one or two additional overseas visits during the year.

When the Chairman reviews the performance of each director annually, delivery against the agreed development programme is a key component of this review. The corporate secretariat team plays a pivotal role to assist the non-executive directors to achieve their development plans and this is regularly reviewed and tracked. More broadly, the non-executive directors are supported by dedicated corporate secretariat resources and avail of specialist advice on corporate governance matters.

The Board's commitment to diversity and inclusion

We welcomed Lord Davies' report entitled 'Women on Boards'. Standard Chartered with its distinctive 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 two women and five different nationalities.

There are seven 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. The Board considers diversity as a priority, and specifically looks at geographical diversity, gender diversity, diversity of skills and experience among other strands.

We have commenced a comprehensive review of our Board's composition, looking forward to 2015 and beyond. This review is being facilitated through our Nomination Committee. Geographic and gender diversity together with key technical specialisms in banking, risk, accounting, finance, technology and international business experience will form core components of our Board succession.

More broadly within Standard Chartered, our employees represent 130 nationalities and 46 per cent are female. We believe that diversity, including gender diversity, is a very important factor impacting the Group's performance and wider operational effectiveness.

Standard Chartered's current focus is to continue with the work that is already underway to ensure that we 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 42 to 45. We aim to increase the representation of women as well as key geographies, including China, Korea, Africa and the Middle East, at senior management levels. In order to broaden the pipeline for senior management, we have focused on these populations at middle management with initiatives such as mentoring, targeted development programmes and focus on diverse external hiring and will continue to do so.

How the board has spent its time

In addition to attending the overseas Board meetings, Sir John Peace, as Chairman visited China, Hong Kong, Korea, Singapore, Kuwait, Malaysia, Nigeria, Qatar, the UAE, and the USA where he met with clients, employees, shareholders, and regulators.

At Standard Chartered, we believe that our open, challenging yet cohesive and collaborative culture where all directors have unfettered access to management and information has enabled us to achieve high standards of corporate governance. Our independent directors travel extensively 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 directors made 59 visits to countries across our footprint in 2011 (up from 40 in 2010 and 23 in 2009). Furthermore, during 2011 we estimate that each independent director spent between 35 and 50 days on board related duties and, for those who sat on multiple committees, up to 100 days or more.

Corporate governance continued

The full schedule of matters reserved for the Board together with the board committees' terms of reference are available on www.standardchartered.com

Our Board's focus on strategic issues

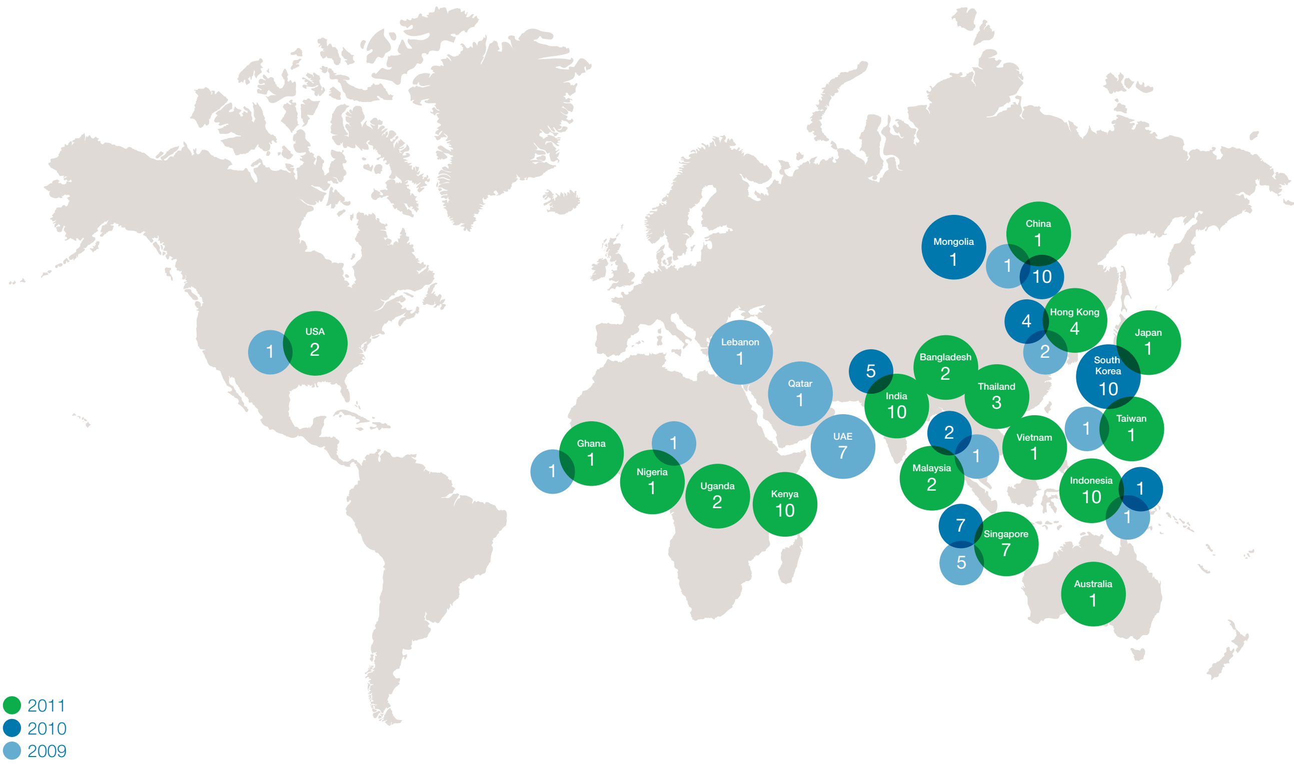
The overseas Board visits in 2011 were to India, Kenya and Indonesia, where comprehensive strategy reviews were undertaken. In addition, these visits enabled the non-executive directors to gain a better understanding of these markets and our operations. During these visits the Board also took the opportunity to review the strategies for Bangladesh, Pakistan, Nigeria, South East Asia and the Middle East. Key management representatives from each of these countries/regions attended the overseas Board meetings to discuss the strategic issues and interact with our Board.

It is important that the Board retains the right balance of external and internal perspectives. As part of the overseas Board visits, external speakers were invited to provide their perspective on the country's political and economic environment and outlook. For instance, at the Board meeting held in Mumbai, the Board received a presentation on the political, economic and competitive environment in India and in Nairobi, the presentation covered geopolitical, economic and social issues in Africa. In addition, the Board regularly receives competitor review reports, some of which are market-wide, and others focusing on specific competitors.

The Board has an annual strategy review cycle that culminates in a two-day strategy offsite in June. In 2011 this was held in Nairobi. At this offsite the Board discussed the Group's overall strategy and that of its two businesses, Consumer and Wholesale Banking. We also focused on technology and innovation. Each year in the build up to the strategy offsite, the Board has several discussions on the macroeconomic, geopolitical and regulatory factors impacting the banking industry. Following the offsite, management reflects on feedback provided before submitting the strategy to the Board for formal approval. The approved strategy is then used when devising the Group Risk Appetite Statement, Capital and Liquidity plans and the Group's budget for the following year, which the Board approves in December.

Following the annual strategy offsite, the Board also approves a schedule of strategic topics for its review during the following 12 months. For 2011 this included topics such as our inorganic strategy, people and organisational effectiveness, technology, Consumer Banking's personal and private banking, as well as Wholesale Banking's equities strategy and its governance and control framework around its network of offshore banking units. The Board has focused on the potential impacts of

Number of non-executives visiting our markets



Richard Delbridge, Ruth Markland and Jamie Dundas attending the opening ceremony of our flagship branch in Hong Kong

regulatory change for our strategy and structure, including the FSA's approach to Recovery and Resolution Plans and the Independent Commission on Banking's recommendations on the reform of the UK banking system.

In order to make the space to focus heavily on key strategic issues, the Board has 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 109 to 129.

What makes our Board effective?

Our Board has primary accountability for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. We seek to live by the integrated approach to effective corporate governance that we advocate as best practice.

Openness and transparency

Directors have unfettered access to information and management across the organisation. On overseas visits, non-executive directors are usually unaccompanied by senior management and interact with staff at all levels. This gives them opportunities to see the culture and values of the organisation in action and to corroborate information received from multiple sources. It also provides context to the formal information that they receive for Board meetings.

There is a natural desire to share information with the Board. One unintended consequence of this is that, over time, formal Board papers have become lengthier. In 2011 we moved to provide one page overviews for Board papers. This provided clearer guidance for directors about what they should focus on in the papers. In 2012 we will continue this journey, distinguishing even more rigorously between information that directors are required to read in order to perform their roles effectively whilst still making available additional information for those who would like to delve more into a certain topic.

We have moved to providing Board papers and additional information via iPads using our dedicated secure application. This allows the directors to have easy and instant access to a wide range of information.

We have found it beneficial to increase the number of informal Board sessions and to ensure that the formal agendas are not unduly cluttered. As a result the Board has time to debate issues more fully and discussions on key strategic issues tend to be lively, with high quality engagement and contributions from Board members.

Collaboration and linkages

Collaboration is a key element of the Standard Chartered culture and underpins our One Bank approach. Board members demonstrate collaboration through their enthusiastic approach to overseas visits and by spending time with a wide array of management. This builds credibility and provides context, allowing them to make an enhanced contribution in Board level discussions. During overseas visits we made a conscious decision to maximise time spent in strategic discussion and meeting staff, clients and other stakeholders rather than undertaking more general committee or other activities that can be just as meaningfully covered in London.

Given our conscious discussion to delegate broad responsibilities to board committees, it is critical that we have effective linkages between the committees and the Board as a whole. This is particularly important given that there is no director who serves on every committee. During 2011 we used a number of mechanisms to enhance these linkages, some of which have been more effective than others.

The Board receives the minutes (or written summary) of each of the committee's meetings. In addition, the committee chairs periodically update the full Board on the items covered by their committee. We tried having separate briefing sessions for those Board members who were not on a particular committee. The one that we held for the Brand and Values Committee during 2011 was very successful. However, we have found it more difficult to make space to schedule these briefings particularly as we no longer schedule committee activities during overseas Board visits.

The results from our 2011 board effectiveness review acknowledged that the board committee structure is effective, with excellent committee chairmanship, that appropriate feedback is provided back to the Board as a whole; and there are good briefings provided to non-committee members. It was recognised that the Board as a whole has been able to focus more broadly on strategic issues as a result of the increased breadth of remit of the board committees. In 2012 we will continue to focus upon and evolve our approach to ensuring these critical linkages between the Board and its committees.

Another area of focus both in 2011 and going forward is on the linkages between the Board directors and directors of our subsidiary boards. There are 26 countries across our network where the Group operates its main franchise as a locally incorporated bank and many of these have boards with independent director representation. There are many communication linkages between the Board directors and those of our subsidiary boards. These vary in nature and formality. For instance, there is an annual African Chairmans' Conference where the chairmen of our African subsidiaries meet in London. Both Sir John Peace as Chairman and Rudy Markham as Chairman of the Audit Committee interact with the Africa chairmen at this event. Most recently, in early December 2011, Sir John conducted a dialogue with the boards of our subsidiaries in China, Hong Kong and Taiwan.

Corporate governance continued

In addition, for a number of years, Rudy, as Chairman of the Audit Committee has hosted a call with all of the chairmen of the subsidiary audit committees. 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.

When Board members travel, they are encouraged to meet with directors of our subsidiary boards. For example, as part of the Kenya overseas Board visit in June 2011, the board of Standard Chartered Bank (Kenya) Limited hosted a dinner for our PLC Board.

Although when taken together there are effective linkages today, we are mindful that many of these linkages are informal and dynamic in nature. As a result, we are in the process of defining more precisely the nature and extent of the linkages between our Board, its committees and the subsidiary board counterparts.

Inquiry/constructive challenge

We believe that it is the role of the whole board to provide constructive challenge. The executive directors on our Board understand fully the distinction between their roles and duties as executive management and executive directors and are just as likely to challenge management suggestions as their non-executive director colleagues.

Moreover, the Group's culture of openness and collaboration has embedded within it the concept of constructive challenge that exists at all levels of the organisation including the Board. One of the Group's values is 'courageous'. This means that we strive to do what is right even if it is not easy. It means that we do not allow weak or flawed logic to permeate our decision making. The Board habitually probes, questions and explores the logic behind management actions both in formal Board meetings and other informal interactions.

Sir John as Chairman plays a particularly important role by ensuring that all Board members have the opportunity to contribute fully in all Board discussions. He acts as a catalyst ensuring that all the diverse perspectives held by Board directors are aired fully when debating any particular topic. Given the cohesive and collaborative nature of the Board, underpinned by our culture of openness and our courageous values, Board members feel that they can speak their minds freely. This atmosphere enhances the Board's overall effectiveness.

How does the Board ensure effective communication and engagement with our stakeholders?

Accountability

Our Board receives regular updates on the views of our institutional shareholders and stakeholders. Board members openly seek the views of our shareholders. During 2011 a combination of our Group Chairman, Group Chief Executive Officer, Group Finance Director, all of our executive directors and two of our non-executive directors met with 21 of our top 25 investors. Sir John also hosted a dinner attended by the corporate governance representatives of our largest shareholders. In 2011, the Board saw a video from shareholders and analysts providing their views on Standard Chartered and in 2010 an independent survey was undertaken to gauge investor perception. The intention is for another independent survey to be undertaken in 2012.

The Board is mindful of its responsibility to take account of wider stakeholders. For instance, as part of the overseas visits, some Board members met with local regulators from across our footprint. Key representatives from the FSA met with our Board to discuss corporate governance practices. As part of overseas visits, our Board has met with clients and participated in community activities. For example, as part of the Mumbai overseas Board visit, client meetings took place with Board members in Bangalore, Chennai and Bangladesh. Board members visited a school refurbishment project which had been undertaken by Standard Chartered employees and participated in a pottery workshop with children with learning difficulties in Mumbai. As part of the overseas Strategy Board in Kenya, Board engagement with our stakeholders included, but was not limited to, meetings with clients in Nairobi, participation in tree planting and the laying of a foundation stone ceremony at Dream Children's Home and joining employee volunteers at the Good Shepherd Home Mission in Kisenyi, Uganda.

What was our approach to Board and Board Committee effectiveness reviews in 2011?

Over the last three years we have adopted an evolving, flexible and continuous improvement approach to assessing board effectiveness. Throughout 2009, we conducted a comprehensive internal governance review. The board effectiveness review formed part of that process. In 2010, we undertook an externally facilitated review of the Board's effectiveness facilitated by Dr Tracy Long of Boardroom Review. In 2011 the FSA, through its Core Prudential Programme governance review, completed an in-depth and thorough review of the Group's corporate governance structure and practices. As part of this, several detailed case studies were used analysing the Board's effectiveness in relation to key decisions that the Board had taken over the previous year. As a result there has been an extensive external element to our Board's effectiveness reviews for both 2010 and 2011. To supplement the FSA review, we undertook an internally facilitated review by way of an online questionnaire using the Group's approved board evaluation tool.

To demonstrate our commitment to continuously seeking ways in which to improve our governance practices, we undertook a variety of mechanisms to assess the effectiveness of each board committee, including the use of questionnaires, but not exclusively so. For example, this year, the Remuneration Committee adopted a 'continuous

As part of the overseas Board meeting in Kenya, Board members participated in tree planting and the laying of a foundation stone ceremony at Dream Children's Home in Nairobi

improvement' approach by adding a short discussion item at the end of each meeting to discuss areas for improvement in 'real time'. The Brand and Values Committee sought feedback from executive management on the value that the Committee has added to their business/function. Following the completion of questionnaires, the Board Risk Committee undertook an extensive review of its effectiveness by means of a formal discussion that resulted in the creation of an action plan to address the findings of the effectiveness review, a summary of which can be found on page 117. The Audit Committee held a more informal discussion session, a summary of which can be found on page 113.

So as to ensure that our approach to board and committee effectiveness remains meaningful we will continue to explore and adopt different approaches to assessing board and committee effectiveness.

The Board believes that it continues to operate effectively. This is notable given the increasingly turbulent macro-environment and the increased intensity of regulatory change. There is a high level of engagement from our non-executive directors and meaningful interaction with the executive directors. In the review, both executive directors and non-executive directors commented that the Board dynamics remain conducive to the provision and receipt of constructive challenge within the context of our unitary board approach. As to be expected from a highly effective board, as part of the board effectiveness review, our directors identified areas that, with hindsight, might have been handled differently. Our directors also highlighted some areas for further consideration by the Board that have been captured within the Board's strategic rolling agenda for 2012.

Feedback indicates that the right balance between formal and informal Board interaction is in place. It was noted that informal meetings, such as lunches and dinners, tend to enable even more free flowing debate than the scheduled Board meetings.

Board members welcomed the continued focus on having an ongoing strategic dialogue at Board level. In addition, several Board members commented that the approach to the 2011 annual Strategy Board sessions was excellent. The opportunity to have more time to focus has arisen as a result of increased delegation to and the broadening of the remit of the board committees. However, in doing so, there is an awareness of the need to avoid the agendas for the board committees becoming inadvertently cluttered.

Given the Group's record of sustained record performance over the past nine years, the Board is very mindful that there could be a risk of complacency. A high level of vigilance is required, particularly given the continued external macroeconomic turmoil. Board members thought that, through receiving even more frequent input from external sources, the right balance of internal and external perspectives could be maintained.

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. Outlines future engagement plans were discussed providing a guideline for the activities that each non-executive director intends to undertake over the next 12 to 18 months. In relation to those directors with longer tenures, continued independence of mindset and perspective was specifically considered. The Chairman reported the outcome of these discussions to the Nomination Committee, who used this as part of its consideration leading to recommending to the Board the re-election of all directors at our Annual General Meeting.

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. Rudy sought feedback from each board member and used this to compile a formal letter to Sir John evaluating his performance as Chairman. The feedback concluded that Sir John has unanimous support for his leadership of the Board.

What were the findings of the Financial Services Authority's assessment of our governance arrangements?

In 2011, the FSA conducted an assessment of our governance arrangements, concentrating on our Board and board committees and management and management committees. The FSA's review was part of an ongoing Core Prudential Programme that has been designed specifically for the largest UK banks. The FSA noted a number of strengths in the design of our governance, which included a well designed Board and Board committee structure, with high quality papers and good support; a very experienced executive management team; and a good spread of relevant experience and high level of commitment from our non-executive directors. The fact that our non-executive directors travel freely across our markets was also seen by the FSA to be beneficial. Our distinctive set of values and culture was viewed as a further positive aspect of our governance and the steps the Group has taken to ensure a consistent approach to governance across our subsidiaries and branches alike. Following the FSA review, three areas have been identified for further consideration that cover the role of the Board as a whole in the oversight of risk management, the balance of formality and informality that exists between our Board and management and the importance of regulatory relationships. In the spirit of continuous improvement, throughout 2012 we will be liaising with the FSA to agree and deliver on further enhancements to our governance practices.

Corporate governance continued

Summary of some of the observations arising and actions taken as a result of the Board's effectiveness review

2011		2010	
Observations	**Actions taken/ to be taken**	Observations	Actions taken
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 geographic footprint and possibly through more female representation.	**Whilst recognising that good progress has been made on succession planning this year, with several Board Nomination Committee discussions and a more general Independent Director conversation, there is appetite for continued discussion and focus on this topic.**	There was a need to continue to focus upon Board and executive succession planning.	We have continued to develop our structured approach to succession planning whilst being mindful of the complexities of balancing board size with board diversity and the skills and experience required on our Board.
The Board recognised the criticality of maintaining constructive regulatory relationships.	**The changing regulatory landscape has been discussed extensively by the Board and there have been regular updates regarding regulatory relationships. This will remain a key focus for 2012.**	Looking forward, it was observed that it is important to ensure that we continued to maintain the right balance in pursuing business growth supported by the various systems, controls, processes and information flows and to nurture our corporate culture as we grow.	During 2011 the Board continued to receive regular updates from management via its committees regarding the development of systems, controls, processes and information flows and the protection of our corporate culture. This will continue to be a priority in 2012.
There is possible scope for Board papers to be more concise, whilst balancing this with the need to ensure that directors receive all the information necessary to fulfil their duties effectively.	**We have moved towards 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. For example, 'additional background information' designed for optional reading is now provided to directors exclusively via iPads.** **Opportunities for further refinement will be identified and implemented in 2012.**	There was a need to balance conciseness of information provided to the Board and the Group's open culture where executives want Board members to have open access to information.	We introduced one page summaries of key issues for all core strategic review papers. These provide a roadmap for the issues discussed in more depth in the body of the papers. Feedback on this initiative was positive although it was acknowledged that there is still scope for the contents of Board papers to evolve.

Number of Board meetings held in 2011

Board members	Scheduled[1] meetings 10
Sir John Peace (Chairman)	10/10
P A Sands	10/10
R H P Markham	10/10
R H Meddings	10/10
S P Bertamini	10/10
J S Bindra	10/10
R Delbridge	10/10
J F T Dundas	10/10
V F Gooding	10/10
Dr Han Seung-soo	9/10
S J Lowth	10/10
R Markland	10/10
J G H Paynter	10/10
A M G Rees	10/10
P D Skinner	10/10
O H J Stocken	10/10

1 There were no ad hoc meetings of the Board during 2011

External directorships

The Board's executive directors are permitted to hold only one non-executive directorship of a FTSE 100 company. Details of the directors' other directorships can be found in their biographies on pages 94 to 96.

We closely monitor the outside business interests of the non-executive directors. Before taking on an additional role, both executive and 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

At our 2011 Annual General Meeting, in line with the UK Financial Reporting Council's UK Corporate Governance Code, we moved to the practice of proposing directors for annual re-election at the Company's Annual General Meeting and will do so again in 2012. In 2011 all of our directors 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.

Assessment of Director Independence

The Board is satisfied that all of our non-executive directors are independent. Rudy Markham has been on the Board for 11 years and as a result, his continued independence has been the subject of particular scrutiny. The Nomination Committee considered this point in detail. Rudy continues to demonstrate excellent stewardship as Senior Independent Director and Chairman of the Audit Committee. His continuity of service and commitment provides an in-depth knowledge and understanding of the Group that is invaluable to the Board, the Audit Committee, Risk Committee, Governance Committee and the Nomination Committee. In 2010 three new independent non-executive directors were appointed, thus ensuring regular refreshing of the Board. As a result, it was felt that there would be a positive benefit to having non-executive directors with a deep and long-standing knowledge of the Group, such as Rudy, continuing on our Board and as Chairman of our Audit Committee.

Rudy continues to demonstrate the attributes of an independent non-executive director and there is no evidence that his tenure has had any impact on his independence. He continues to bring to the role the same rigorous enquiry and intellectual challenge that the Board has come to expect. Through his continued tenure, Rudy's familiarity with the business has only further enhanced his contribution to the Board rather than weakened it in any way. He probes and validates the assertions made by the Group's executive management through his regular visits to the Group's overseas offices, obtaining feedback from key staff and senior leadership teams throughout the year. For example, during 2011, Rudy held over 20 separate meetings during his visits to six of the Group's markets.

The Committee has also considered the fact that Rudy is a non-executive director on the board of AstraZeneca PLC whilst Simon Lowth is an executive director at the same company. We do not believe that this creates a cross-directorship which in any way impacts upon the independence of either director.

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 Hong Kong Listing Rules. During the year, there has been one incidence of inadvertent non-compliance with the Company's code of conduct. This related to the creation of a pledge, by a director, over certain ordinary shares he holds.

Corporate governance continued

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 and liquidity
- **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

Board committees

In March 2010 we re-configured our board committees by separating our Audit and Risk Committee into two committees, by creating a Governance Committee, and enhancing the remit of and re-naming the then Sustainability and Responsibility Committee to the Brand and Values Committee. The FSA has commented following its Core Prudential Programme governance review that it endorses the decision to split our Audit and Risk Committee and establish a dedicated Governance Committee. Feedback from the Board's effectiveness review is that in taking this action, the Board's overall effectiveness has continued to improve, it has enabled stronger focus on operational effectiveness, assurance and brand and values. The creation of a Board Risk Committee has sharpened the focus on risk issues and enabled the Audit Committee to spend more time focusing on control issues. The creation of a Brand and Values Committee has improved the level of Board discussion on sustainability. Our Board has made a conscious decision to delegate a broader range of issues to the board committees and this has lead to a refreshed approach to ensure effective committee linkages whilst being mindful of the need to guard against the danger of inadvertently cluttering the committee agendas. The linkages between the committees and the Board are critical given that it is impractical for all 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 Committee sit on each other's committees and there are two other common members. There is also some common membership between the Board Risk Committee and the Remuneration Committee.

Current membership of the board committees

	Audit Committee	Board Risk Committee	Brand and Values Committee	Remuneration Committee	Nomination Committee	Governance Committee
R Delbridge	Member	Member				
J F T Dundas	Member	Chairman	Member		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		Chairman	Member	
J G H Paynter	Member			Member		
Sir John Peace			Member	Member	Chairman	Chairman
P A Sands			Member		Member	Member
P D Skinner		Member	Chairman	Member	Member	
O H J Stocken		Member				

● Chairman ● Member Copies of each Board committee's terms of reference can be found on our website

Audit Committee

Dear Shareholder

Given the challenging market conditions experienced over the last 12 months, the Committee has been particularly vigilant of the need to cover regulatory, compliance, internal audit and operational matters in a manner that focuses on the key potential exposure in the Group's products and geographies. Given these challenges we have paid particular attention to the resourcing requirements of both the Group Internal Audit and Group Compliance functions.

Discussions at Committee meetings are facilitated by the high quality of papers that are provided. The Committee periodically reviews the papers it receives to ensure that the information provided is both informative and useful so as to enable the Committee to effectively fulfil its responsibilities as set out in its terms of reference. In particular, over the course of the year, the regular report from the Group Head of Internal Audit has evolved so as to enable the Committee to spend more time looking at root causes and oversight weaknesses, and for the Committee to be able to satisfy itself of the independence of the Group Internal Audit function. The number and length of Committee meetings is considered to be sufficient to allow for serious and meaningful discussion and debate of material issues.

During the year the Committee has had the opportunity to hold a number of 'deep dives' into particular areas. One such 'deep dive' included the risk assessment methodology adopted by the Group Internal Audit function. The purpose of this 'deep dive' was to ensure that Group Internal Audit provides adequate, appropriate and timely audit coverage for the business. A second 'deep dive' concerned the incorporation of the assurance function into Group Internal Audit so as to improve control effectiveness and eliminate potential gaps in coverage. Such sessions enable both discussion on the causes of issues that are reported on at Committee meetings and exploration of more complex business areas and products in greater depth.

In 2011 the Group's local internal audit and assurance function moved from our Compliance function to Group Internal Audit. Part of the rationale behind this realignment was to allow the assurance function to place more focus on building control effectiveness reviews that are closer to audit type work; it was thus natural to consider how the activities of the two functions could be combined to increase effectiveness. I am pleased to report that in addition to increasing effectiveness, the new operating model has brought better insight to risk and an improved quality and effectiveness of the assurance and audit work which is being done throughout the Group.

The Committee met with our lead regulator, the FSA, to discuss a number of topics including discussions with the audit profession on goodwill valuations, prudential provisioning, and their observations on the Committee's activities and areas of scrutiny compared with other banks.

As Chairman of the Audit Committee, I presented the Committee's views in response to the Sharman Inquiry's Call for Evidence on going concern and liquidity risk. The response reflected the perspectives of an international banking group and our experiences during the recent Global Financial Crisis and other crises including the Asian Financial Crisis.

The deliberate choice to have a strong overlap in the membership of the Committee with the Board Risk Committee is one of the ways in which we have enabled appropriate linkages to exist between the two committees. This helps to ensure that there are no gaps or unnecessary duplication in the work undertaken by both committees. Another way in which we strive to ensure linkages is the call that I host on an annual basis with the chairmen of our subsidiary audit committees. This call provides an opportunity to share, amongst other things, the Committee's priorities for the year ahead and to discuss ways in which the linkages between the subsidiaries and the Committee can be further strengthened without compromising independence.

Over the course of the year Committee members have continued to visit the Group's operations in a number of our markets. They have also met with our Group statutory auditor, KPMG Audit Plc (KPMG), in various jurisdictions as part of the process of reviewing the level of professionalism in auditing the Group's financial statements across our markets.

I can confirm that 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

Audit Committee Members

	Scheduled[1] meetings 7
R H P Markham (Chairman) (5)	7/7
R Delbridge (2)	7/7
J F T Dundas (1)	7/7
R Markland (4)	7/7
J G H Paynter (3)	7/7

1 There were no ad hoc meetings of the Committee during 2011

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

Our highlights

- Monitored changes in the external regulatory environment to ensure that we continue to have appropriate financial, compliance and internal controls in place
- Continued to fully evaluate and take into account the risks and uncertainties when considering budgets and forecasts that support going concern and impairment assessments
- Further evolved the Committee's remit and effectiveness following the separation from the Board Risk Committee in March 2010 and improved linkages with the Board Risk Committee
- Continued to consider emerging best practice recommendations for enhancing the Committee's effectiveness
- Reviewed and approved a revised Group policy on the award of non-audit services to auditors in accordance with the UK Financial Reporting Council's guidance on audit committees
- Reviewed the Group's approach to ensuring compliance with the six principles set out in the guidance issued in conjunction with the UK Bribery Act
- Held four 'deep dive' half-day sessions on key strategic issues
- Continued to ensure that we are satisfied that our Group statutory auditor has allocated sufficient additional and experienced resources to address heightened risks
- Reviewed our internal audit and compliance functions to ensure they have adequate, experienced resource to deliver on their objectives
- Oversaw the implementation of new International Financial Reporting Standards
- Considered the findings of investigations designed to identify the causes of breaches of control or breakdown in processes

2012 priorities

- Continue to ensure that the Group's systems, processes and controls are operating effectively and consistently in line with the Group's growth, complexity and in response to changes in regulatory requirements
- Continue to scrutinise the audit process to ensure satisfaction with the quality and coverage of the work done by Group Internal Audit
- Continue our focus on the root causes of issues
- Continue to focus on the effective linkages between the Committee, the Board and other board committees
- Continue to engage closely with subsidiary board audit committees so as to ensure maximum oversight of key areas of concern and potential risk

What is the Committee's role?

Financial reporting

Over the course of 2011 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 (including reduced supply of credit) are being closely monitored. We are satisfied that we have considered for disclosure all material relevant issues that have concerned management during the year. We have also considered impairment, valuation of securities and compliance with International Financial Reporting Standards within 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 was appropriate.

Oversight of internal controls

One of the themes that underpins the discussions held at Committee meetings is how effective is the Committee's oversight of internal controls. The Committee has discussed control environment issues, their root causes and management's response and follow-up activities. In particular we have reviewed and where deemed appropriate, challenged the information presented to the Committee in the Audit and the Compliance risk issue maps. These maps have continued to evolve, providing greater differentiation regarding the materiality of particular issues.

Group Internal Audit reports

We have reviewed and monitored management's responsiveness to Group Internal Audit's findings and recommendations. Issues that are deemed to be of Group significance, and in Group Internal Audit's view in need of additional scrutiny, are escalated to the Committee. These will be aggregated thematically (for example by geography) and represented graphically on an issues map to reflect both probability and impact to the organisation. A commentary on management responses, planned remedial actions, along with the programme of audit work designed to assess management's progress in resolution accompanies the issues map. Over the course of the year, the issues map has evolved so as to be more specific about the topics appearing on it, thereby enabling more focused discussion.

'Lessons learned reviews' have been conducted following the resolution of matters raised by Group Internal Audit, the findings of which have been discussed by the Committee. This has led to an increased emphasis on the need to adopt a more sustainable way to address certain issues.

Group statutory auditor

We have continued to strengthen our oversight of the work undertaken by KPMG. At the beginning of the year, the Committee spoke with local audit partners from across our footprint. The topics for the call covered, amongst other things, our growth agenda, the likely impact on the Group of regulatory reform, private banking in the Americas region, current market conditions in the Middle East, and increasing challenges in the general tax environment.

Over the course of the year local audit partners from the UAE, Korea and India have attended Committee meetings, which 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.

We have discussed with KPMG the business and financial risks and have sought assurance that these risks have been properly addressed in the audit strategy and 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. We believe that there are few audit firms with sufficient international reach to provide audit services across our footprint.

We conducted a review of the performance and effectiveness of KPMG, which included an assessment of its independence and objectivity. In conducting the review, the Committee was seeking to gain assurance that KPMG has 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. It also considered the demonstration of appreciation of the issues faced by country chief executive officers, chief financial officers and business heads together with their 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 2011 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. The Group statutory audit partner was rotated in 2010 and has a background in auditing banks and understands the markets in which we operate.

In 2011, the Audit Inspection Unit (AIU), part of the Professional Oversight Board, which is responsible for the monitoring of the audits of all listed and other major public interest entities, conducted a review of the audit profession as a whole including our Group statutory auditor, KPMG. Based on the findings of the AIU review, the feedback from our internal performance questionnaire and the scrutiny that the Committee has conducted throughout the year, our principal finding was that the Group statutory auditor is considered to be effective, objective and independent in its role as Group statutory auditor.

Non-Audit Services

In 2011, the Group spent $4.9 million on non-audit services provided by KPMG. Further details can be found in note 8 on page 185. In 2011, the amount spent by the Group on non-audit services provided by KPMG is lower than the amounts spent on procurement of consultancy services from two of the other 'Big 4' consulting accounting firms (Deloitte and Ernst & Young).

The Committee reviewed and approved a revised Group policy on the award of non-audit services to auditors (the Policy). The changes to the Policy reflected changes to the Financial Reporting Council's (FRC) Guidance on Audit Committees (made in December 2010) and the Auditing Practices Board (APB) Ethical Standards for Auditors Ethical Standard 5 (also made in December 2010) in relation to the provision of non-audit services by auditors to audit clients. Further details concerning the principles on which the policy is based can be found in the Report of the directors. Note 8 on page 185 describes the broad categories of the types of non-audit services provided by KPMG. There were two significant engagements of note for KPMG to provide non-audit services, which were as follows:

Recovery and Resolution Plan (RRP)

KPMG was engaged to assist the Group in the preparation of its RRP. The FSA recommended the use of a consultancy firm to support the Group's RRP work, which had already advised a peer bank on RRPs. The Group selected KPMG on the basis that (i) KPMG had advised a peer bank and so met the FSA's recommendation and also had a good sense for peer submissions and FSA thinking on RRPs (ii) KPMG was advantaged by its existing knowledge of the Group's processes and procedures and (iii) KPMG presented less confidentiality risk than using an alternative advisery firm. KPMG's role in this engagement was primarily to provide an independent view, benchmarked against external regulations and KPMG's own knowledge of industry best practices. Therefore this engagement posed no threat to the independence and objectivity of KPMG in its role as the Group's statutory auditor. The total fees paid to KPMG for this engagement in 2011 were $1.09 million.

Corporate governance continued

Section 166: Liquidity Reporting
KPMG was engaged as a skilled person for the purposes of preparation of a Section 166 report on the Group's Liquidity Reporting. The FSA required all UK banks to provide a skilled persons' report on FSA Liquidity Reporting under Section 166 of the Financial Services and Markets Act 2000 (the Report). The Report was intended to give the FSA assurance as to the quality, accuracy and reliability of firms' liquidity reporting processes. KPMG was selected on the basis of its familiarity with both the Group's liquidity reporting systems and general governance and control systems. The FSA confirmed that the skilled person could be a member of the firm's auditors provided that the audit firm had not advised on the implementation of the liquidity reporting systems under review. KPMG's role in this engagement was to provide an objective view as to whether the Group has applied external regulations appropriately and therefore this engagement posed no threat to the independence and objectivity of KPMG in its role as the Group's statutory auditors. The total fees paid to KPMG for this engagement in 2011 were $542,000.

Group Internal Audit and Group Compliance
We have reviewed the resourcing and proposed work plans for both the Group Internal Audit and the 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 addition, regulators in many of our countries of operation 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 this has reinforced a number of the Groups assurance activities.

As a Committee we monitored and assessed the role and effectiveness of our Group Internal Audit function. The Committee has monitored the progress action that has been made in light of the recommendations made by Deloitte in its effectiveness review of Group Internal Audit. This review found that Group Internal Audit demonstrates good industry practice and is perceived positively by its key stakeholders. A number of recommendations were made to further enhance the capability and delivery of Group Internal Audit.

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.

Interaction with management
On a regular basis the Committee meets separately with our Group statutory auditor KPMG, the Group Finance Director, Group Head of Internal Audit and Group Head of Compliance. These meetings allow Committee members to discuss freely matters relating to the auditor's remit and issues arising from the audit.

Regulatory and legal requirements and issues
The Committee's terms of reference have been expanded to include financial crime risk as part of the report the Committee received from the Group Money Laundering Officer. We have also considered the likely impact of the Foreign Account Tax and Compliance Act and the UK Bribery Act. The Group is fully compliant with the six principles set out in the UK's Ministry of Justice guidance issued in conjunction with the UK Bribery Act. The principles cover the need for proportionate procedures, top-level commitment, risk assessment, due diligence, communications and training, and monitoring and review. The Group's controls have been enhanced to meet the requirements of these principles.

The Group's commitment within this principle is evidenced by the Group's anti-bribery policy, the Group Code of Conduct, senior management's messaging around training and, importantly, operating in accordance with the Here for good brand promise. The Group's commitment is also demonstrated through its continuing involvement in the development of industry best practice contributing to a number of organisations aiming to fight bribery. These include the British Banker's Association, the International Chamber of Commerce, the Wolfsberg Group and the United National Global Company Working Group against Corruption.

Ongoing training and development
In addition to other ongoing training and development activities in each non-executive director's engagement or induction plan, four half-day informal 'deep-dive' sessions were held in conjunction with the Board Risk Committee over the course of the year. These sessions covered assuring control effectiveness, Group Internal Audit coverage in terms of markets and products, major credit exposures, processes and methodologies for pricing risk and the risks associated with managing industry sector concentrations. All non-executive directors were invited to these sessions.

Speaking Up Policy
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 has reviewed these arrangements and ensured that any matters of concern were investigated appropriately.

What action have we taken following the findings of our 2010 Committee effectiveness review and what were the findings of the 2011 review?

2011 Observations	2011 Actions taken/ to be taken	2010 Observations	2010 Actions taken
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 will mirror 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 Committees with an appetite to delve more deeply into a particular topic. Consideration will be given to holding informal sessions over the course of the year to enable the Committee to reflect on issues being brought to its attention, consider 'bigger picture' issues and focus more on root causes.	The Committee would find it beneficial to increase the number of half-day informal meetings a year from two to three.	Four half-day Audit Committee 'deep dive' sessions were held in 2011 covering audit specific matters. In addition to audit specific topics, the agenda for the sessions also covered risk related matters including a review of major credit exposures, pricing for risk and managing industry sector concentrations thereby building on the linkages and synergies which exist between the Audit Committee and the Board Risk Committee.
Continue to focus on the effective linkages between the Committee, and subsidiary board audit committees.	The ways in which the Committee gains greater insight into the role of the Group's subsidiary board audit committees will be evolved and implemented in 2012. Opportunities for further refinement will be identified and implemented in 2012.	As part of ensuring best practice, the Chairman should meet with the audit committee chairmen of other UK banks.	Rudy Markham met with the audit chairmen of three UK banks over the course of the year which assisted in the benchmarking of the Committee's activities against those of other UK banks.

Committee membership
The Nomination Committee has reviewed the Audit Committee's composition during the year and is satisfied that the Audit Committee has the expertise and resource to fulfil effectively its responsibilities including those relating to internal financial controls and the Group's internal control systems.

One of the findings of our 2011 committee effectiveness review was that the Committee's size and composition are appropriate and that the Committee members possess the necessary accounting, financial, legal, banking and investment knowledge and skills that are needed.

Our Committee members have detailed and relevant experience. Details of their experience can be found in their biographies on pages 94 to 96. All of the Committee's members are independent. The Board is satisfied that Rudy Markham as Chairman has 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

Our highlights

- Continued to build on the work carried out by the Committee in 2010 on the Group's risk appetite, taking into account the macroeconomic and financial environment
- Continued to conduct 'deep dives' into selected areas of risk
- Continued focus on how the Group was managing any exposures affected by the eurozone crisis, large exposures, concentrations and correlations
- Oversight of transformational programme for the Operational Risk function designed to build a stronger framework
- Continued focus on stress testing, especially against Group risk appetite and liquidity stress testing
- Reviewed the Internal Capital Adequacy Assessment Process and the Individual Liquidity Adequacy Assessment
- Maintained oversight of the operational aspects of the Group's Recovery and Resolution Plan
- Optimised and enhanced the Committee's effectiveness through refining the reports it receives and continuing to evolve the Committee's terms of reference and rolling agenda

2012 priorities

- Continue to ensure that the right balance is struck between strategic forward looking oversight of the Group's risks and more detailed review of management information and risk management processes across the full spectrum of risk types
- Evolve how the Committee tracks over time the Group's utilisation of risk capacity and of our exposure to key risk types
- Increased focus on where risk is changing in our markets
- Continue to evolve the linkages between the Committee and those with Board, board committees and management committees

Dear Shareholder

2011 was the first full year of operation for the Board Risk Committee following its establishment in March 2010. The Group's major markets performed better in 2011 than most Western economies, but the combination of continuing very large scale disruption in global financial markets with an unprecedented volume of regulatory activity has posed significant challenges. In an increasingly difficult external environment, the overarching objective of the Committee's work has been to maintain assurance that the Group continues to operate within Board approved strategy and risk appetite, and that the Group's risk management systems and controls are properly structured and implemented.

The report below provides further details of the Committee's work in 2011. While maintaining focus on risk appetite at Group level, we have also devoted much attention to reviewing the processes by which risk is managed at individual country and portfolio level, challenging management to demonstrate a consistency of approach regarding the risk/return equation across all countries and businesses. We have focused particularly on large exposures. Although the Group's geographical diversification is an important risk mitigant, we have reviewed management's alertness to possible correlations that could emerge and cause unacceptable losses under stress.

The Committee believes that the effectiveness of the Group's risk management system is critically dependent on the management resources that operate it. We have kept this under review during 2011, both through formal discussion of the quality, independence and depth of the Risk function and through numerous interactions between members of the Committee and risk personnel at all levels. In the course of the year Committee members have met with risk teams in Hong Kong, Vietnam and Uganda.

Board Risk Committee Members

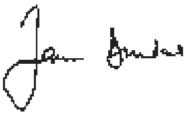
	Scheduled meetings 6	Ad Hoc meetings 1
J F T Dundas (Chairman) (4)	6/6	1/1
R Delbridge (5)	6/6	1/1
S J Lowth[1] (2)	1/1	0/0
R H P Markham (3)	6/6	1/1
R Markland (6)	6/6	1/1
P D Skinner (7)	5/6	1/1
O H J Stocken (1)	4/6	1/1

1 Appointed 1 November 2011

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.

The synergies between the membership of the Risk and Audit Committees have enhanced our effectiveness, and the breadth of experience that Committee members bring with them has stimulated broad debates. Simon Lowth joined the Committee in November 2011, bringing with him significant financial and risk management experience. Regular attendance at Committee meetings by the Group Chairman, Group Chief Executive Officer, Group Finance Director, Group Chief Risk Officer, and the Group Head of Internal Audit has supported the Committee's discussions. The Committee also holds private meetings with the Group Chief Risk Officer and the Group Head of Internal Audit.

I can confirm that the information that the Committee has received has been balanced, appropriate and timely, and has enabled the Committee to fulfil its remit.



Jamie Dundas
Chairman of the Board Risk Committee

Risk management

A report from the Group Chief Risk Officer is presented at every scheduled meeting and the Committee has discussed with management the major risks faced by the Group across its businesses and geographies. We believe that it is good practice to have a Risk Appetite Statement that is positioned as a high level boundary condition. This statement is underpinned by a range of tools and metrics that are used to manage risk throughout the Group. In December 2011, the Committee recommended to the Board that it should reaffirm the current Group Risk Appetite Statement. The Committee seeks and has received at each of its scheduled meetings confirmation that the Group remains within the Board approved risk appetite. In addition to specific reporting and stress testing against Board approved risk appetite, the Committee also received and reviewed a wider range of risk metrics and ensured that the Board is kept informed of this review.

All directors receive a summary of the risk information report for each Board meeting and minutes of Committee meetings. Jamie Dundas, as Committee Chairman, periodically provides an update to the Board on risk matters. There are half-day 'deep dive' sessions to which all directors are invited – the last four sessions have covered risk appetite, major credit exposures, processes and methodologies for pricing risk and managing industry sector concentration risk.

We continued to focus on how the Group was managing any exposures affected by the eurozone crisis in addition to a focus on large exposures, concentration and correlations.

Capital and liquidity

Given the criticality of capital and liquidity matters in 2011, over the course of the year the Committee has maintained its focus on this area. A report from the Group Treasurer is presented at every scheduled meeting and the Committee considers and discusses the Group's capital and liquidity position, and the regulatory environment and expectations. In addition to receiving regular liquidity updates, we have reviewed the liquidity risk stress test approach, the liquidity risk appetite, the liquidity risk stress testing framework and the results of the liquidity deep dive conducted by the FSA.

Corporate governance continued

We have received and commented on reports on the Group's capital base and plans for capital and debt issuance and discussed in detail drafts of the Group's internal capital adequacy assessment process and individual liquidity adequacy assessment prior to them being submitted to the FSA. In addition, the Committee reviewed the FSA's Liquidity Deep Dive letter and Risk Mitigation Plan.

Stress testing
The Committee has discussed the Group's plans for stress testing at business, country and client levels. We also discussed in detail the regulatory requirements for Reverse Stress Testing. We considered management's proposed stress testing plan for 2011, which included regulatory and reverse stress testing and made a number of recommendations to management as to what could be included as part of the stress testing programme.

We have had oversight of the operational risk transformational programme, the aim of which is to build a stronger framework for internal control in order to remain within our low level of appetite for operational losses. This programme has focused on implementing a more forward-looking risk identification capability, a model of more predictive intelligence around these risks and a more effective and efficient governance framework to enable senior management to critically assess and either accept or mitigate them.

Regulatory and legislative changes
Given the increasingly difficult external environment, there is a need for the Committee to continuously evolve to keep abreast of the changing landscape and regulatory environment so as to be in a position to maintain assurance that the Group continues to trade within Board approved strategy and risk appetite, and that the Group's risk management systems and controls are effective and properly implemented.

Over the course of the year, the Committee has had oversight of the operational aspects of the Group's Recovery and Resolution Programme particularly in relation to recovery.

Risk aspects and implications for risk appetite of strategic transactions
In addition to the six scheduled Committee meetings and four informal 'deep dive' sessions in 2011, there was one ad hoc meeting, the purpose of which was to review the due diligence processes and potential effect on Group Risk Appetite for an acquisition that was not proceeded with.

Risk management disclosures
The Committee reviewed the risk disclosures in the Annual and Interim Reports and 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.

Other activities
Over the course of the year the Committee has selected a number of topics for more detailed discussion at Committee meetings. These included the underwriting and syndication process, the Group's recovery and resolution plan, the use of insurance to mitigate risk, risk appetite assessment plans, and the Group's approach to liquidity risk stress testing. In order to gain a greater understanding of the role that the risk function and other control functions play in the annual remuneration process, the Committee discussed with the Group Chief Risk Officer the matters in which he had been advising the Remuneration Committee.

Qualifications of Risk Committee members

The Committee's composition reflects our belief that it is essential that the Committee benefit from a deep and broad experience of banking and of the risk factors affecting it, but also from the very senior experience of other industries and professions. Simon Lowth joined the Committee on 1 November 2011, bringing with him significant financial and risk management experience.

What action have we taken following the findings of our 2010 Committee effectiveness review and what were the findings of the 2011 review?

An internally facilitated effectiveness review was conducted in 2011. This was facilitated by Corporate Secretariat and involved each Committee member completing a questionnaire and providing feedback on the Committee's effectiveness. The feedback was then formally discussed by the Committee. Whilst all of the Committee members believed that the Committee had been performing well and was effective, there were emerging themes to discuss. For example, whether 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. An action plan has been formulated to address the observations and a summary of the findings appear in the table below.

2011		2010	
Observations	**Actions taken/ to be taken**	Observations	Actions taken
The Committee has benefited from further 'deep dives' into selected topics over the course of the year.	**The 'deep dives' will continue in 2012.**	The Committee would benefit from further 'deep dives' into selected topics such as liquidity, exposure to banks, reliance on models and stress testing.	In addition to the deeper discussions held at Committee meetings on selected topics, over the course of the year, the Committee has held four half-day 'deep dive' sessions on managing industry concentrations, the processes for pricing for risk in our Consumer Banking and Wholesale Banking businesses and a review of major credit exposures.
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.	**Going forward key subjects covered by individual components of the regular report submitted to the Committee will be incorporated into the Committee's rolling agenda as individual agenda items so that each such subject receives specific scheduled attention as appropriate. The fuller report containing much deeper and granular information will continue to be available as a resource for Committee members to draw upon.**	As part of the process to ensure that the Committee is effective, it would beneficial if the Committee's activities were benchmarked against those of other board risk committees.	Over the course of 2011 Jamie Dundas met with the risk committee chairmen of a number of UK banks.
There is a need for the Committee to further explore the bigger trends in terms of risk capacity and utilisation in the markets and an increased focus on where risk is changing.	**Committee papers will be evolved to enable further exploration of these areas.**	Committee members to continue to visit a variety of the Group's markets and continue to engage with many levels of the Group's risk management across our footprint.	All Committee members have unfettered access to management at all times and in all geographies. In 2011, members of the Committee have met with risk management staff in many locations including Hong Kong, Jakarta, Mumbai and New York.

Brand and Values Committee

Our highlights

- Progressed on the brand journey in terms of active brand tracking, development of clear metrics to maximise brand spend, and the introduction of the brand 'funnel tool'[1]
- Against a backdrop of economic and market volatility conducted an enhanced review of the reputational risks affecting the Group including processes and outcomes, whilst regularly tracking movements in reputational risk
- Reviewed the progress made in delivering customer/client focused strategies in Wholesale Banking and Consumer Banking, in line with our Here for good brand promise and approach to Treating Customers Fairly
- Continued to review our community investment and environmental strategies and processes for measuring and monitoring our environmental impact
- Received assurance that we maintain and develop our culture and values during a period of rapid growth of the Group
- Reviewed the quality and effectiveness of government and regulatory relationships in our major markets

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

2012 priorities

- Continue to develop and enhance a structured approach to growing our brand and monitoring progress using the brand funnel tool[1]
- Continue to drive maximum value from our brand investment programmes including our sponsorship of Liverpool Football Club
- To satisfy the requirements of the Group Risk Appetite Statement, conduct reviews of 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 challenging, complex and differential regulatory landscape
- Review and refresh the Group's overall environmental strategy in terms of both internal direct impacts and external contribution
- Continue to oversee our culture and values as the Group grows and develops to ensure that it remains a positive and prominent feature of our governance

Dear Shareholder

The Brand and Values Committee has completed its second year of operation and continues to make good progress on its key priorities including, but not limited to, the main themes of brand, customer/client focus, reputational risk, sustainability and culture and values.

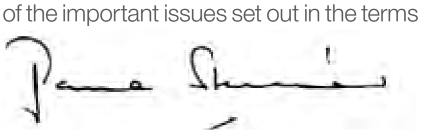
I am pleased to report that there have been important advances on the development of our brand. Active brand tracking via consumer research has enabled trends to be identified in various markets and clear metrics have enabled informed decisions on how and where, through brand expenditure, maximum value is derived. Apart from direct business-related programmes in our individual businesses, the Here for good programme and sponsorship of Liverpool Football Club have had a positive impact on our brand position.

The work of the Committee has continued to focus on the importance of client and customer relationships. We have monitored the implementation of customer/client focused strategies ensuring that they are in line with our Here for good brand promise; and more specifically, we have reviewed what is being done to develop a deeper understanding of customers/clients in our markets. This work has included detailed reviews of management's approach to Treating Customers Fairly (TCF), a key FSA principle for customer banking relationships.

The Committee has continued to oversee the broad area of reputational risk to provide assurance that the management process is robust. We have reviewed the challenges faced in some of our key markets around the issues of diversity and inclusion, and the steps being taken by the Group to ensure that we are an inclusive employer, committed to enhancing diversity across the organisation.

We live in an increasingly challenging world with many of our markets particularly vulnerable to climate change and changing environmental, as well as economic, conditions. The Committee has looked in depth into the management of our operational impact on the environment. It has been reassuring to note the real progress being made against our long-term targets to significantly reduce our energy, water, air travel and paper consumption. We also monitor the lending and investment policies of the Group in sectors related to sustainable growth.

We have taken pro-active steps to monitor the added value from the Committee. We have sought feedback from the executive management on the value that the Committee has added to their businesses/functions and ways in which it has helped better manage risk. As Chairman I will continue to explore ways in which the Committee can continuously enhance its oversight of the important issues set out in the terms of reference.



Paul Skinner
Chairman of the Brand and Values Committee

Brand and Values Committee Members

	Scheduled[1] meetings 5
P D Skinner (Chairman) (3)	5/5
J F T Dundas (1)	5/5
V F Gooding (5)	5/5
Dr Han Seung-soo (6)	4/5
Sir John Peace (4)	4/5
P A Sands (2)	5/5

1 There were no ad hoc meetings of the Committee during 2011

Other regular attendees at Committee meetings include: Group Head of Human Resources and Communications; Group Head, Corporate Affairs; Director, Property, Research and Assurance; Group Company Secretary; Special Adviser to the Directorate.

What is the Committee's role?

The Committee's remit includes oversight of the Group's brand positioning, reputational risk, customer/client focused strategies including Treating Customers Fairly, regulatory relationships, sustainability issues and our culture and values.

Brand

We have focused on the direction of brand management to ensure that the value of our brand continues to grow. The Committee has oversight of the processes to ensure brand consistency throughout the Group, to ensure brand governance and has conducted regular reviews of brand tracker data. Active brand tracking has been enhanced since March 2010. There are now sufficient data points in place to better understand trends in various markets. Clear metrics have enabled informed decisions on how and where we spend on brand and the balance between corporate and business-driven expenditure. The introduction of the brand funnel tool, whilst complementing the brand tracker data, has demonstrated how awareness translates through consideration to purchase. It has proved particularly helpful in allocating appropriate levels of brand expenditure in major markets like India and China.

Reputational risk

During the year, we have conducted a review of the reputational risks affecting the Group including processes and outcomes. This included two country 'deep dives' into challenging reputational risk situations that arose in Bahrain and Hong Kong. These reviews enabled the Committee to obtain a practical understanding of how reputational risk events are managed as they unfold, how decisions are made internally, and how lessons learned are used within the Group.

At each Committee meeting, the most significant and forward-looking reputational risks facing the Group are considered and reviewed. A 'heat map' is presented that sets out the forward-looking reputational risk from the lenses of multiple external stakeholders such as Socially Responsible Investors (SRIs) and Non Governmental Organisations (NGOs).

The Committee has sought and received assurance from management that the mechanisms in place for monitoring reputational risk remain robust and reporting to the Committee remains fit for purpose.

On behalf of the Board, we have reviewed the Group's approach to managing reputational risk in line with the Group Risk Appetite Statement.

Sustainability

In an increasingly turbulent financial services environment, we endeavour to justify our social usefulness to wider stakeholders.

The Committee reviewed the sustained progress being made in managing our direct operational impact on the environment. For example, in 2010 total energy consumption reduced by approximately 10 per cent and water usage reduced by 34 per cent. The Committee's discussions drew out the important fact that it is often the smaller low-cost initiatives that matter, such as the use of water-saving devices in water cisterns and tap leak management.

The Group has 14 sustainable finance position statements. In order to deepen the knowledge of the Committee, as part of a review of the Group's approach to sustainable finance, a review was carried out into the Palm Oil Position Statement using a client case study to demonstrate how the position statement is translated into action.

In 2011, the Group was included in the 2011 Dow Jones Sustainability World Index for the second time. We continue to be listed on the FTSE4Good and FTSE4Good Environment Indexes as well as the 2010 Ethisphere World's Most Ethical Companies. We won the FT ArcelorMittal Boldness in Business Award for Corporate Responsibility and were named as a Top 8 Group in Managing Environmental, Social and Governance Issues by GS Sustain. Further details can be found on pages 46 to 49 and in our separate Sustainability Review.

Corporate governance continued

Culture and values

The Committee remains fully supportive of the work carried out in the Group to reinforce our culture as a source of competitive advantage. This year, the Committee conducted an in-depth review of one key priority for the Diversity and Inclusion (D&I) agenda, enhancing the D&I of our talent pools in China and the Middle East. This deeper dive brought out the challenges faced in these markets and steps being taken by the Group to remain inclusive and enhance our diversity.

The Committee explored the use of our primary employee engagement measurement tool (the Q^{12} survey) and the value of the data that it provides to ensure that it remains an appropriate and effective tool. This process included a deeper review of the data for China. This highlighted both the opportunities and challenges involved in our current engagement approach. We reviewed the results of the responses to the Q^{12} survey and the actions to be taken by management in response to them.

Customer/client focus and Treating Customers Fairly (TCF)

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. We have reviewed and challenged management's approach to TCF, to ensure that these principles are clearly embedded in the Group's operations. We have conducted two in-depth reviews into TCF that included 'live' data examples from our markets.

Here for good

We have overseen the development and delivery against policy statements made by the Group regarding activities and businesses Standard Chartered will and will not do in line with our Here for good brand promise. The Committee has received updates on the Group's approach to Sustainable Finance, including our Clinton Global Initiative commitment, Renewal Energy and Environmental Finance and Environmental and Social Risk management.

Government and regulatory relationships

We have continued to oversee the Group's approach to our government and regulatory relationships in major markets. This took the form of a progress report on the quality of relationships and the work underway to strengthen these relationships and key emerging trends in these markets. The Committee has aligned its work in this area with that of the Audit Committee to ensure they are complementary.

Committee effectiveness review

This year, in addition to the internally facilitated effectiveness review, the Committee has taken pro-active steps to test the effectiveness of the Committee by asking regular management presenters to provide feedback on the value that the Committee has added to their businesses/functions.

Furthermore, a comprehensive briefing session to non-Committee members was provided during the year to explain the work the Committee has been involved in on brand and culture and values.

What action have we taken following the findings of our 2010 Committee effectiveness review and what were the findings of the 2011 review?

2011		2010	
Observations	**Actions taken/ to be taken**	Observations	Actions taken
Committee effectiveness could be enhanced by the use of more 'deep dives' to gain a greater understanding of how issues are managed in practice.	**Agenda items in 2012 will include in-depth country analyses to ensure the Committee appreciates how policies are operationalised in different contexts.**	To identify further opportunities where a wider group of senior business leaders can contribute to the Committee's discussion on relevant topics.	There has been further participation from the business at Committee meetings, including the Heads of Wholesale Banking and Consumer Banking. This will continue into 2012.
Wider senior management exposure to the Committee could assist with discussions at Committee meetings.	**Attendance by a broader pool of senior executive management at Committee meetings will be encouraged when benefit can be derived. This will include further use of video conferencing to enable senior management based in our markets to fully participate in discussions.**	Review and clarify any potential linkages that exist with the other Board committees.	Marginal overlaps of activity between Board committees have been progressively removed.
There is a need to continue to ensure that the right balance is struck in the provision of information to the Committee so as to enable it to discharge its role without over engaging in detailed operational issues.	**Consideration will continue to be given to the structure and content of meeting agendas and papers to ensure that an appropriate balance is struck between additional background information designed for optional reading and that provided for the purpose of meaningful discussion at Committee meetings.**	Explore opportunities for Committee members to participate in Corporate Social Responsibility activities first hand whilst visiting overseas markets.	Committee members have participated in a number of Corporate Social Responsibility activities including tree planting in the Karura Forests and attending an empowering women event as part of the overseas Board meeting in Kenya, visiting a vision centre in Mumbai as part of our Seeing is Believing initiative, and visiting a school refurbished by our employees in Chennai.
Senior management would benefit from greater engagement with Committee members outside of formal meetings.	**Mechanisms to achieve this will be explored, for example, one-on-one meetings between the Committee Chairman and members of senior management and engagement with local managers during Board visits to operating locations.**	Benchmark the Committee's activities against other global organisations to ensure best practice is being followed.	A benchmarking review was undertaken in 2010 that concluded that the Committee has a distinct mandate amongst global banks by linking brand and values as separate areas of governance focus.

Governance Committee Members

	Scheduled[1] meetings 3
Sir John Peace (Chairman) (2)	3/3
R H P Markham (3)	3/3
P A Sands (1)	3/3

1 There were no ad hoc meetings of the Committee during 2011

Other attendees at Committee meetings include: the Group Company Secretary. Regional Governance Chief Executive Officers are invited to attend on an occasional basis.

Our highlights

- Considered the FSA's in-depth assessment of the effectiveness of the Group's governance as part the FSA's evolving supervisory approach under their Core Prudential Programme
- Continued to monitor closely corporate governance best practices to enable recommendations to be made to the Board concerning the adoption of enhanced practices
- Provided oversight of the development of the Group's refreshed Governance Manual
- Continued to review the effectiveness of the Group's geographic governance framework
- Considered and agreed the most appropriate mechanisms for reviewing the effectiveness of the Board, Board committees and individual directors in 2011 and monitored progress of actions arising from the 2010 reviews
- Oversight of responses to various consultations and emerging regulations regarding corporate governance practices

2012 priorities

- Intensify oversight of the philosophy underpinning our approach to subsidiary governance
- Continue to have oversight of the approach for effectiveness reviews of our Board, Board committees, individual directors and Group Chairman
- Continue to review governance trends across our markets
- Maintain oversight of the Group's thought leadership position in the corporate governance arena

What is the Committee's role?

The Committee was formed in 2010 as a result of one of the recommendations arising from the internal governance review that we conducted in 2009. The Committee is an enabling body to provide a more formal and structured mechanism to consider corporate governance issues. In addition to providing oversight of all material corporate governance issues affecting the Group and make 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.

Corporate governance issues

The Committee received regular updates on key governance issues and trends faced across the Group's footprint. For example, the Committee has considered the increasing trend across our markets for our subsidiaries to have more independent non-executive director representation on their boards and the emerging requirement for subsidiaries to have additional board committees.

Anticipating and responding to the changing corporate governance landscape

During 2011, there was a steady stream of governance publications and consultations. The Committee has had oversight of the approach that has been taken in responding to these. At each meeting, the Committee receives an update on events in the corporate governance environment in terms of industry consultations, developments and best practice in our markets. The update includes consideration of any emerging trends such as governance codes, standards and legislation that are being enhanced and implemented in the markets in which we operate.

The Committee reviewed the trend towards increased subsidiarisation. It was agreed that although the Group's approach to subsidiary governance is currently fit for purpose, it would be beneficial to review and refresh the philosophy underpinning this approach going forward. This will be a key focus for the Committee in 2012.

Board, committee, individual director and Group Chairman effectiveness

During the year, the Committee reviewed the process for assessing the effectiveness of our Board, each of the Board's committees, our Group Chairman and each individual director. When considering the 2011 approach for assessing the Board's effectiveness a number of factors were considered. These included the fact that an externally facilitated review was conducted in 2010 and that the FSA had conducted an in-depth review of the Group's governance structure and practices during 2011. As a result, the Committee supported the proposal to supplement these external reviews with an internal review process facilitated by Corporate Secretariat.

The Committee considered the outcomes of all effectiveness reviews (Board and Board committees). As a result of the 2010 effectiveness review we continued to increase opportunities for informal discussions to complement the Board's formal agenda. In 2011 many Board members commented that this had led to a continued enhancement of the Board's effectiveness. The Committee will continue to maintain oversight of the balance of formality and informality of the Board, considering how the right balance is maintained as the Group continues to grow.

The Committee has focused on achieving the appropriate balance between topics covered by the Board as a whole, Board committees and the wider management. The Committee continues to have oversight of the linkages between the Board and its committees.

Geographical governance

The Committee has reviewed the geographic governance framework that is applied consistently across the Group, including the linkages that are in place between our Board and our banking subsidiary boards.

The Committee also reviewed the findings of the subsidiary governance review that was undertaken by our Group Internal Audit function. No significant findings arose from the subsidiary governance review, which acknowledged the progress made in the implementation of a robust governance framework for the Group's non-banking subsidiaries and Special Purpose Entities.

As part of the review of the geographical governance framework, the Committee was provided with an overview of the new chief executive officer academy that was piloted in 2011, the aim of which is to provide training to both existing country managers and those in the pipeline for future senior appointments. The Committee recommended that the Nomination Committee review the initiative as part of its annual review of country chief executive officer succession planning, thereby demonstrating an awareness of the work undertaken by other Board committees and the need to ensure that there are no gaps between the remit of the various committees or unnecessary duplication.

What were the findings of the 2011 Committee effectiveness review?

The Governance Committee was formed in 2010. In 2011 when the Committee considered its own effectiveness it recognised the valuable role it plays in succinctly capturing governance and other issues which may not be covered in depth in any other forum. The importance of the linkages between the Board and its subsidiaries was also highlighted. In their report following the FSA's core prudential programme governance review, the FSA endorsed our decision to create a dedicated Governance Committee noting that it was a welcome addition to our suite of Board committees.

Nomination Committee Members

	Scheduled[1] meetings 3
Sir John Peace (Chairman) (4)	3/3
J F T Dundas (5)	3/3
R H P Markham (1)	3/3
R Markland (6)	3/3
P A Sands (3)	3/3
P D Skinner (2)	2/3

1 There were no ad hoc meetings of the Committee during 2011

Other attendees at Committee meetings include: Group Head of Human Resources and Communications and the Group Company Secretary.

Our highlights

- Increased focus on Board and committee succession, viewed over a five-year horizon and beyond
- Continued focus on executive succession planning including consideration of diversity issues
- Reviewed Lord Davies' report entitled 'Women on Boards' in the context of our approach to diversity and inclusion
- Reviewed the programme whereby non-executive directors mentor the senior leaders programme

2012 priorities

- Continued strong focus on executive succession planning
- Delivery of the first phase of our 2015 Board composition plan

What is the Committee's role?

The Nomination Committee is an enabling committee consisting of the chairs of each of the other board committees plus our Group Chairman and Group Chief Executive Officer.

The Committee's 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.

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

On behalf of the Board, we have focused on the current and future composition of the Board and its committees. The Committee looked at succession through the lens of the desired 'future state' for the Board's composition for 2015 and beyond and then worked backwards to determine the practical steps needed to achieve that desired state.

In particular, we assessed the desired Board composition through various lenses including requirements for technical knowledge. This included banking, risk, accounting and financial acumen. Also, diversity of perspective is a key factor including gender and geographic diversity. In addition, an increasingly important factor is the capacity of prospective directors to devote the necessary time to the role. We estimate a time commitment of between 35 to 50 days each year for Board membership with significant additional time requirements associated with committee membership.

We welcome Lord Davies' report entitled 'Women on Boards'. Standard Chartered, with its distinctive footprint, has a long history of diverse Board membership. We strongly believe that a highly effective board is about chemistry and behaviours, underpinned by robust processes. Our Board contains individuals who have diverse skills, knowledge and experiences that combine to provide different perspectives and effective board dynamics.

We believe that all board appointments should be based on meritocracy and that diversity in all its aspects, including gender diversity, is important. As mentioned earlier, our comprehensive review of the Board's composition looking forward to 2015 and beyond has now begun. Whilst not specifically committing to the use of quotas in relation to any aspect of our Board's composition, all other things being equal, it is reasonable to anticipate that, over time, the proportion of women on our Board will be broadly in line with the sentiments expressed in Lord Davies' report.

During the year the Committee also considered guiding principles to help inform the Board's thinking around conversations regarding Board and committee composition. Without being exhaustive these principles include such factors as tenure, cross membership of committees and board guidance regarding board and committee size and composition.

There are 17 directors on our Board, six of whom are executive directors. We see it as a distinct advantage to have a significant number of executive directors on our Board as this provides the Board with a greater line of sight into our business and geographic diversity.

The Committee (supported by the Board) recognised that for an organisation of the nature, scale and complexity of the Group there is real merit in retaining at all times a core of more long-standing directors that have a deep knowledge of the Group.

Executive mentoring and development

We reviewed the feedback received from the programme whereby some non-executive directors mentored senior leaders. This programme was introduced in 2010. The programme was established with the aim of providing development support to several of our most senior high level potential leaders and allows our non-executive directors to gain a more in-depth perspective of the strengths and capabilities of these individuals. The feedback from the programme participants described a wide range of perceived benefits. For the non-executive directors it has provided a greater appreciation of the challenges faced by senior leaders and the opportunity for non-executive directors to provide context as to how our Board perceives issues and takes decisions. Feedback from our senior leaders noted that the programme has provided objective input that challenged their current thinking. As a result of the positive feedback received, we agreed to continue the mentoring programme, expanding it to allow additional senior leaders to participate.

The Committee reviewed executive succession plans for the Group Management Committee (GMC) and senior leadership, which covered our regional and country chief executive officers and all business and function roles that report directly to the GMC.

Development plans are in place for key internally identified candidates for the key country chief executive officer roles. At the request of the Governance Committee, we reviewed the new chief executive officer academy as part of our annual review of country chief executive officer succession planning.

The Committee reviewed an assessment of the independence of long standing directors and in particular those non-executive directors who have been members of our Board for more than six years. The Chairman took their length of service into consideration when reviewing their performance and effectiveness. It was observed that, particularly in the case of the committee chairmen, there is positive benefit to having non-executive directors with a deep and long-standing knowledge of the Group in these roles.

Rudy Markham has been on the Board for 11 years and as a result, his continued independence has been the subject of particular scrutiny. The Committee has considered this point in detail. It was concluded that Rudy habitually displays independence of thought and judgment and this has not diminished over the period of his tenure. Further details of the factors considered are on page 107.

Re-election of the Board

In 2011 we decided to move to annual re-election of all directors and will continue with this practice at our 2012 Annual General Meeting.

As a result, the Group Chairman reported to the Committee on the outcome of his performance evaluation of each individual director. The Committee used this, along with details of meetings attended, time commitment, overseas visits, fulfilment of other activities outlined in each director's engagement plan as well as other contributions when assessing each director's performance. As a result, the Committee was comfortable to recommend to the Board that each of the directors be eligible for re-election by shareholders at the next Annual General Meeting in May 2012.

Situational conflicts

As part of its remit, the Committee reappraised authorisations that it had provided for situational conflicts under the Companies Act 2006. It also reviewed and approved pre-authorisation on behalf of the Board for several newly arising potential situational conflicts.

What were the findings of the 2011 Committee effectiveness review?

The Committee discussed its effectiveness through the year. It was recognised that having each committee chairman represented alongside the Group Chairman and Group Chief Executive Officer provided a useful linkage between the various committees. Other non-executive directors who are not committee members commented that they appreciated receiving periodic updates on the Committee's activities and particularly the evolving thinking on executive and non-executive succession planning.

Directors' remuneration report
Rewarding for sustained performance

Ruth Markland
Chairman of the Remuneration Committee

"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."

Dear Shareholder

Remuneration in the banking industry has remained under significant scrutiny in 2011. More and more countries are consulting on and introducing their own remuneration regulations. Within Europe and the UK in particular we have seen the regulatory enhancements of the past three years continue to evolve through the introduction of new guidelines and further consultation in relation to remuneration structures and disclosure. The Remuneration 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 meeting the specific requirements of regulators' guidelines, we take a global approach on remuneration, as 98 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, with salary inflation in several markets double digit.

Aligning remuneration policy to business strategy

As described in more detail later, 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.

Throughout 2011 the Committee has worked closely with the Board to ensure that there is a collegiate approach to decision making on pay. Our focus continues to be based around rewarding for sustained performance over time. Decisions for pay in 2011 are strongly based on differentiation both for performance and for behaviours – we do not reward failure.

Global regulatory environment

Although 2011 has seen some convergence of regulatory requirements in Europe and some of our markets, significant differences remain and this was acknowledged in the Financial Stability Board's recent thematic review. This unlevel playing field continues to add challenges to how we respond in competitive environments across Asia, Africa and the Middle East. As in previous years, we continue to support remuneration practices that encourage financial stability, strong risk management processes and behaviours. We have also met the more extensive disclosure requirements imposed in 2011 by both the European Union and the Financial Services Authority (FSA) and await the outcome of the European Banking Authority's review of certain aspects of remuneration. We will also actively monitor future developments following the UK Government's recent consultation on executive remuneration structures and disclosure.

Changes to our variable compensation plans

At the 2011 Annual General Meeting shareholders approved the 2011 Standard Chartered Share Plan (95 per cent voted in favour). Following the cessation of the 2001 Performance Share Plan, shareholders have now approved a more flexible share plan that has allowed for simplification of the way in which the FSA's remuneration requirements are met, as a variety of award types can now be made under the same plan, including performance shares, deferred shares, restricted shares and deferred cash. Performance shares remain a key element of our compensation arrangements for both executive directors and several layers of senior employees within the Group.

During 2011 we also reviewed the Group's existing deferral framework. The current Group-wide policy means that the deferral framework applies to all employees, overlaid where there are requirements for a higher deferral level by local regulators. We felt that it was appropriate to maintain the current approach and all our employees continue to be subject to the higher of our deferral framework or regulatory requirements. We believe that the current deferral levels remain meaningful and appropriate. We have also chosen to amend the existing deferral mechanism so that employees who have the highest proportion of their annual performance award deferred may elect for a portion to be deferred in cash (50 per cent of the deferred amount), with the balance continuing to be deferred in shares in line with market practice.

Retirement benefits

The Committee has also undertaken a comprehensive review of pension provision arrangements for the Group's executive directors. Following this review, all newly appointed executive directors will be eligible for an executive pension allowance to fund personal arrangements rather than be eligible for a defined benefit promise. We will honour the contractual arrangements currently in place for existing directors, albeit the cost of such arrangements will continue to be fully factored into 'total compensation' decisions taken by the Committee.

Year-end compensation decisions

As in previous years, in considering the level of year-end compensation, the Committee carefully considered the balance of all stakeholders' interests including the value delivered to shareholders. The Committee recognised that 2011 was the ninth year of record income and profits. The Committee also acknowledged 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 2006:

- The Group's operating profit has risen by 113 per cent equivalent to compound annual growth of 16 per cent
- Total shareholder return has grown by 31 per cent relative to a decline of 44 per cent in our peer group
- Lending has grown by 91 per cent
- Dividends grown by a compound annual rate of 8.1 per cent year on year (adjusting for 2008/2010 rights issues)
- On the back of our strong capital and liquidity position, in recent years the Group has received ratings upgrades from the three leading credit ratings agencies

Consequently the Committee believed it was appropriate to make variable compensation awards to those that contributed to that continued success including the executive directors. These awards were at a level that rewarded that contribution and recognised the competitive markets in which we operate.

More context on the Committee's decision is set out on pages 140 and 141.

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 2012 Annual General Meeting and, in the meantime, welcome any feedback that you may have.

Ruth Markland
Chairman of the Remuneration Committee

Remuneration Committee Members

	Scheduled[1] meetings 5
R Markland (Chairman) (3)	5/5
V F Gooding (2)	5/5
J G H Paynter (5)	5/5
Sir John Peace (1)	4/5
P D Skinner (4)	4/5

1 There were no ad hoc meetings of the Committee during 2011

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; the Committee's independent remuneration adviser.

Our highlights

- The 2011 Standard Chartered share plan was approved by shareholders and the Group's discretionary share awards are now being made under it
- A detailed review of existing retirement benefit arrangements for executive directors that has led to the elimination of defined benefit pensions for all new directors
- The global harmonisation of allowances and benefits arrangements for the most senior employees of the Group
- Enhancement of the Group's claw-back and shareholding requirement policies to strengthen compliance with FSA rules and extend the application of claw-back to performance shares
- Introduction of a cash deferral element of Annual Performance Award in order to maintain a variable compensation structure that meets the requirements of our regulators and provides a competitive compensation structure relative to peers

2012 priorities

- Support the Group strategy, ensuring compliance with the dynamic regulatory environment
- Review remuneration policy in line with peer banks' approach in more detail
- Participate in national and global discussions on what future remuneration structures and reporting should look like
- Undertake a comprehensive review of performance award targets for executive directors and enhanced disclosure of how reward decisions are made relative to performance
- Review the effectiveness of the new share plan and associated performance conditions
- Continue differentiation for performance through pay and not rewarding failure or over-rewarding mediocrity

Performance and reward philosophy

The Group's success depends upon the performance and commitment of talented employees. 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 (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 (ii) the individual's and business' risk profile

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 paid globally on an annual basis

Committee linkages to the Board and its committees

As the global remuneration regulatory market continues to introduce more detailed and prescriptive rules it is key that the Committee devotes appropriate time to ensuring that these regulations are met and that they have the relevant understanding of the business to ensure that this is done in a way that continues to support the Group's objectives. To assist in its decision making the Committee draws upon the relevant experience and knowledge of its members, especially benefiting from the fact that a number of them hold positions on other Board committees, details of which can be found on pages 95 and 96. In addition, important remuneration issues are brought to the Board for approval and all independent non-executive directors are involved in discussions before final approval is given.

Committee effectiveness

In addition to completing an online questionnaire, the Committee trialled the use of 'in the moment' conversations at the end of each meeting to assess the Committee's effectiveness. This provides the opportunity to identify and implement enhancements on a continuous basis.

Advisers

In July a review of the Committee adviser was undertaken and the decision was made to reappoint 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 has regard to the code of conduct for remuneration consultants in the UK.

The Committee also received advice from the Group Head, Human Resources and Communications, the Group Head, Performance, Reward and Benefits and, as noted above, the Group Chief Risk Officer where appropriate.

Towers Watson provided formal reward survey data to the Committee. Clifford Chance LLP advised on the design and operation of our share plans and on issues relating to executive and non-executive directors' contracts. McLagan Partners also provide formal reward survey data and advice on market practice in variable compensation arrangements for our Wholesale Banking business.

Directors' remuneration report continued

Reward arrangements for all

We employed nearly 87,000 people in 71 countries and territories at the end of 2011. Within our One Bank approach to remuneration, it is necessary to structure compensation and benefits to reflect differing local market and statutory and regulatory conditions. The table below summarises the Group's key remuneration policies and structures as they were applied during 2011. The Committee intends to adopt a similar approach in 2012. Further details on the main elements of our approach to remuneration are set out in the subsequent sections of this report.

Fixed

	Objective	Delivery	Programme detail
Base pay **Reviewable allowances**	• To attract and retain talent by ensuring that salaries are competitive to 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 • Increases, if any, typically take effect from 1 April

Benefits

	Objective	Delivery	Programme detail
Core benefits	• To support and be consistent with our values	• Normally includes retirement benefits, medical insurance, life assurance and annual leave	• Reviewed periodically taking account of local regulations and competitive market practice
Sharesave plans	• To encourage employee share ownership at all levels throughout the Group • To engage employees in our performance, align their interests more closely with those of our shareholders, and offer them an opportunity for long-term savings and a share in the financial success that they help to create	• All employees are invited to open a three-year or five-year savings contract • Option price is 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	• In countries where it is not possible to operate Sharesave, typically because of securities laws, regulatory or other similar issues, we offer an equivalent cash plan

Variable compensation

	Objective	Delivery	Programme detail
Annual performance award (APA) • **Cash** • **Upfront shares** • **Deferred shares** • **Deferred cash**	• To focus participants 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 and quantum	• Awards are delivered in cash and share components (upfront and deferred depending on the amount and employee) • Awards in excess of $50,000 are subject to our deferral framework, overlaid by any higher deferral requirements of local regulators • Employees with the highest level of deferred compensation ($120,000 or more deferred) are able to take an element in deferred cash • 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 employee subject to the FSA Remuneration Code (Code Staff) will be delivered in the form of shares	• Group deferral levels are reviewed annually, taking into account both regulatory requirements and market practice. The maximum rate of deferral is 60 per cent of total variable compensation • Code Staff may only sell upfront shares and vested deferred shares if share holding requirement is already satisfied
Performance shares	• To focus participants on meeting and exceeding our long-term performance targets, which are linked to safeguarding shareholder interests • To align the interests of senior managers with shareholders by ensuring that they build and retain an appropriate equity stake in the Group	• Award of shares with no cost 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 granted since 2011 and as part of variable compensation are subject to claw-back	• Appropriate performance conditions are set by the Committee each time an award is made • Awards are entirely discretionary and are based on individual performance and contribution to long-term value creation • Performance shares are part of the overall reward package for executive directors and the Group's most senior managers including Wholesale Banking

Directors' remuneration report continued

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 individual's role and the market that they are in as well as allowing for truly flexible variable remuneration arrangements where, for example, no performance award could be paid • There is a single variable compensation pool from which all variable compensation irrespective of structure (e.g. cash, deferred shares, performance shares) is funded
Remuneration policy that supports 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 (further details are on the following pages)
Rewarding for performance and adherence to values	• Employees are assessed and rewarded on performance against objectives and adherence to Group values. Those role 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 compensation (including performance shares from 2011) 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 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 65 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 total variable compensation applies to all employees • All Code staff employees, or those subject to the remuneration requirements of local regulators are subject to the higher of these 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 provides rigorous challenge of variable compensation decisions and allocation of pools • Control functions provide input into reward plan committee meetings on any control or audit issues (positive or negative) that should influence compensation and claw-back decisions

Eight highest paid employees beneath the Board

The following table sets out, on an anonymised basis, the remuneration of the eight highest paid employees who are not executive directors. The disclosure is not limited to those discharging managerial responsibility (PDMRs).

		2011				
		Variable Compensation				
Employee	Fixed Compensation[1] ($'000)	Non-Deferred Cash ($'000)	Upfront Shares ($'000)[2]	Deferred Cash ($'000)	Deferred shares[2] and performance shares ($'000)[3]	Total ($'000)
1	674	1,900	1,900	2,475	3,227	10,176
2	783	1,321	1,321	1,804	2,157	7,386
3	644	1,286	1,286	1,741	2,117	7,075
4	631	1,224	1,224	1,648	2,024	6,752
5	605	224	224	276	5,353	6,681
6	577	1,036	1,036	1,414	1,696	5,759
7	841	915	915	1,185	1,561	5,417
8	514	248	–	–	4,300	5,063

1 Includes base salary, benefits and allowances paid in respect of 2011 and where appropriate on a pro rata basis for new joiners
2 Part of any annual performance award 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 revised shareholding requirements 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 2011

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 that comprises the core building blocks of the Group's overall approach to risk management. 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 all of the Committee meetings that approve overall and individual performance awards
- All reward plan committees are constituted with cross-functional representation and are typically chaired by the representative from a control function (for example risk or compliance)
- The Group Reward Plan Committee (GRPC) is made up of the GCRO, the Group Finance Director, Group Head, Human Resources and Communications and the Group Chief Executive Officer
- Reward plan committees oversee the formation and allocation of award pools taking all risk issues into consideration

Directors' remuneration report continued

Through our reward practices, our employees are motivated to focus on business and personal objectives, deliver and sustain outstanding performance and act in-line with the Group's values. Assessing 'how' an individual has achieved an objective, as well as 'what' has been achieved, is a key component of our performance process and remuneration decision.

Pool funding

The Group's total variable compensation (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. The two key elements to pool determination are overall payout and allocation of the TVC spend between respective businesses and functions.

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 which are based purely on short-term financial results.

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), who then oversee the allocation of variable compensation spend within their areas. In 2011, 100 per cent of both our Wholesale Banking and Consumer Banking discretionary variable compensation was delivered under RCAP-based pools.

Governance of reward committees

Each business specific RPC involves Risk, Compliance and Human Resources (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 which might arise.

To ensure consistency from an overall Group perspective, the business specific 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 variable compensation 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 compensation decisions are made.

These levers are used to make what is called ex ante risk and performance adjustments beginning with the use of RCAP. 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 has been established in a similar way to previous years, but with even greater reliance on pool determination based on risk adjusted profit in 2011 • An assessment of the pools relative to financial performance both year on year and versus budget is made with reference to multiple financial lenses including (i) trading profit (ii) risk capital adjusted profit
Validation of the TVC pool	• The Committee reviews the TVC pool against the financial dimensions (above), but exercises its judgment to ensure that the overall payout appropriately reflects Group performance, the control environment, and any other qualitative factors that the Committee considers appropriate

Adjustments after awards made (ex post)

Balance of upfront and deferred annual performance awards and performance shares	• The Committee considers the balance of cash, deferred 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 and up to 1,000 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

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.

Through our ePerformance system we have a disciplined and transparent approach to managing employee performance. Employees agree their objectives with their manager and both team and individual objectives are based on the Group's business priorities. This underpins focus on setting quality objectives against which performance can be regularly reviewed.

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

Annual discretionary performance awards 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 $120,000) 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. Deferred share and upfront share awards for Code Staff under the APA may only be sold if the employee meets their 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[1]
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[2]

1 A minimum deferral into shares of $5,000 exists, effectively meaning that deferral applies to awards of $70,000 and above
2 The net deferral rate will be capped at an aggregate deferral of 60 per cent including an expected value of any performance shares
Where local regulators have their own remuneration requirements employees are subject to the higher of these and the Group's deferral framework

In respect of claw-back, the Committee has discretion in very exceptional circumstances to determine that a whole award will not vest, will only partially vest, or will be subject to delayed vesting. Such circumstances (defined as a Material Event) may include a material restatement 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.

Shareholding requirements

The Group has for many years operated a shareholding guideline framework 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. Last year we revised our shareholding requirements to ensure that they met the requirements of the FSA Remuneration Code.

Under the requirements, Code Staff are required to hold a specified minimum number of vested ordinary shares that effectively results in a 12-month retention period for vested and up-front share awards. Members of the Group Management Committee (GMC) are required to hold the higher of the number of shares in line with our revised shareholding requirements and a specified number of shares (120,000 and 200,000 shares, including unvested deferred shares, for executive directors and Group Chief Executive respectively).

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 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 and aligning reward with our risk horizon.

Performance shares

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 and delivered as nil cost options. Awards vest after a three-year period and are subject to three performance measures:

Total Shareholder Return (TSR)
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.

Earnings Per Share (EPS)
EPS provides an appropriate measure of a company's underlying financial performance.

Return on Risk Weighted Assets (RoRWA)
RoRWA is a key performance indicator of the Group that is already used to calculate capital adequacy. This performance measure takes into account not only the return on assets but also risk adjusts the assets by looking at credit, operational, and market risk.

The weighting between the three elements is split equally (one third of the award depending each on the achievement of TSR, EPS and RoRWA, assessed independently of one another) supporting a balanced scorecard approach through equal focus upon financial measures, investor interests and prudent risk taking. Using a risk adjusted measure ensures that there is an appropriate return for the risk taken and that the measure is aligned with the Group's risk appetite.

RoRWA is a check on inappropriate pursuit of income, rewarding as much for prudent capital management as pursuing financial management.

Performance shares under the 2011 Plan will vest after a three-year performance period. In keeping with other variable compensation decisions and to reflect the fact that performance shares form an intrinsic part of variable compensation, from 2011 all performance share awards are denominated in US dollars.

TSR element

The constituents of our comparison peer group for awards made in 2009, 2010 (under the 2001 Performance Share Plan) and 2011 (under the 2011 Plan) are set out in the table below. For awards granted from 2011 the Group changed the way it calculates the TSR ranking to be better aligned to market practice and excludes Standard Chartered 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]	Awards made in 2009[1,2]
Banco Santander	•	•	•
Bank of America	•	•	•
Bank of China	•	•	•
Bank of East Asia	•	•	•
Barclays	•	•	•
Citigroup	•	•	•
Credit Suisse	•	•	
DBS Group	•	•	•
Deutsche Bank	•	•	•
HSBC	•	•	•
ICBC	•	•	•
ICICI	•	•	•
JP Morgan Chase	•	•	•
Kookmin	•	•	•
Oversea-Chinese Banking Corporation	•	•	•
Royal Bank of Scotland	•	•	•
Société Générale	•	•	
Standard Bank	•		•
State Bank of India	•	•	•
UniCredito	•	•	•
United Overseas Bank	•	•	•
Standard Chartered		•	•
Lloyds Banking Group			•

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 and 2009 were granted under the 2001 Performance Share Plan

Directors' remuneration report continued

Earnings per share element

One third of the award will be subject to the Group's growth in EPS over the three-year performance period. The percentage of award is normally exercisable at the end of the relevant three-year performance period and is as follows:

Increase in EPS over the base EPS[1]	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[1, 2]
More than 30 per cent	100

1 Calculated on a straight line basis
2 For awards granted in 2011 normalised EPS of 197.8 cents has been used as a base figure

RoRWA 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, i.e. RoRWA.

$$\frac{(\text{Earnings in Y1} + \text{Earnings in Y2} + \text{Earnings in Y3}) \div 3}{(\text{end of Y0 RWA} + \text{end of Y1 RWA} + \text{end of Y2 RWA} + \text{end of Y3 RWA}) \div 4}$$

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 in 2011 and for those to be granted in 2012, threshold vesting will occur at a RoRWA of 1.5 per cent with maximum vesting occurring at a RoRWA of 1.7 per cent.

The Committee will review RoRWA performance prior to vesting of awards and, if appropriate, adjust for the impact of items under the RoRWA measure which, 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 the FSA requirements and to stay in line with market practice. For the 2011 performance year, elements of the APA 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. These awards are not subject to an annual limit to ensure that regulatory requirements relating to deferral levels can be met and, in line with market practice of our competitors, deferred awards will not be subject to any further performance criteria, although the claw-back policy will apply.

Restricted shares

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 vest in equal instalments on the second and the 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.

2001 Performance Share Plan (PSP)

The Group's previous plan for delivering performance shares was the PSP. Under this plan half the award was dependent upon our TSR performance compared with a defined peer group. The balance was subject to a target EPS growth range. Both measures use the same three-year period. Although the PSP was replaced in 2011, there are still awards under the plan yet to vest that were made to employees in respect of the 2009 performance year (awards made in 2009 in respect of the 2008 performance year vest in March 2012 – see below). Outstanding awards under the PSP were made in the form of nil cost options.

The table below shows the performance of the Group's performance share awards over the last five years.

	Maximum under plan	Actual award (% of salary at grant)		Performance conditions and level of performance			Vesting (% of award)			
Year of grant	(% salary at grant)	CEO	CFO	TSR	EPS	RoRWA	TSR	EPS	RoRWA	Total
2007	400%	275%	250%	100th percentile	20.35% growth	N/A	50.00%	27.48%	N/A	77.48%
2008	400%	350%	350%	100th percentile	18.18% growth	N/A	50.00%	22.41%	N/A	72.41%
2009	400%	340%	286%	95th percentile	17.51% growth	N/A	50.00%	20.84%	N/A	70.84%
2010	400%	325%	267%	half of awards subject to TSR performance	half of awards subject to EPS performance	N/A				
2011	400%	339%	308%	third of awards subject to TSR performance	third of awards subject to EPS performance	third of awards subject to RoRWA performance				

All-employee Sharesave plans

We believe in encouraging employee share ownership at all levels in the organisation. We seek to engage employees in our performance to align their interests more closely with those of our shareholders and offer them an opportunity for long-term savings and a share in the financial success that they help to create.

There are no performance conditions attached to options granted under these Sharesave plans.

Where it is not possible, due to local securities laws or regulatory issues, to offer Sharesave in a country in which we operate, we offer an equivalent cash-based plan.

Further details on the Group's share plans are set out in the notes to the financial statements.

Other share plan-related items

Performance graph

The graph on the left below 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 those peer banks that have been part of our performance share award comparator group throughout the five-year period.

The graph on the right below illustrates the Group's TSR position against the relative comparator group for performance share awards vesting between 2008 and 2012.

Dilution limits

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' corporate guidelines and the terms of our listing on The Stock Exchange of Hong Kong Limited.

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.

Vesting provisions for leavers

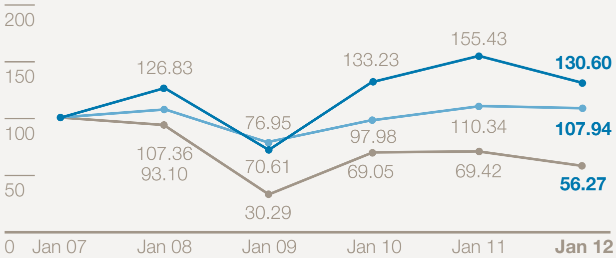
When an employee ceases employment, unless classified as an eligible leaver, any unvested share awards will normally lapse. For an eligible leaver:

- Deferred annual performance awards and performance share awards granted as part of TVC will normally continue to vest over the original vesting period, subject to:
  - There being no breach of relevant non-compete and non-solicit conditions
  - The Group's claw-back policy
  - Performance conditions being satisfied

Corporate governance

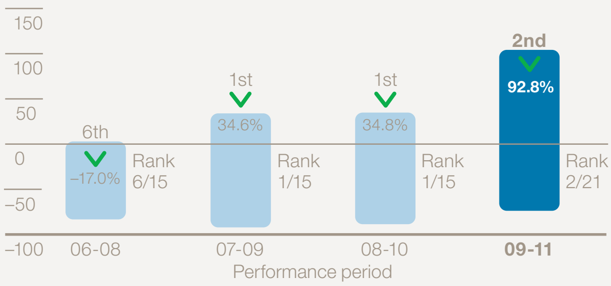
Total shareholder return (TSR)

Percentage change over five-year period



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

Assessing TSR performance under the Performance Share Plan



Standard Chartered TSR position in comparator group
Comparator group TSR performance range with Standard Chartered actual performance

Directors' remuneration report continued

- Restricted or performance 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

General

The middle market price of an ordinary share at the close of business on 30 December 2011 was 1409.0 pence. The share price range over the year was 1141.5 pence to 1794.5 pence per share (based on closing middle market prices). Unless indicated otherwise, the foreign exchange rates used in this directors' remuneration report are based on average rates throughout the relevant financial year. The rates are \$1 : GBP0.6239 (2011) and \$1 : GBP0.6477 (2010).

Reward arrangements for executive directors

Each executive director has documented priorities that are presented to the Committee 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. 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 the annual performance awards made in recent years.

Comparisons on market compensation are typically made against our international banking peers and the FTSE 20. These two groupings have business characteristics, such as international scope of operations, complexity and size, that are similar to ours, and represent organisations with which we compete for talent.

Executive directors have target performance awards that were originally set with reference to the market and individual experience levels. However, these levels have remained unchanged for several years since executive directors' targets were delinked from base salaries. The Committee is proposing, during 2012, to undertake a comprehensive review of both the underlying methodology and individual award levels. In the interim, the current policy remains in place with a maximum opportunity of no more than 250 per cent of each executive director's target performance award level (albeit in the case of Mike Rees this is 150 per cent). Actual awards are based on a range of financial and non-financial metrics, primarily profit, EPS performance and values driven behaviour. The Committee has agreed the following targets in respect of 2012: P A Sands – \$2,000,000; S P Bertamini – \$1,500,000; J S Bindra – \$1,500,000; R H Meddings – \$1,750,000; A M G Rees – \$10,000,000; V Shankar – \$1,500,000.

Year-end decisions

As outlined in the Committee Chairman's covering letter, the Group's performance was very good in 2011, even more so in the context of the continuing economic turbulence and pace of regulatory change. Total compensation for each executive director is currently 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. The Group's ninth successive year of record income and profits means that it delivered upper quartile performance relative to its peers.

Therefore, in reaching its decisions, the Committee has sought to reward appropriately for performance, addressing any significant gaps to market rates of pay at an individual level, comparing year-on-year compensation trends and ensuring an appropriate mix of fixed and variable compensation. Factors considered by the Committee in making 2011 remuneration decisions include earnings per share and total shareholder return in addition to profit growth, performance against both the GMC collective agenda and individual priorities agreed at the start of the year, the risk and control environment, and adherence to the Group's values.

- The Group's compensation review at the end of 2011 adopted a prudent approach to increases in **fixed compensation** across the whole business, with base salary increases targeted at junior employees based in high inflation markets across the Group's footprint of Asia, Africa and the Middle East. Salary increases for executive directors and other management are very much by exception. No salary increases have been made for any executive directors.
- In determining the level of **total compensation** the Committee reviewed all elements of each individual package (such as pension) before determining the overall level of variable compensation.
- **Total variable compensation** (TVC) awards were made to the directors to recognise another year of record income and profits, and strong performance relative to peers. At an individual level, awards were made to reflect relevant business and/or geographical performance year on year as well as broader leadership of the Group's strategic priorities and values, and delivery of individual priorities agreed at the start of the year. This performance assessment is reflected in both the annual performance award 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 Sands has led the Group to its ninth year of record income and profits. Total variable compensation increased by 1.7 per cent as a consequence of a flat APA and a performance share grant up 4 per cent year-on-year. This total compensation is set in the context of Group operating profits growth of 11 per cent and EPS of 198 cents post rights issue.
  - Richard Meddings: Total variable compensation for Richard Meddings is also up 1.7 per cent year-on-year with a flat APA and a grant of performance shares up 4 per cent. Richard has provided outstanding management of the Group's capital and liquidity position and enforced tight discipline on costs.
  - Steve Bertamini: A strong performance by Consumer Banking, where profits grew by 26 per cent, was a strong driver in his total variable compensation increasing by 8 per cent.
  - Jaspal Bindra: His total variable compensation grew by 7 per cent against strong operating profit growth in Asia of 17 per cent in 2011 overall with strong performances in Hong Kong, Singapore, Malaysia and Indonesia against weaker year on year performance in India.
  - Mike Rees: A good performance in challenging market conditions by Wholesale Banking, where profits grew by 9 per cent in 2011. However, given profit growth was not as strong as 2010, Mike's total variable compensation decreased by 7 per cent year-on-year.

The Committee believes that the aggregate TVC outcomes strike the right balance in aligning reward with the Group's overall profit performance, 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 take appropriate account of personal performance against a range of non-financial metrics.

The annual base salary levels of executive directors from 1 January 2011 are shown in the table below

	1 January 2011	1 April 2011	1 January 2012	1 April 2012	Percentage increase at 1 April 2012
P A Sands	£1,000,000	£1,075,000	£1,075,000	£1,075,000	0%
S P Bertamini[1]	$900,000	$1,000,000	$1,000,000	$1,000,000	0%
J S Bindra	£500,000	£525,000	£525,000	£525,000	0%
R H Meddings	£750,000	£800,000	£800,000	£800,000	0%
A M G Rees	£600,000	£735,000	£735,000	£735,000	0%
V Shankar[1]	N/A	N/A	AED3,200,000	AED3,200,000	0%

1 Steve Bertamini and V Shankar have US dollar and AED denominated base salaries, whereas other executive directors have sterling denominated base salaries. V Shankar was appointed to the Board effective 1 January 2012

Directors' remuneration report continued

Executive directors' performance and reward review process

Objective setting	Interim review	Final review	Compensation outcomes
January – February Personal objectives agreed with line manager Objectives shared with the Committee	**July** Mid-year discussion on performance to date against objectives	**December** Self appraisals prepared and performance discussion held with line manager	**February** • CEO/Chairman provide performance updates • Feedback from Risk and other control functions is taken into account • Committee assesses general affordability, market competitiveness and individual and business performance • Committee shared recommendations with other NEDs before finalisation

Group objectives are determined and aligned to Group's strategic goals, which are agreed annually by the Board.

Each director shapes their priorities around five core pillars:

- Deliver superior financial performance
- Improve the way we work
- Multiply our leadership capability
- Strengthen regulatory and community relationships
- Reinforce our brand and culture

Hard measures will be included such as RoRWA, EPS and operating profit.

Objectives vary according to the businesses in which the director works and their roles.

Directors' variable compensation is determined by the Committee with all awards (including performance shares) funded from the global risk-adjusted pool.

The final APA is determined against a range of factors including individual performance against objectives (all pillars equally important) as well as the performance of the business unit and the Group in aggregate.

In line with the Group's strong values culture, any variable compensation will depend on 'how' an objective has been achieved equally importantly to 'what' has been achieved.

Before finalisation, recommendations are discussed with non-executive directors not on the Committee.

Retirement benefits

In 2011, the Committee undertook a comprehensive review of the pension arrangements for executive directors. This review looked in detail at the cost to the company of funding current arrangements, market practice and trends as well as the existing arrangements being operated elsewhere in the Group.

In light of this detailed review, the Committee concluded that it was appropriate to adopt a new policy under which defined benefit promises will not be extended to newly appointed executive directors in future and that in its place an annual cash pension allowance will be paid. In addition, the Committee also believes that it is important to offer existing executive directors an alternative to their current defined benefit arrangements through the provision of a cash allowance that individuals may opt to receive on a voluntary basis. Both of these policies are in line with the Group's broader aim to provide pension benefits via defined contribution plans in place of defined benefit arrangements.

The provision of retirement benefits represents a significant element of total compensation and the Committee makes full allowance of the cost of providing these benefits and their value to individual executives when determining total compensation levels. As explained in more detail below, the Committee has been careful to ensure that the introduction of pension allowances does not lead to any increase in Group costs.

In order to determine a suitable annual cash allowance for newly appointed directors, the Group took into account a number of factors it considered to be of relevance. The first of these was that any new arrangements should be cost neutral to the Group. With the assistance of external actuarial advice the Group calculated the cost to it of providing the current defined benefit pension promise using a smoothed funding methodology, which resulted in a calculated cost equivalent to 46 per cent of salary. Other considerations in respect of internal relativity and external levels of provision were then also taken into account.

Based on a consideration of these factors the Committee decided that newly appointed executive directors will be provided with an executive pension allowance equal to 40 per cent of their base salary to fund personal pension arrangements, this being the cost equivalent rate of the existing defined benefit arrangements. To ensure alignment with the new policy of existing directors currently participating in defined contribution arrangements, an increase from 35 to 40 per cent of base salary in Steve Bertamini's pension allowance was approved by the Committee with effect from 1 April 2012.

Executive directors appointed prior to 1 January 2012 who have been building up pension benefits on a defined benefit basis will 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. With effect from 1 January 2012, executive directors with a defined benefit promise have 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 had elected to switch to a cash supplement in full or part.

No changes have been made to the terms and conditions applying to the defined benefit promises and executive directors retain any existing opportunity to waive a proportion of the cash element of any potential annual performance award or their annual base salary to enhance their unapproved retirement benefits. Any amounts waived in respect of this year are shown in the directors' retirement benefits table; our consulting actuary has calculated the additional pension benefits using assumptions adopted for IAS19 *Employee Benefits* (IAS19).

Defined benefit pension provision continues to be made through a combination of the Standard Chartered Pension Fund, an approved non-contributory plan, and an unapproved retirement benefit plan. The unapproved plan is unfunded but the benefits accrued prior to 1 April 2011 are secured by a charge, in the name of an independent trustee, over specific assets. The unapproved unfunded retirement benefit scheme provides the part of the executive's benefit that exceeds the UK Government's lifetime allowance. In other respects the terms of the unapproved scheme are designed to mirror the provisions of the Standard Chartered Pension Fund. Upon the death in service of an executive director, benefits are available to a spouse and dependent children in a lump sum form.

The directors' emoluments and directors' pensions tables and the accompanying notes provide details of the pension benefits for each executive director. Base salary is the only element of remuneration that is pensionable.

Directors' remuneration report continued

Executive directors' contracts of employment

Executive directors receive and are required to give 12 months' notice. The dates of the executive directors' contracts of employment are as follows:

P A Sands	31 December 2003
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

The contracts contain payment in lieu of notice (PILON) provisions that can be exercised at our discretion. The PILON comprises 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 a 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.

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. Any APA payable in respect of the 12 months following the date of termination is only made at the discretion of the Committee. In the unlikely event that less than six months of the performance year in question has passed, an award equivalent to the executive director's target performance award 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 performance award is payable if this period is less than six months.

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 95 and 96. 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 (or time commitment). Details of non-executive fees of the executive directors are shown below.

Name	Organisation	Current annual fees[1]
P A Sands	The Institute of International Finance, inc	No fees payable
	The Department of Health	No fees payable
	British Bankers Association	No fees payable
	Roundhouse Trust	No fees payable
J S Bindra	Vital Voices Global Partnership	No fees payable
	Board of Governance for XLRI School of Business & Human Resources	No fees payable
R H Meddings	3i Group Plc	GBP84,672[1]
	International Chamber of Commerce	No fees payable

1 Indicates that fees are retained by the executive director

Executive director changes

With effect from 1 January 2012, V Shankar was appointed as a group executive director. Details are provided earlier in this report of his base salary and contract of employment, the latter of which has similar provisions to those outlined above, in relation to other executive directors.

Gareth Bullock stepped down from the Board from 1 May 2010. As outlined in last year's directors' remuneration report, Gareth remained an employee until 30 April 2011 in order to provide an orderly transition to his successor and to continue to provide input on strategic developments. During this period between stepping down from his Board role and the end of his employment, he was paid in accordance with contract of employment, including the receipt of base salary, car benefit, life and medical cover. The value of base salary and benefits for the period 1 January 2011 to 30 April 2011 was GBP165,279 and GBP35,432 respectively.

Reward arrangements for the Chairman and non-executive directors

Fees for non-executive directors are determined by the Chairman and executive directors. They are non-pensionable. The fees are reviewed at least every two years and, in line with executive directors' remuneration, reflect the international nature of the roles performed by the non-executive directors. There were no changes in fees in 2011.

Basic annual fees and committee fees are designed to be competitive against our international peer group. The fees of the non-executive directors are commensurate with the experience and the increased time commitment that they bring to the Board. The current fees, last reviewed in March 2010, are set out in the following table.

Element	Current fees (GBP)
Base fee	100,000
Audit Committee	
Chair	65,000
Committee Member	30,000
Remuneration Committee	
Chair	50,000
Committee Member	25,000
Nomination Committee	
Chair	N/A
Committee Member	15,000
Governance Committee	
Chair	No fees
Committee Member	No fees
Board Risk Committee	
Chair	65,000
Committee Member	30,000
Brand and Values Committee	
Chair	50,000
Committee Member	25,000
Senior Independent Director	30,000

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

Contract

Sir John Peace's contract of employment, dated 2 July 2009 (and updated on 1 March 2011), is subject to 12 months' rolling notice. The terms of his contract governing PILON provisions and payments on termination are similar to those previously outlined in relation to executive directors.

Remuneration

Sir John's compensation as Chairman comprises two key parts. He receives an annual base fee, partly delivered in cash $1,041,820 (GBP650,000) and partly delivered in restricted shares (GBP500,000 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 interest.

The structure and quantum of the Chairman's compensation arrangements were benchmarked against comparable banking roles in both the UK and international marketplaces. The arrangements ensure that Sir John is appropriately compensated for his contribution and reflects the increased demands placed on the Chairman's role over the course of the year. 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.

These remuneration arrangements will be reviewed again during the course of 2012.

Directors' remuneration report continued

Audited information

Remuneration of Group Chairman

Chairman	2011 Cash fee $000	2011 Share based fee $000	2011 Benefits $000	2011 Total $000	2010 Cash fee $000	2010 Share based fee $000	2010 Benefits $000	2010 Total $000
Sir John Peace	**1,042**	**774**	**2**	**1,820**	1,004	613	2	1,619

1 Sir John Peace receives part of his annual fee in restricted shares. Accordingly, he was granted an award over 14,863 shares in the Company on 22 June 2011 and 18,491 shares in the Company on 20 September 2011
2 Sir John is also a member of the Brand and Values, Governance, Nomination and Remuneration Committees, for which he does not receive additional fees

Remuneration of non-executive directors

Non-executive directors	2011 Fees $000	2011 Benefits $000	2011 Total $000	2010 Fees $000	2010 Benefits $000	2010 Total $000
R Delbridge[1, 2]	**256**	**–**	**256**	239	–	239
J F T Dundas[1, 2, 3, 5]	**377**	**–**	**377**	340	–	340
V F Gooding[4, 5]	**240**	**–**	**240**	226	–	226
S Lowth[8]	**168**	**–**	**168**	103	–	103
R H P Markham[1, 2, 3, 6, 7]	**385**	**–**	**385**	362	–	362
R Markland[1, 2, 3, 4]	**361**	**–**	**361**	336	–	336
J G H Paynter[1, 4]	**248**	**–**	**248**	233	–	233
Dr Han Seung-soo[5]	**200**	**118[9]**	**318**	187	80[9]	267
P D Skinner[2, 3, 4, 5]	**353**	**–**	**353**	314	–	314
O H J Stocken[2]	**208**	**–**	**208**	195	–	195
Total	**2,796**	**118**	**2,914**	2,535	80	2,615

1 Member of the Audit Committee
2 Member of the Board Risk Committee
3 Member of the Nomination Committee
4 Member of the Remuneration Committee
5 Member of the Brand and Values Committee
6 Member of the Governance Committee
7 Senior Independent Director
8 Became a member of the Board Risk Committee on 1 November 2011
9 This amount relates to benefits received by Dr Han in relation to his non-executive duties and tax due on these benefits, which the Group has agreed to pay on Dr Han's behalf
10 Any base salary/fee or benefit item in the table above has been converted using the average foreign exchanges rates throughout the relevant financial year

Remuneration of executive directors

	2011								
	Fixed		Total variable compensation						
			Annual performance award						
Directors	**Salary/ fees $000**	**Benefits[1] $000**	**Cash bonus[3] $000**	**Upfront shares[4] $000**	**Deferred shares[5] $000**	**Sub total**	**PSA[6] $000**	**Total $000**
P A Sands	1,693	132	700	700	2,100	3,500	2,726	8,051
S P Bertamini[1,2,7]	1,316	1,389	380	380	1,140	1,900	1,457	6,062
J S Bindra[1,8]	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
Sub total	6,226	2,414	3,920	3,920	11,760	19,600	9,600	37,840

	2010							
	Fixed		Total variable compensation					
			Annual performance award					
Directors	Salary/ fees $000	Benefits[1] $000	Cash bonus[3] $000	Upfront shares[4] $000	Deferred shares[5] $000	Sub total	PSA[7] $000	Total $000
P A Sands	1,544	115	700	700	2,100	3,500	2,621	7,780
S P Bertamini[7]	1,215	712	340	340	1,020	1,700	1,405	5,032
J S Bindra	772	799	340	340	1,020	1,700	1,253	4,524
R H Meddings	1,158	78	480	480	1,440	2,400	1,785	5,421
A M G Rees	926	78	2,200	2,200	6,600	11,000	2,089	14,093
Sub total	5,615	1,782	4,060	4,060	12,180	20,300	9,153	36,850

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 Amounts shown in the benefits column will vary year-on-year where tax neutralisation is adopted dependent upon the timing of the taxation payments actual amounts paid each year can vary even though there is no change in the underlying level of remuneration. One consequence of this fact is that the benefits figure for Steve Bertamini increased by $612,098 for 2011

3 The cash element of the annual performance award is shown inclusive of any amounts waived to provide additional pension benefits. See page 150 for further details

4 The amounts shown in the upfront shares column includes the proportion of annual performance awards 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 annual performance award for each 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

5 The amounts shown in the deferred shares column include the proportion of the annual performance award deferred into restricted shares and subject to the Group claw-back policy for each executive director

6 The expected value of any performance share awards that are subject to the Group claw-back policy. The values are based on an initial value adjusted for factors such as performance conditions, forfeiture risk and lack of dividends

7 Steve Bertamini received cash allowances of $341,246 (2010: $315,000) in lieu of his participation in any pension plan and this is reflected in the table above, as part of salary/fees

8 Jaspal Bindra received a total 2011 discretionary annual performance award of $1,800,000 of which he has chosen to waive $249,231 (2010: $nil) into his pension arrangement. In addition, Jaspal has also waived $711,912 (2010: $589,236) of his base salary. This is an amendment as the amount was incorrectly stated as $602,121 in the 2010 annual report into his pension arrangement, details of which are included in the directors' retirement benefits table

9 Any base salary/fee or benefit item in the table above has been converted using the average foreign exchanges rates throughout the relevant financial year. The rates are $1 : GBP0.6239 (2011) and $1 : GBP0.6477 (2010). For the purpose of Jaspal Bindra's waiver into pension a current foreign exchange rate of $1 : GBP0.6452 has been used

Directors' remuneration report continued

2004 Deferred Bonus Plan

	Shares held in trust at 1 January 2011	Shares awarded during the period[1]	Shares awarded in respect of notional dividend	Shares vested in the period	Shares held in trust at 31 December 2011
P A Sands	66,093	–	567	66,660	**–**
S P Bertamini	28,916	–	248	29,164	**–**
J S Bindra	12,649	–	108	12,757	**–**
R H Meddings	45,439	–	390	45,829	**–**
A M G Rees[2]	227,198	70,255	1,951	229,149	**70,255**

1 Market value on date of awards (8 March 2011) was 1,666.25 pence
2 Mike Rees will also be granted a final award under the Deferred Bonus Plan (DBP) in March 2012 in line with the arrangements put in place to deliver the outstanding deferred elements of his 2009 Annual Performance Award

Under the 2004 Deferred Bonus Plan, shares were conditionally awarded as part of the director's deferred element of their annual performance award

The shares are held in an employee benefit trust and automatically vest one year after the date of acquisition. No exercise is necessary. A notional scrip dividend accrues on the shares held in the trust. The dividend is delivered in the form of shares and is released on vesting

Long-term incentives

Share options

Director	Plan	Grant date	As at 1 January 2011	Exercise price (pence)	Exercised	Lapsed	As at 31 December 2011	Period of exercise
P A Sands	Sharesave	26-Sep-07	1,601	1,048.22	–	–	**1,601**	2012-2013
S P Bertamini[1]	Sharesave	09-Oct-09	1,405[1]	1,104.07	–	–	**1,405**	2014-2015
J S Bindra	Sharesave	09-Oct-09	1,407	1,104.07	–	–	**1,407**	2014-2015
R H Meddings	Sharesave	04-Oct-10	614	1,463.42	–	–	**614**	2013-2014

1 Due to a rounding error when calculating the savings level due to exchange rate differences Steve Bertamini's Sharesave was incorrectly disclosed as being over 1,407 shares in the 2010 annual report and the amount has therefore been restated

Share awards

Director	Plan	Grant date	As at 1 January 2011	Awarded during the period	Exercised	Lapsed	As at 31 December 2011	Period of exercise
Sir John Peace	RSS	28-Sep-09	43,105	–	–	–	**43,105**	2011-2016
	RSS	21-Sep-10	21,552	–	–	–	**21,552**	2012-2017
	RSA[1]	22-Jun-11	–	14,863	–	–	**14,863**	2013-2018
	RSA[2]	20-Sep-11	–	18,491	–	–	**18,491**	2013-2018
P A Sands	PSP[3]	11-Mar-08	191,791	–	138,875	52,916	**–**	2011-2018
	PSP	11-Mar-09	370,020	–	–	–	**370,020**	2012-2019
	PSP	11-Mar-10	193,875	–	–	–	**193,875**	2013-2020
	PSA[4]	06-May-11	–	211,526	–	–	**211,526**	2014-2021
	Deferred RSS[5]	11-Mar-09	87,430	–	43,715	–	**43,715**	2011-2016
	Deferred RSS	11-Mar-10	61,700	–	–	–	**61,700**	2012-2017
	Deferred RSS[6]	10-Mar-11	–	77,240	–	–	**77,240**	2013-2018
S P Bertamini	PSP[3]	16-Sep-08	61,590	–	44,597	16,993	**–**	2011-2018
	PSP	11-Mar-09	165,073	–	–	–	**165,073**	2012-2019
	PSP	11-Mar-10	104,393	–	–	–	**104,393**	2013-2020
	PSA[4]	06-May-11	–	113,427	–	–	**113,427**	2014-2021
	Deferred RSS[5]	11-Mar-09	29,517	–	14,758	–	**14,759**	2011-2016
	Deferred RSS	11-Mar-10	26,993	–	–	–	**26,993**	2012-2017
	Deferred RSS[6]	10-Mar-11	–	37,516	–	–	**37,516**	2013-2018
J S Bindra	PSP[3]	11-Mar-08	75,345	–	54,557	20,788	**–**	2011-2018
	PSP	11-Mar-09	132,149	–	–	–	**132,149**	2012-2019
	PSP	11-Mar-10	89,480	–	–	–	**89,480**	2013-2020
	PSA[4]	06-May-11	–	101,164	–	–	**101,164**	2014-2021
	Deferred RSS[5]	11-Mar-09	31,783	–	15,891	–	**15,892**	2011-2016
	Deferred RSS	11-Mar-10	26,993	–	–	–	**26,993**	2012-2017
	Deferred RSS[6]	10-Mar-11	–	37,516	–	–	**37,516**	2013-2018
R H Meddings	PSP[3]	11-Mar-08	130,418	–	94,435	35,983	**–**	2011-2018
	PSP	11-Mar-09	228,739	–	–	–	**228,739**	2012-2019
	PSP	11-Mar-10	119,307	–	–	–	**119,307**	2013-2020
	PSA[4]	06-May-11	–	144,083	–	–	**144,083**	2014-2021
	Deferred RSS[5]	11-Mar-09	55,546	–	27,773	–	**27,773**	2011-2016
	Deferred RSS	11-Mar-10	42,419	–	–	–	**42,419**	2012-2017
	Deferred RSS[6]	10-Mar-11	–	52,964	–	–	**52,964**	2013-2018
A M G Rees	PSP[3]	11-Mar-08	57,537	–	41,662	15,875	**–**	2011-2018
	PSP	11-Mar-09	128,144	–	–		**128,144**	2012-2019
	PSP	11-Mar-10	143,169	–	–		**143,169**	2013-2020
	PSA[4]	06-May-11	–	168,608	–		**168,608**	2014-2021
	SRSS[5]	14-Mar-08	65,757	–	65,757		**–**	2011-2015
	Deferred RSS[5]	11-Mar-09	89,701	–	44,850		**44,851**	2011-2016
	Deferred SRSS[5]	11-Mar-09	299,913	–	149,956		**149,957**	2011-2016
	Deferred RSS	11-Mar-10	71,584	–	–		**71,584**	2012-2017
	Deferred RSS[6]	10-Mar-11	–	242,756	–		**242,756**	2013-2018

1 Market value on date of award (22 June 2011) was 1,550.00 pence
2 Market value on date of award (20 September 2011) was 1,365.50 pence
3 The performance conditions attached to these awards have been partially met and the awards can be exercised, in part, from 11 March 2012. The number of shares lapsed indicates the portion of the award that did not satisfy the performance conditions
4 Market value on date of award (6 May 2011) was 1,603.50 pence
5 Market value on date of exercise (11 March 2011) was 1,591.00 pence. Exercise price is nil as the awards are made in the form of nil cost options
6 Market value on date of award (10 March 2011) was 1,611.00 pence

Directors' remuneration report continued

Directors' interests in ordinary shares

Directors	At 1 January 2011 total interests	Personal interests	Family interests	At 31 December 2011 total interests
Sir John Peace	7,543	**7,543**	–	**7,543**
P A Sands	200,000	**200,000**	–	**200,000**
S P Bertamini	47,465	**115,276**	–	**115,276**
J S Bindra[1]	58,956	**153,378**	–	**153,378**
R Delbridge	4,961	**8,497**	–	**8,497**
J F T Dundas	3,141	**3,141**	–	**3,141**
V F Gooding	3,154	**3,154**	–	**3,154**
Dr Han Seung-soo	2,250	**2,334**	–	**2,334**
S J Lowth	3,392	**5,687**	–	**5,687**
R H P Markham	3,994	**4,109**	–	**4,109**
R Markland	3,616	**3,722**	–	**3,722**
R H Meddings	121,030	**60,000**	**60,000**	**120,000**
J G H Paynter	5,625	**10,000**	–	**10,000**
A M G Rees	135,334	**137,176**	–	**137,176**
P D Skinner	13,446	**15,477**	–	**15,477**
O H J Stocken	17,915	**17,915**	–	**17,915**

1 153,000 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

Executive directors with defined benefit provisions

	Accrued pension $000[1]			Transfer value of accrued pension[2]			Increase in accrued pension (net of inflation and waiver) during 2011 $000[4]		
Director	At 1 January 2011	Increase during the year	At 31 December 2011	At 1 January 2011	Increase during the year net of waiver	At 31 December 2011	2011 waiver $000+[3]	Annual pension	Transfer value
P A Sands	418	81	494	6,223	1,715	7,857	–	58	945
J S Bindra[5]	142	77	216	2,156	741	3,573	862	26	424
R H Meddings	408	62	466	6,593	1,503	8,021	–	41	737
A M G Rees	359	86	441	6,138	1,873	7,926	–	67	1,277

1 The accrued pension amounts include benefits arising from transfer payments received in respect of service with previous employers
2 The transfer values under the unapproved scheme have been calculated using our pension accounting methodology and assumptions
3 Executive directors are given the opportunity to waive a portion of salary and any potential annual performance award payable in cash to enhance their retirement benefits. The amounts waived in respect of 2011 are shown in the table
4 The increase in the accrued pension (net of inflation and waiver) during the year is the difference between the accrued pension at the end of 2010 increased by an allowance for inflation of 5.2 per cent (2010: 4.7 per cent) and the accrued pension at the end of 2011 excluding any waiver
5 Jaspal Bindra waived $249,231 of his 2011 annual performance award ($nil 2010) and $711,912 of his 2011 base salary (2010: $589,236). This is an amendment as the amount was incorrectly stated as $596,652 in the 2010 Annual Report into his pension arrangements

The amounts included in the table above as at 1 January and 31 December 2011 are calculated using the exchange rates at the end of 2011 (GBP1 : $1.5535) and 2010 (GBP1 : $1.5605) respectively. The other entries are calculated using the exchange rates stated earlier in the remuneration report. For the purpose of Jaspal Bindra's waiver into pension a current foreign exchange rate of $1 : GBP0.6452 has been used

In addition to the amounts identified in the table above Standard Chartered paid $533,591 (2010: $441,989) in retirement benefits to former 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, Steve Bertamini participates in a deferred compensation arrangement under which a total of $6,500,000 was initially allocated into an interest bearing account with the option for all or part of the value to be invested in alternative assets at his discretion. The original allocation (together with the accrued interest and investment returns) vests in three tranches unless he resigns or is terminated for cause: $3,000,000 after the second, $2,000,000 after the fourth and $1,500,000 after the sixth anniversary of joining. No further awards are planned. The table below shows the value of the residual assets held in the arrangement.

	Grant date	Allocation	Value as at 31 December 2011
S P Bertamini	19-May-08	$3,500,000	**$4,520,652**

Remuneration of the five highest paid individuals

As a result of the Company's listing on The Stock Exchange of Hong Kong Limited, it is necessary to disclose certain information relating to our five highest paid employees. Set out below are details for five individuals, (including one executive director [1]) whose emoluments were the highest in the Group for the year ended 31 December 2011.

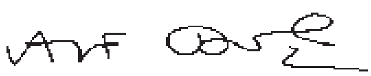
Components of remuneration	$
Basic salary, allowances and benefits in kind	3,924,285
Pension contributions	1,400,684
Annual performance award paid or receivable[2]	36,800,000
Payments made on appointment	–
Compensation for loss of office	
– contractual	–
– other	–
Total[3]	42,124,969

1 Executive director included in data is Mike Rees
2 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 annual performance award
3 Equal to HKD327,942,885

The emoluments were in the following bands:

HKD (approx. $ equivalent)	Number of employees
HKD49,500,001 – HKD50,000,000	1
HKD52,000,001 – HKD52,500,000	1
HKD55,000,001 – HKD55,500,000	1
HKD73,500,001 – HKD74,000,000	1
HKD97,000,001 – HKD97,500,000	1

By order of the Board



Annemarie Durbin
Group Company Secretary
29 February 2012

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 2011.

Business review

We are required to present a fair review of our business during the financial year ended 31 December 2011, 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 4 and 5, the Group Chief Executive's review on pages 6 to 11, the Group, Consumer Banking and Wholesale Banking sections of the Business review on pages 20 to 41, the Risk review on pages 50 to 86 and the Key performance indicators on pages 12 and 13, 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 more than 1,500 branches and outlets in 71 markets. Further details on the branches can be found on our website www.standardchartered.com.

Results and dividends

We recommend a final dividend of 51.25 cents (2010: 46.65 cents) on 29 February 2012 for the year ended 31 December 2011. This, together with the interim dividend already paid, makes a total dividend for 2011 of 76.00 cents (2010: 70.00 cents). The impact of the rights issue in 2010 has been explained in note 13 to the financial statements.

The final dividend, if approved at the 2012 Annual General Meeting (AGM), will be paid in either sterling, Hong Kong dollars or US dollars on 15 May 2012 to shareholders on the UK register of members at the close of business in the UK (10.00pm London time) on 9 March 2012, 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 9 March 2012. The final dividend will be paid in Indian rupees on 15 May 2012 to Indian Depository Receipt holders on the Indian register at the close of business in India on 9 March 2012, 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 23 March 2012. 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 35,896,222 during the year. 11,425,223 ordinary shares were issued under the Company's employee share plans at prices between nil and 1,436.42 pence. 24,470,999 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 79.58 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.

Authority to purchase own shares

At the Annual General Meeting (AGM) held in May 2011, our shareholders renewed the Company's authority to make market purchases of up to 235,072,287 ordinary shares, equivalent to approximately 10 per cent of issued ordinary shares as at 17 March 2011, 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 2011. In accordance with the terms of a waiver granted by The Stock Exchange of Hong Kong Limited on 16 April 2008 as supplemented by modifications agreed by The Stock Exchange of Hong Kong Limited on 30 April 2009 and 25 July 2011 respectively, 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 29 February 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.

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*	432,746,145		18.152
Aberdeen Asset Management PLC's Fund Management Operating Subsidiaries	163,774,076		6.87
BlackRock, Inc	165,824,190		6.96
Legal & General Group Plc (L&G)	81,652,322	3.425	

*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 94 to 96.

V. Shankar joined the Board as an executive director on 1 January 2012.

Re-election of directors
At our AGM to be held on Wednesday 9 May 2012, all of our Board of directors 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 of this can be found in the Corporate governance report on page 101.

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, all of our executive directors and two of our non-executive directors 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.

Directors' interests
The directors' beneficial interests in the ordinary shares of the Company as at 31 December 2011 are shown in the directors' remuneration report on pages 126 to 151.

Confirmation of Independence
The Company considers all of the non-executive directors to be independent and has received from each of them an annual confirmation of independence pursuant to Rule 3.13 of the Hong Kong Listing Rules.

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 144 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 2011, and remain in force at the date of this report.

Report of the directors continued

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 on pages 50 to 86 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 47 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 Listing Rules of The Stock Exchange of Hong Kong Limited respectively (together known as the Rules). Neither Temasek nor its associates are related parties for the purposes of IAS 24 *Related Party Disclosures* (IAS 24).

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 that 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 addition, in 2010 The Stock Exchange of Hong Kong Limited 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 AGM for a period of three years until 7 May 2013.

In addition, in 2011 The Stock Exchange of Hong Kong Limited 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 The Stock Exchange of Hong Kong Limited if the transactions are no longer insignificant or there is any significant change in circumstances, at which time The Stock Exchange of Hong Kong Limited 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 2011.

If none of the exemptions under the Hong Kong Listing Rules or the waivers obtained from The Stock Exchange of Hong Kong Limited is 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 The Stock Exchange of Hong Kong Limited if the magnitude increases significantly.

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 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 for a total consideration of $53 million. Under International Financial Reporting Standard 3, however, only $28 million of this consideration is deemed to relate to the cost of investment; 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.

Further details are given in note 24 to the financial statements.

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 twice a year 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 2011 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 to the Group Chief Executive. The findings of all adverse audits are reported to the Audit Committee, the Chairman and to 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 50 to 86 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 are committed to open, honest and productive relationships with our employees. They receive clear and timely communications from senior management to ensure that they understand the financial and economic factors that affect our performance.

We employ nearly 87,000 people from 130 nationalities across 71 markets. As part of our approach to employee engagement, we operate Group share plans. All employees are invited to participate in our all-employee Sharesave schemes and share in our success. Further details of the Sharesave schemes are given in the Directors' remuneration report on page 139 and in note 37 to the financial statements.

Our employment policies are designed to accommodate the relevant social, statutory 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.

Report of the directors continued

We recognise our social and statutory duty to employ disabled people and have followed a policy in the United Kingdom by providing, wherever possible, the same employment opportunities for disabled people as for others. If employees become disabled, every effort is made to ensure their employment continues, with appropriate training where necessary.

We have measured employee engagement for the last 11 years using the annual employee engagement survey. This survey provides important feedback to managers and teams and internal research has demonstrated a strong relationship between high engagement and increased business performance. In 2011, 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.

Major customers

Our five largest customers together accounted for 3.2 per cent of our total interest income and other operating income in the year ended 31 December 2011.

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 2011. For our operation in the United Kingdom, there were 34 days' purchases outstanding as at 31 December 2011.

Code for Financial Reporting Disclosure

The Group's 2011 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 relating to the lawful and ethical conduct of business and this is supported by the Group's core values. The Group code of conduct 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, social and governance responsibilities

The Group complies with the guidelines issued by the Association of British Insurers on responsible investment disclosure and is committed to the communities and environments in which it operates. The 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, social and governance (ESG) risks. Details of these procedures 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 ESG matters. Specifically, the Brand and Values Committee (BVC), which is appointed by the Board and includes the Chairman of the Board 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 ESG 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 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 recognised in reaching financing decisions explicitly identified in our credit policies, and in the provision of advisory and other financial services. We have developed 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, based on the International Finance Corporation guidelines, 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.

We continue to review and, where appropriate, strengthen our financial crime risk policies, procedures and training. In 2011, due to the coming into force of the UK Bribery Act on 1 July, new Anti-Bribery policy, procedures and training were rolled out to the entire Group. There was also considerable change, partly attributable to the 'Arab Spring', in the number and type of sanctions imposed by the UK and US governments, which required a prompt and comprehensive response from the Group to ensure compliance.

The Board is not aware of any material exceptions to its policies.

Community investment

We are committed to building a sustainable business and a more sustainable society, and recognise our responsibility to invest in the communities in which we operate. We made a total investment of $54.4 million to charities, community organisations and causes across our footprint during the year. This sum included direct financial support of $17.8 million and indirect contributions, such as employees' time, the donation of non-monetary goods and donations worth $37.8 million raised by our employees. In order to further increase our transparency around this data, in 2010 we introduced an online data collection tool, along with some standard charity on-boarding guidelines across all markets in order to collate quality-assured data about the types of initiatives we are involved in.

Community investment activity focuses on a number of major programmes – Living with HIV, Seeing is Believing, Nets for Life and Goal (Women's Empowerment) – as well as a range of local initiatives. These are underpinned by employee volunteering activities. Further details of community projects can be found on page 49.

HIV/AIDS policy

We are committed to addressing the social and health issues that confront our employees, their families and the communities in which we operate. HIV/AIDS directly and indirectly impacts our staff and, therefore, our business. Our HIV/AIDS policy has been adopted across all the countries in which we operate and applies to all staff and their families in a manner consistent with existing medical cover. As of the end of 2010, we had exceeded our commitment to the Clinton Global Initiative to educate one million people on HIV and AIDS, with total education pledges of 1.6 million. In 2011, we focused on supporting our partner organisations and sharing our HIV education materials with other organisations free of charge. A copy of our HIV/AIDS policy is available on our website.

Environment and climate change policy

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 to 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. Our Environment and Climate Change (ECC) Policy 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 – ensuring the continual efficacy of the ECC policy and strategy through providing delivery assurance

Further details of our policies can be found 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 254.

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 12.00pm (London time) (7.00pm Hong Kong time) on Wednesday 9 May 2012 at The Honourable Artillery Company, Armoury House, City Road, London, EC1Y 2BQ. Details of the business to be conducted are contained in the notice of meeting.

Report of the directors continued

Non-audit services

The 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 KPMG should be allowed to tender, subject to the Accounting Principles 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 it 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 judgement as to its validity. Accordingly, the Group is required take a conservative approach to interpreting the potential threats to auditor independence and require 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 prescribed list of non-audit services that KPMG is 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 it is 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 which 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 Auditing Practices Board'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 page 185. The two significant engagements of KPMG to provide non-audit services are described on page 111 and 112.

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 auditor 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 2012 Annual General Meeting to reappoint KPMG. 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 is made aware of any pertinent information.

By order of the Board

Annemarie Durbin
Group Company Secretary
29 February 2012

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 IFRS 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
29 February 2012

Financial statements and notes

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 2011 set out on pages 163 to 235.

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 159, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- The 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; and
- 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; and
- The information given in the Report of the directors, which include 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; and
- Information given in the Corporate Governance section set out on pages 98 to 125 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; or
- 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; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- 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 153 in relation to going concern
- The part of the Corporate Governance section pages 98 to 125 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the Board on directors' remuneration.

John E Hughes

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

Consolidated income statement

For the year ended 31 December 2011

	Notes	2011 $million	2010 $million
Interest income	3	**16,584**	13,500
Interest expense	4	**(6,431)**	(5,030)
Net interest income		**10,153**	8,470
Fees and commission income	5	**4,466**	4,556
Fees and commission expense	5	**(420)**	(318)
Net trading income	6	**2,645**	2,577
Other operating income	7	**793**	777
Non-interest income		**7,484**	7,592
Operating income		**17,637**	16,062
Staff costs	8	**(6,630)**	(5,765)
Premises costs	8	**(862)**	(800)
General administrative expenses	8	**(1,804)**	(1,899)
Depreciation and amortisation	9	**(621)**	(559)
Operating expenses		**(9,917)**	(9,023)
Operating profit before impairment losses and taxation		**7,720**	7,039
Impairment losses on loans and advances and other credit risk provisions	10	**(908)**	(883)
Other impairment	11	**(111)**	(76)
Profit from associates		**74**	42
Profit before taxation		**6,775**	6,122
Taxation	12	**(1,842)**	(1,708)
Profit for the year		**4,933**	4,414
Profit attributable to:			
Non-controlling interests	36	**84**	82
Parent company shareholders		**4,849**	4,332
Profit for the year		**4,933**	4,414
		cents	cents
Earnings per share:			
Basic earnings per ordinary share	14	**200.8**	196.3
Diluted earnings per ordinary share	14	**198.2**	193.0

The notes on pages 170 to 235 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Notes	2011 $million	2010 $million
Profit for the year		**4,933**	4,414
Other comprehensive income:			
Exchange differences on translation of foreign operations:			
Net (losses)/gains taken to equity		**(1,003)**	842
Net gains/(losses) on net investment hedges		**5**	(77)
Reclassified to income statement on change of control		**–**	4
Actuarial (losses)/gains on retirement benefit obligations	34	**(189)**	83
Share of other comprehensive income from associates		**1**	(5)
Available-for-sale investments:			
Net valuation (losses)/gains taken to equity		**(212)**	786
Reclassified to income statement		**(267)**	(284)
Cash flow hedges:			
Net gains taken to equity		**4**	42
Reclassified to income statement		**(94)**	17
Taxation relating to components of other comprehensive income	12	**98**	(101)
Other comprehensive income for the year, net of taxation		**(1,657)**	1,307
Total comprehensive income for the year		**3,276**	5,721
Total comprehensive income attributable to:			
Non-controlling interests	36	**56**	112
Parent company shareholders		**3,220**	5,609
		3,276	5,721

The notes on pages 170 to 235 form an integral part of these financial statements.

Consolidated balance sheet

As at 31 December 2011

	Notes	2011 $million	2010 $million
Assets			
Cash and balances at central banks	15, 39	**47,364**	32,724
Financial assets held at fair value through profit or loss	15, 16	**24,828**	27,021
Derivative financial instruments	15, 17	**67,933**	47,859
Loans and advances to banks	15, 18	**65,981**	52,058
Loans and advances to customers	15, 19	**263,765**	240,358
Investment securities	15, 21	**85,283**	75,796
Other assets	15, 22	**27,286**	25,356
Current tax assets		**232**	179
Prepayments and accrued income		**2,521**	2,127
Interests in associates	23	**903**	631
Goodwill and intangible assets	25	**7,061**	6,998[1]
Property, plant and equipment	26	**5,078**	4,507
Deferred tax assets	27	**835**	946
Total assets		**599,070**	516,560
Liabilities			
Deposits by banks	15, 28	**35,296**	28,551
Customer accounts	15, 29	**342,701**	306,992
Financial liabilities held at fair value through profit or loss	15, 16	**19,599**	20,288
Derivative financial instruments	15, 17	**65,926**	47,133
Debt securities in issue	15, 30	**47,140**	31,381
Other liabilities	15, 31	**23,834**	21,094
Current tax liabilities		**1,005**	981
Accruals and deferred income		**4,458**	4,528
Subordinated liabilities and other borrowed funds	15, 32	**16,717**	15,939
Deferred tax liabilities	27	**131**	183[1]
Provisions for liabilities and charges	33	**369**	315
Retirement benefit obligations	34	**519**	310
Total liabilities		**557,695**	477,695
Equity			
Share capital	35	**1,192**	1,174
Reserves		**39,522**	37,038
Total parent company shareholders' equity		**40,714**	38,212
Non-controlling interests	36	**661**	653
Total equity		**41,375**	38,865
Total equity and liabilities		**599,070**	516,560

1 Amounts have been restated. See note 46

The notes on pages 170 to 235 form an integral part of these financial statements.

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

	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 2010	1,013	4,828	18	7,284	(93)	15	(1,185)	15,460	27,340	580	27,920
Profit for the year	–	–	–	–	–	–	–	4,332	4,332	82	4,414
Other comprehensive income	–	–	–	–	401	42	773	61[2]	1,277	30	1,307
Distributions	–	–	–	–	–	–	–	–	–	(54)	(54)
Shares issued, net of expenses	147	572	–	5,137	–	–	–	–	5,856	–	5,856
Net own shares adjustment	–	–	–	–	–	–	–	(135)	(135)	–	(135)
Share option expense, net of taxation	–	–	–	–	–	–	–	296	296	–	296
Capitalised on scrip dividend	14	(14)	–	–	–	–	–	–	–	–	–
Dividends, net of scrip	–	–	–	–	–	–	–	(745)	(745)	–	(745)
Other increases	–	–	–	–	–	–	–	(9)	(9)	15	6
At 31 December 2010	**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)**[3]	**(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**

1 Includes capital reserve of $5 million and capital redemption reserve of $13 million

2 Comprises actuarial gains, net of taxation and non-controlling interests, of $66 million and share of comprehensive income from associates of $(5) million

3 Comprises actuarial losses, net of taxation and non-controlling interests, of $161 million and share of comprehensive income from associates of $1 million

Note 35 includes a description of each reserve.

The notes on pages 170 to 235 form an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2011

	Notes	Group 2011 $million	Group 2010[1] $million	Company 2011 $million	Company 2010[1] $million
Cash flows from operating activities					
Profit before taxation		**6,775**	6,122	**1,211**	732
Adjustments for:					
Non-cash items included within income statement	38	**2,823**	2,202	**(841)**	(485)
Change in operating assets	38	**(68,011)**	(82,352)	**24**	(332)
Change in operating liabilities	38	**78,478**	58,964	**524**	699
Contributions to defined benefit schemes	34	**(77)**	(150)	**–**	–
UK and overseas taxes paid		**(1,618)**	(1,421)	**–**	–
Net cash from/(used in) operating activities		**18,370**	(16,635)	**918**	614
Net cash flows from investing activities					
Purchase of property, plant and equipment		**(286)**	(370)	**–**	–
Disposal of property, plant and equipment		**139**	183	**–**	–
Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired		**(906)**	(545)	**–**	(1,000)
Purchase of investment securities	21	**(131,260)**	(114,076)	**(1,300)**	–
Disposal and maturity of investment securities		**119,831**	116,658	**–**	–
Dividends received from investment in subsidiaries and associates	23	**10**	22	**1,176**	770
Net cash (used in)/from investing activities		**(12,472)**	1,872	**(124)**	(230)
Net cash flows from financing activities					
Issue of ordinary and preference share capital, net of expenses		**64**	5,856	**64**	5,856
Purchase of own shares[2]		**(146)**	(182)	**(146)**	(182)
Exercise of share options through ESOP		**57**	47	**57**	47
Interest paid on subordinated liabilities		**(842)**	(773)	**(104)**	(104)
Gross proceeds from issue of subordinated liabilities		**929**	770	**–**	–
Repayment of subordinated liabilities		**(540)**	(1,549)	**–**	(4)
Interest paid on senior debts		**(894)**	(956)	**(356)**	(315)
Gross proceeds from issue of senior debts		**15,594**	13,853	**3,853**	3,236
Repayment of senior debts		**(8,092)**	(11,146)	**(1,063)**	(40)
Dividends paid to non-controlling interests and preference shareholders, net of scrip		**(170)**	(155)	**(101)**	(101)
Dividends paid to ordinary shareholders, net of scrip		**(1,051)**	(644)	**(1,051)**	(644)
Net cash from financing activities		**4,909**	5,121	**1,153**	7,749
Net increase/(decrease) in cash and cash equivalents		**10,807**	(9,642)	**1,947**	8,133
Cash and cash equivalents at beginning of year		**59,734**	68,073	**13,931**	5,798
Effect of exchange rate movements on cash and cash equivalents		**(91)**	1,303	**–**	–
Cash and cash equivalents at end of year	39	**70,450**	59,734	**15,878**	13,931

1 Amounts have been reclassified. See note 46

2 Net of proceeds from sale of rights by the trusts for 2010

The notes on pages 170 to 235 form an integral part of these financial statements.

Company balance sheet

As at 31 December 2011

	Notes	**2011 $million**	2010 $million
Non-current assets			
Investments in subsidiary undertakings	23	**14,291**	14,291
Current assets			
Derivative financial instruments	48	**601**	441
Investment securities	48	**4,025**	2,725
Amounts owed by subsidiary undertakings		**15,878**	13,931
Taxation		**45**	48
		20,549	17,145
Current liabilities			
Derivative financial instruments	48	**43**	90
Other creditors		**283**	274
Deferred income	47	**18**	18
		344	382
Net current assets		**20,205**	16,763
Total assets less current liabilities		**34,496**	31,054
Non-current liabilities			
Debt securities in issue	48	**11,374**	8,343
Deferred income	47	**54**	73
Subordinated liabilities and other borrowed funds	32	**1,728**	1,730
		13,156	10,146
Total assets less liabilities		**21,340**	20,908
Equity			
Share capital	35	**1,192**	1,174
Reserves		**20,148**	19,734
Total equity		**21,340**	20,908

The notes on pages 170 to 235 form an integral part of these financial statements.

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

	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 2010	1,013	4,828	18	7,284	1,731	14,874
Profit for the year	–	–	–	–	742	742
Shares issued, net of expenses	147	572	–	5,137	–	5,856
Net own shares adjustment	–	–	–	–	(135)	(135)
Share option expense	–	–	–	–	316	316
Capitalised on scrip dividend	14	(14)	–	–	–	–
Dividends, net of scrip	–	–	–	–	(745)	(745)
At 31 December 2010	**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**

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 170 to 235 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 disclosures required by IFRS 7 *Financial Instruments: Disclosures (IFRS 7)* and the capital disclosures within IAS 1 *Presentation of Financial Statements (IAS 1)* are presented within the Risk review on pages 50 to 86, Capital on pages 87 to 91, and in the notes to the financial statements. The following parts of the Risk review form part of audited financial statements: from the start of the 'Risk management' section on page 54 to the end of the 'Operational risk' section on page 86, with the exception of the 'Asset backed securities' section on page 75. The following parts of Capital form part of the audited financial statements, from the start of Capital management on page 87 to the end of the movement in Core Tier 1 capital on page 90.

(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 64)
- 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)
- Pensions (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

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

On 1 January 2011, the Group adopted improvements to IFRS (2010), a collection of amendments to a number of IFRS. Of these, the amendments to IFRS 7, IAS 1, IAS 34 *Interim Financial Reporting* and IFRIC 13 *Customer Loyalty Programmes* have been applied on a retrospective basis and the amendments to IFRS 3 *Business Combinations* have been applied on a prospective basis. The amendments to IFRS 7 include a requirement to disclose the financial effect of collateral held against assets on the Group's balance sheet, and this disclosure is set out on pages 59 and 60 of the Risk review. None of the other amendments have had a material impact on the Group's financial statements.

(f) Forthcoming accounting standards and interpretations – issued but not effective

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

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

Accounting standards mandatorily effective 1 January 2012

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

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

Accounting standards mandatorily effective 1 January 2013

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

1. Accounting policies continued

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

IFRS 12 *Disclosure of Interests in Other Entities* prescribes disclosure requirements 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.

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

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

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

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

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

Accounting standards mandatorily effective 1 January 2014

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

Accounting standards mandatorily effective 1 January 2015

IFRS 9 *Financial instruments*

IFRS 9 replaces certain elements of IAS 39 *Financial Instruments: Recognition and Measurement* in respect of classification and measurement of financial assets and financial liabilities. The standard requires all financial assets to be classified at fair value or amortised cost. Amortised cost classification is only permitted where the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and where these contractual cash flows are solely payment of principal and interest, gains or losses on assets measured at fair value are recognised in the income statement unless the asset is a non-trading equity investment and the Group has elected to present such gains or losses in other comprehensive income.

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

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

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

(g) IFRS and Hong Kong accounting requirements

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

(h) Prior period restatements

Details of prior period restatements are set out in note 46.

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 44.

Notes to the financial statements continued

1. Accounting policies continued

Associates

Associates are all entities over which the Group has the ability to significantly influence, but not control, the financial and operating policies and procedures generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Joint ventures

Interests in jointly controlled entities are recognised using proportionate consolidation whereby the Group's share of the joint venture's assets, liabilities, income and expenses are combined line by line with similar items in the Group's financial statements.

Investment in subsidiaries, associates and joint ventures

In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received prior to 1 January 2009, if any.

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

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill (see note 25 for details on goodwill recognised by the Group and page 177 for the accounting policy). If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the income statement if (i) they arise within 12 months of the acquisition date and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period adjustments). Such adjustments are applied as at the date of acquisition and if applicable, prior period amounts are restated. All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not remeasured.

Changes in ownership interest in a subsidiary which do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Where a business combination 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.

(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 is recognised within net interest income.

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised using the effective interest method.

1. Accounting policies continued

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 instruments original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

If the financial asset has been reclassified, subsequent increases in the estimates of future cash receipts as a result of increased recoverability are recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Dividends on equity instruments are recognised in the income statement within other income when the Group's right to receive payment is established.

Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided or significant act performed. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate as for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportionment basis.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central banks (unless restricted) and balances with less than three months' maturity from the date of acquisition, including treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

(m) Financial assets and liabilities classification (excluding derivatives)

The Group classifies its financial assets into the following measurement categories: a) financial assets held at fair value through profit or loss; b) loans and receivables; c) held-to-maturity; and d) available-for-sale. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition or, where applicable, at the time of reclassification.

Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately

For certain loans and advances and debt securities with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these loans and advances and debt securities have been designated at fair value through profit or loss. Details of financial assets designated at fair value are disclosed in notes 15 and 16.

The Group has also designated certain financial liabilities at fair value through profit or loss where either the liabilities:

- have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered into with the intention of significantly reducing interest rate risk
- are exposed to foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes
- have been acquired to fund trading asset portfolios or assets, or where the assets and liabilities are managed, and performance evaluated, on a fair value basis for a documented risk management or investment strategy

Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost expense recognition. Details of financial liabilities designated at fair value are disclosed in note 15.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substationally all of the initial investment will be recovered, other than because of credit deterioration.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

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.

Notes to the financial statements continued

1. Accounting policies continued

Financial liabilities held at amortised cost

Financial liabilities, which include borrowings, not classified held at fair value through profit or loss are classified as amortised cost instruments.

Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market date.

Equity investments that do not have an observable market price are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering, after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and financial assets classified as held-to-maturity and available-for-sale are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers.

All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income line in the income statement.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Financial liabilities are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group considers the following factors in assessing objective evidence of impairment:

- whether the counterparty is in default of principal or interest payments
- when a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation
- where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation
- where the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments
- where the Group sells a credit obligation at a material credit-related economic loss; or
- where there 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

1. Accounting policies continued

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 pages 59 and 60. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process, which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are based on the probability of default inherent within the portfolio of impaired loans or receivables and the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Further details on the application of these policies is set out in the Risk review on pages 50 to 86.

Available-for-sale assets

Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. A significant or prolonged decline in the fair value of an equity security below its cost is considered, amongst other factors, in assessing objective evidence of impairment for equity securities.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Renegotiated loans

Loans whose original terms have been modified including those subject to forbearance strategies are considered renegotiated loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets must be reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.

Notes to the financial statements continued

1. Accounting policies continued

Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) remain on the balance sheet; the counterparty liability is included in deposits by banks, or customer accounts, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

Details of the Group's repo transactions are provided in note 43.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income'.

(n) Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or (3) hedges of the net investment of a foreign operation (net investment hedges). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group and Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity or derecognition.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Further details on the application of these policies are set out in note 17.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in the income statement.

1. Accounting policies continued

(o) Leases

Where a Group company is the lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Group is a lessee under finance leases, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

Where a Group company is the lessor

When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax cash flows.

Assets leased to customers under operating leases are included within Property, plant and equipment and depreciated over their useful lives. Rental income on these leased assets is recognised in the income statement on a straight-line basis unless another systematic basis is more representative.

(p) Intangible and tangible fixed assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint ventures is included in intangible assets. Goodwill on acquisitions of associates is included in Investments in associates. Goodwill included in Intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of 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 which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised on the basis of expected useful life (three to five years). Costs associated with maintaining software are recognised as an expense as incurred. At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated although it is subject to impairment testing. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	up to 50 years
Leasehold improvements	life of lease, up to 50 years
Equipment and motor vehicles	three to 15 years
Aircraft and ships	up to 25 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. At each balance sheet date, assets are also assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately to the recoverable amount.

Gains and losses on disposals are included in the income statement.

(q) Taxation

Income tax payable on profits is based on the applicable tax law in each jurisdiction and is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted as at the balance sheet date, and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

Notes to the financial statements continued

1. Accounting policies continued

(r) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where a liability arises based on participation in a market at a specified date (such as the UK bank levy), the obligation is recognised in the financial statements on that date and is not accrued over the period.

(s) Employee benefits

Pension obligations

The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight-line basis. Current service costs and any past service costs, together with the unwinding of the discount on plan liabilities, offset by the expected return on plan assets where applicable, are charged to operating expenses.

Share-based compensation

The 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 2012 in respect of 2011 performance, which vest in 2013-2015, is recognised as an expense over the period from 1 January 2011 to the vesting dates in 2013-2015. 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 customers, rather than maximising a particular product line. Hence the Group evaluates segmental performance based on overall profit or loss before taxation (excluding corporate items not allocated) and not individual product profitability. Product revenue information is used as a way of assessing customer needs and trends in the marketplace. The strategies adopted by Consumer Banking and Wholesale Banking need to be adapted to local market and regulatory requirements, which is the responsibility of country management teams. While not the primary driver of the business, country performance is an important part of the Group's matrix structure and is also used to evaluate performance and reward staff. Corporate items not allocated are not aggregated into the businesses because of the one-off nature of these items.

The Group's entity-wide disclosure comprises geographic areas, classified by the location of the customer, except for Financial Market products, which are classified by the location of the dealer.

Transactions between the business segments and geographic areas are carried out on an arms-length basis. Apart from the entities that have been acquired in the last two years, Group central expenses have been distributed between the business segments and geographic areas in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their average risk weighted assets. In the year in which an acquisition is made, the Group does not charge or allocate the benefit of the Group's capital. The distribution of central expenses is phased in over two years, based on the estimate of central management costs associated with the acquisition.

By class of business

	2011					2010				
	Consumer Banking $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	**(44)**	**44**	**–**	**–**	**–**	(28)	28	–	–	–
Net interest income	**4,628**	**5,525**	**10,153**	**–**	**10,153**	4,066	4,404	8,470	–	8,470
Other income	**2,207**	**5,277**	**7,484**	**–**	**7,484**	2,041	5,547	7,588	4	7,592
Operating income	**6,791**	**10,846**	**17,637**	**–**	**17,637**	6,079	9,979	16,058	4	16,062
Operating expenses	**(4,605)**	**(5,147)**	**(9,752)**	**(165)**	**(9,917)**	(4,176)	(4,840)	(9,016)	(7)	(9,023)
Operating profit before impairment losses and taxation	**2,186**	**5,699**	**7,885**	**(165)**	**7,720**	1,903	5,139	7,042	(3)	7,039
Impairment losses on loans and advances and other credit risk provisions	**(524)**	**(384)**	**(908)**	**–**	**(908)**	(578)	(305)	(883)	–	(883)
Other impairment	**(12)**	**(99)**	**(111)**	**–**	**(111)**	(12)	(64)	(76)	–	(76)
Profit from associates	**–**	**–**	**–**	**74**	**74**	–	–	–	42	42
Profit before taxation	**1,650**	**5,216**	**6,866**	**(91)**	**6,775**	1,313	4,770	6,083	39	6,122
Total assets employed	**132,129**	**464,971**	**597,100**	**1,970**	**599,070**	125,589	389,215	514,804	1,756	516,560
Total liabilities employed	**169,685**	**386,874**	**556,559**	**1,136**	**557,695**	160,991	315,540	476,531	1,164	477,695
Other segment items:										
Capital expenditure[1]	**178**	**1,397**	**1,575**	**–**	**1,575**	249	816	1,065	–	1,065
Depreciation	**169**	**199**	**368**	**–**	**368**	163	166	329	–	329
Investment in associates	**–**	**–**	**–**	**903**	**903**	–	–	–	631	631
Amortisation of intangible assets	**73**	**180**	**253**	**–**	**253**	83	147	230	–	230

1 Includes capital expenditure in Wholesale Banking of $1,049 million in respect of operating lease assets (2010: $498 million)

2 Relates to UK bank levy, and the Group's share of profit from associates

3 Relates to UK payroll tax, gains on change in control, and the Group's share of profit from associates

Notes to the financial statements continued

2. Segmental Information continued

The following table details entity-wide operating income by product:

	2011 $million	2010 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	**2,422**	2,044
Wealth Management	**1,272**	1,138
Deposits	**1,409**	1,202
Mortgage and Auto Finance	**1,478**	1,513
Other	**210**	182
	6,791	6,079
Wholesale Banking		
Lending and Portfolio Management	**841**	868
Transaction Banking		
Trade	**1,595**	1,467
Cash Management and Custody	**1,652**	1,303
Global Markets		
Financial Markets	**3,688**	3,303
Asset and Liability Management (ALM)	**921**	912
Corporate Finance	**1,873**	1,710
Principal Finance	**276**	416
	6,758	6,341
	10,846	9,979

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.

	2011								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[1] $million	Total $million
Internal income	70	(98)	(66)	17	96	51	87	(157)	–
Net interest income	1,532	1,075	1,430	2,331	889	1,146	598	1,152	10,153
Fees and commissions income, net	752	509	197	766	423	443	340	616	4,046
Net trading income	559	571	77	289	275	488	287	99	2,645
Other operating income	136	129	80	150	122	91	28	57	793
Operating income	3,049	2,186	1,718	3,553	1,805	2,219	1,340	1,767	17,637
Operating expenses	(1,395)	(1,105)	(1,335)	(2,076)	(829)	(1,085)	(703)	(1,389)	(9,917)
Operating profit before impairment losses and taxation	1,654	1,081	383	1,477	976	1,134	637	378	7,720
Impairment losses on loans and advances and other credit risk provisions	(103)	(48)	(198)	(134)	(112)	(286)	(25)	(2)	(908)
Other impairment	–	(31)	(13)	31	(60)	(14)	(16)	(8)	(111)
Profit from associates	–	–	–	73	–	–	–	1	74
Profit before taxation	1,551	1,002	172	1,447	804	834	596	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

2. Segmental Information continued

	2010								
	Asia Pacific								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[1] $million	Total $million
Internal income	5	(47)	(49)	64	349	2	82	(406)	–
Net interest income	1,229	907	1,158	1,833	767	1,145	517	914	8,470
Fees and commissions income, net	700	400	233	737	464	589	359	756	4,238
Net trading income	521	367	293	340	267	343	263	183	2,577
Other operating income	45	111	63	191	181	88	25	73	777
Operating income	2,500	1,738	1,698	3,165	2,028	2,167	1,246	1,520	16,062
Operating expenses	(1,355)	(986)	(1,080)	(1,970)	(749)	(995)	(653)	(1,235)	(9,023)
Operating profit before impairment losses and taxation	1,145	752	618	1,195	1,279	1,172	593	285	7,039
Impairment losses on loans and advances and other credit risk provisions	(43)	(33)	(226)	(152)	(79)	(302)	(24)	(24)	(883)
Other impairment	1	(1)	(4)	(2)	(3)	(29)	(10)	(28)	(76)
Profit from associates	–	–	–	42	–	–	–	–	42
Profit before taxation	1,103	718	388	1,083	1,197	841	559	233	6,122
Capital expenditure[2]	23	286	60	74	38	18	57	509	1,065

1 Americas UK & Europe includes operating income of $739 million in respect of the UK, the Company's country of domicile

2 Includes capital expenditure in Americas, UK & Europe of $498 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

Net interest margin and yield

	2011 $million	2010 $million
Net interest margin (%)	**2.3**	2.2
Net interest yield (%)	**2.2**	2.1
Average interest-earning assets	**441,892**	383,359
Average interest-bearing liabilities	**410,602**	347,058

Net interest margin by geography

	2011									
	Asia Pacific									
	Hong Kong $million	**Singapore $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas UK & Europe[1] $million**	**Intra-group/ tax assets $million**	**Total $million**
Total assets employed	**117,245**	**102,768**	**63,134**	**115,588**	**42,300**	**56,223**	**17,276**	**157,473**	**(72,937)**	**599,070**
Of which: loans to customers	**50,541**	**42,574**	**38,072**	**54,196**	**23,379**	**23,299**	**10,004**	**26,688**	**–**	**268,753**
Average interest-earning assets	**91,923**	**67,952**	**57,031**	**95,513**	**31,299**	**33,851**	**12,389**	**96,396**	**(44,462)**	**441,892**
Net interest income	**1,631**	**1,011**	**1,348**	**2,346**	**985**	**1,202**	**675**	**955**	**–**	**10,153**
Net interest margin (%)	**1.8**	**1.5**	**2.4**	**2.5**	**3.1**	**3.6**	**5.4**	**1.0**	**–**	**2.3**

1 Americas, UK & Europe includes total assets employed of $103,300 million in respect of the UK, the Company's country of domicile

	2010									
	Asia Pacific									
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[1] $million	Intra-group/ tax assets $million	Total $million
Total assets employed	102,674	82,007	63,936	101,915	39,631	48,028	15,962	117,916	(55,509)	516,560
Of which: loans to customers	43,632	36,106	40,083	48,225	24,384	23,571	8,138	22,265	–	246,404
Average interest-earning assets	81,975	55,530	55,505	79,634	28,798	31,318	12,543	76,774	(38,718)	383,359
Net interest income	1,272	821	1,099	1,885	965	1,172	598	658	–	8,470
Net interest margin (%)	1.6	1.5	2.0	2.4	3.4	3.7	4.8	0.9	–	2.2

1 Americas, UK & Europe includes total assets employed of $75,930 million in respect of the UK, the Company's country of domicile

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:

2011	Asia Pacific: Hong Kong $million	Asia Pacific: Singapore $million	Asia Pacific: Korea $million	Asia Pacific: Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Non-interest bearing current and demand accounts	**6,956**	**9,013**	**66**	**4,289**	**2,557**	**8,813**	**3,778**	**3,038**	**38,510**
Interest-bearing current accounts and savings deposits	**48,088**	**23,314**	**19,381**	**28,232**	**1,978**	**3,874**	**2,915**	**22,378**	**150,160**
Time deposits	**33,951**	**32,730**	**19,337**	**42,336**	**6,706**	**10,964**	**2,564**	**44,447**	**193,035**
Other deposits	**283**	**295**	**748**	**1,681**	**1,691**	**352**	**110**	**1,342**	**6,502**
Total	**89,278**	**65,352**	**39,532**	**76,538**	**12,932**	**24,003**	**9,367**	**71,205**	**388,207**
Deposits by banks	**2,025**	**2,299**	**1,603**	**5,881**	**175**	**2,059**	**532**	**21,814**	**36,388**
Customer accounts	**87,253**	**63,053**	**37,929**	**70,657**	**12,757**	**21,944**	**8,835**	**49,391**	**351,819**
	89,278	**65,352**	**39,532**	**76,538**	**12,932**	**24,003**	**9,367**	**71,205**	**388,207**
Debt securities in issue	**1,820**	**770**	**7,998**	**5,501**	**363**	**56**	**228**	**34,837**	**51,573**
Total	**91,098**	**66,122**	**47,530**	**82,039**	**13,295**	**24,059**	**9,595**	**106,042**	**439,780**

The above table includes financial instruments held at fair value (see note 15).

2010	Asia Pacific: Hong Kong $million	Asia Pacific: Singapore $million	Asia Pacific: Korea $million	Asia Pacific: Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Non-interest bearing current and demand accounts	7,045	5,927	74	5,167	3,175	7,907	3,917	7,608	40,820
Interest-bearing current accounts and savings deposits	43,302	22,843	18,981	27,060	2,324	3,834	2,212	16,699	137,255
Time deposits	26,338	23,793	18,015	35,660	6,469	10,341	2,431	39,605	162,652
Other deposits	130	112	733	843	2,058	332	121	920	5,249
Total	76,815	52,675	37,803	68,730	14,026	22,414	8,681	64,832	345,976
Deposits by banks	2,540	1,130	2,484	4,006	512	1,555	470	16,777	29,474
Customer accounts	74,275	51,545	35,319	64,724	13,514	20,859	8,211	48,055	316,502
	76,815	52,675	37,803	68,730	14,026	22,414	8,681	64,832	345,976
Debt securities in issue	22	535	9,860	1,812	241	52	413	21,756	34,691
Total	76,837	53,210	47,663	70,542	14,267	22,466	9,094	86,588	380,667

The above table includes financial instruments held at fair value (see note 15).

3. Interest income

	2011 $million	2010 $million
Balances at central banks	**159**	17
Treasury bills	**790**	674
Loans and advances to banks	**1,251**	764
Loans and advances to customers	**12,296**	9,964
Listed debt securities	**749**	882
Unlisted debt securities	**1,269**	1,137
Accrued on impaired assets (discount unwind)	**70**	62
	16,584	13,500
Of which from financial instruments held at:		
Amortised cost	**13,419**	10,442
Available-for-sale	**2,259**	1,914
Held at fair value through profit or loss	**906**	1,144

4. Interest expense

	2011 $million	2010 $million
Deposits by banks	**429**	486
Customer accounts:		
Interest-bearing current accounts and savings deposits	**1,450**	1,021
Time deposits	**3,130**	2,342
Debt securities in issue	**948**	751
Subordinated liabilities and other borrowed funds:		
Wholly repayable within five years	**13**	24
Other	**461**	406
	6,431	5,030
Of which from financial instruments held at:		
Amortised cost	**5,953**	4,535
Held at fair value through profit or loss	**478**	495

5. Fees and commissions

	2011 $million	2010 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	**391**	392
Wealth Management and Deposits	**1,107**	1,021
Mortgages and Auto Finance	**92**	86
Others	**44**	62
	1,634	1,561
Wholesale Banking		
Lending and Portfolio Management	**72**	89
Transaction Banking	**1,409**	1,338
Financial Markets	**142**	392
Corporate Finance	**766**	852
Others	**23**	6
	2,412	2,677
Net fee and commission income	**4,046**	4,238

Total fee income arising from financial instruments that are not fair valued through profit or loss of $1,380 million (2010: $1,468 million) and arising from trust and other fiduciary activities of $155 million (2010: $198 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss of $74 million (2010: $183 million) and arising from trust and other fiduciary activities of $22 million (2010: $16 million).

6. Net trading income

	2011 $million	2010 $million
Gains less losses on instruments held for trading:		
Foreign currency[1]	**1,789**	1,677
Trading securities	**23**	349
Interest rate derivatives	**333**	339
Credit and other derivatives	**632**	38
	2,777	2,403
Gains less losses from fair value hedging:		
Gains less losses from fair value hedged items	**(808)**	(256)
Gains less losses from fair value hedging instruments	**795**	272
	(13)	16
Gains less losses on instruments designated at fair value:		
Financial assets designated at fair value through profit or loss	**52**	201
Financial liabilities designated at fair value through profit or loss	**(438)**	(14)
Derivatives managed with financial instruments designated at fair value through profit or loss	**267**	(29)
	(119)	158
	2,645	2,577

1 Includes foreign currency gains and losses arising on the translation of foreign currency monetary assets and liabilities

Notes to the financial statements continued

7. Other operating income

	2011 $million	2010 $million
Other operating income includes:		
Gains less losses on disposal of financial assets:		
Available-for-sale	**267**	284
Loans and receivables	**27**	16
Dividend income	**73**	53
Gains arising on assets fair valued at acquisition	**12**	29
Rental income from operating lease assets	**268**	213
Gains on disposal of property, plant and equipment	**52**	65
Gain arising on change of control	**–**	4

Gains arising on assets fair valued at acquisition relates to acquisitions completed prior to 1 January 2010, and primarily consists of recoveries of fair value adjustments on loans and advances.

8. Operating expenses

	2011 $million	2010 $million
Staff costs:		
Wages and salaries	**4,973**	4,465
Social security costs	**155**	124
Other pension costs (note 34)	**282**	182
Share based payment costs (note 37)	**392**	390
Other staff costs	**828**	604
	6,630	5,765

The following tables summarise the number of employees within the Group:

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**

2010	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	53,382	18,869	12,980	85,231
Average for the year	51,367	18,022	13,270	82,659

The Company employed nil staff at 31 December 2011 (2010: nil) and it incurred costs of $3 million (2010: $3 million).

Details of directors' pay and benefits and interests in shares are disclosed in the Directors' remuneration report on pages 126 to 151.

Transactions with directors, officers and other related parties are disclosed in note 47.

	2011 $million	2010 $million
Premises and equipment expenses:		
Rental of premises	**420**	387
Other premises and equipment costs	**410**	386
Rental of computers and equipment	**32**	27
	862	800
General administrative expenses:		
UK bank levy	**165**	–
Other general administrative expenses	**1,639**	1,899
	1,804	1,899

8. Operating expenses continued

The UK Finance (No.3) Act 2011 (the 2011 Act) that was enacted on 19 July 2011 introduced a levy on certain qualifying liabilities of the Group with effect from January 2011, based on the balance sheet at the end of the financial year. The levy, which is not deductible for corporation tax, but is charged on total liabilities excluding Tier 1 capital, insured or guaranteed retail deposits and repos secured on certain sovereign debt. There is also a deduction from chargeable liabilities for an amount equal to certain high quality liquid assets and an allowance of GBP 20 billion before the levy is due. The rate of the levy for 2011 was set at 0.078 per cent of qualifying liabilities, with a lower rate of 0.039 per cent applied to liabilities with a maturity greater than one year and any deposits not otherwise excluded from the scope of levy (except for those from financial institutions and financial traders). The rate for 2012 has been set as 0.088 per cent of qualifying liabilities, with a lower rate of 0.044 per cent applicable as per above.

Auditor's remuneration

Auditor's remuneration in relation to the Group statutory audit amounts to $3.6 million (2010: $3.7 million) and is included within other general administration expenses. The following fees were payable by the Group to their principal auditor, KPMG Audit Plc and its associates (together 'KPMG'):

	2011 $million	2010 $million
Audit fees for the Group statutory audit:		
Fees relating to the current year	**3.6**	3.7
Fees payable to KPMG for other services provided to the Group:		
Audit of Standard Chartered PLC subsidiaries, pursuant to legislation		
Fees relating to the current year	**10.5**	10.1
Total audit and audit related fees	**14.1**	13.8
Other services pursuant to legislation	**2.5**	2.4
Tax services	**0.6**	1.0
Services relating to corporate finance transactions	**0.1**	0.1
All other services	**1.7**	1.9
Total fees payable	**19.0**	19.2

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG Audit Plc for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered PLC. It excludes 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 $0.1 million (2010: $0.3 million) by parties other than the Group but where the Group is connected with the contracting party and therefore may be involved in appointing KPMG. These fees arise from services such as the audit of the Group's pension schemes.

Fees payable to KPMG for non-audit services for Standard Chartered PLC are not separately disclosed because such fees are disclosed on a consolidated basis for the Group.

Notes to the financial statements continued

9. Depreciation and amortisation

	2011 $million	2010 $million
Premises	**123**	118
Equipment:		
Operating lease assets	**100**	71
Others	**145**	140
Intangibles:		
Software	**184**	167
Acquired on business combinations	**69**	63
	621	559

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 commitments:

	2011 $million	2010 $million
Net charge against profit on loans and advances:		
Individual impairment charge	**867**	1,002
Portfolio impairment charge/(release)	**14**	(130)
	881	872
Provisions related to credit commitments	**2**	9
Impairment charges relating to debt securities classified as loans and receivables	**25**	2
Total impairment losses and other credit risk provisions	**908**	883

An analysis of impairment provisions on loans and advances by geography and business is set out within the Risk review on pages 66 to 71.

11. Other impairment

	2011 $million	2010 $million
Impairment losses on available-for-sale financial assets:		
– Asset backed securities	**7**	22
– Other debt securities	**52**	–
– Equity shares	**42**	10
	101	32
Other	**40**	45
	141	77
Recovery of impairment on disposal of equity instruments	**(30)**	(1)
	111	76

Recoveries of impairments of $30 million (2010: $1 million) are in respect of private and strategic equity investments sold during the period that had impairment provisions raised against them in previous periods.

12. Taxation

Analysis of taxation charge in the year:

	2011 $million	2010 $million
The charge for taxation based upon the profits for the year comprises:		
Current tax:		
United Kingdom corporation tax at 26.5 per cent (2010: 28 per cent):		
Current tax on income for the year	**1,037**	865
Adjustments in respect of prior periods (including double taxation relief)	**(101)**	6
Double taxation relief	**(912)**	(697)
Foreign tax:		
Current tax on income for the year	**1,645**	1,310
Adjustments in respect of prior periods	**8**	36
	1,677	1,520
Deferred tax:		
Origination/reversal of temporary differences	**207**	303
Adjustments in respect of prior periods	**(42)**	(115)
	165	188
Tax on profits on ordinary activities	**1,842**	1,708
Effective tax rate	**27.2%**	27.9%

Determining income tax provisions involves judgment on the tax treatment of certain transactions.

The taxation charge for the year is higher than the standard rate of corporation tax in the United Kingdom, 26.5 per cent.

The differences are explained below:

	2011 $million	2010 $million
Profit on ordinary activities before taxation	**6,775**	6,122
Tax at 26.5 per cent (2010: 28 per cent)	**1,795**	1,714
Effects of:		
Tax free income	**(117)**	(191)
Lower tax rates on overseas earnings	**(200)**	(196)
Higher tax rates on overseas earnings	**322**	321
Adjustments to tax charge in respect of previous periods	**(135)**	(73)
Branch Profits Exemption[1]	**138**	–
Other items	**39**	133
Tax on profits on ordinary activities	**1,842**	1,708

1 The Group elected into the Branch Profit Exemption Regime, which takes effect for the accounting period commencing from 1 January 2012. The current period impact is to reduce the UK deferred tax asset by $138 million

The UK corporation tax rate has been changed from 28 per cent to 26 per cent with an effective date of 1 April 2011, giving a blended rate of 26.5 per cent for the year. A further reduction in the UK corporation tax rate to 25 per cent with an effective date of 1 April 2012 has been enacted at the balance sheet date. The rate reduction to 25 per cent has reduced the UK deferred tax asset by $28 million.

Foreign taxation includes taxation on Hong Kong profits of $170 million (2010: $109 million) provided at a rate of 16.5 per cent (2010: 16.5 per cent) on the profits assessable in Hong Kong. Deferred taxation includes origination/(reversal) of temporary differences in Hong Kong profits of $28 million (2010: $25 million) provided at a rate of 16.5 per cent (2010: 16.5 per cent) on the profits assessable in Hong Kong.

	2011			2010		
	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	**(33)**	**74**	**41**	(76)	9	(67)
Cash flow hedges	**–**	**20**	**20**	–	(17)	(17)
Retirement benefit obligations	**–**	**37**	**37**	–	(17)	(17)
	(33)	**131**	**98**	(76)	(25)	(101)
Other tax recognised in equity						
Share based payments	**80**	**(21)**	**59**	15	(33)	(18)
	80	**(21)**	**59**	15	(33)	(18)
Total tax (charge)/credit recognised in equity	**47**	**110**	**157**	(61)	(58)	(119)

Notes to the financial statements continued

13. Dividends

Ordinary equity shares	2011 Cents per share	2011 $million	2010 Pre-rights cents per share	2010 $million
2010/2009 final dividend declared and paid during the year	**46.65**	**1,089**	44.80	904
2011/2010 interim dividend declared and paid during the year	**24.75**	**586**	23.35	481
		1,675		1,385

The amounts in the table above reflect the actual dividend per share declared and paid to shareholders in 2011 and 2010. 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 2010 final dividend of 46.65 cents per ordinary share ($1,089 million) was paid to eligible shareholders on 11 May 2011 and the 2011 interim dividend of 24.75 cents per ordinary share ($586 million) was paid to eligible shareholders on 7 October 2011.

2011 recommended final ordinary equity share dividend

The 2011 final ordinary equity share dividend recommended by the Board is 51.25 cents per share ($1,216 million), which makes the total dividend for 2011 76.00 cents per share (2010: 70.00 cents per share, 2009: 66.03 cents per share; both on a pre-rights basis). The final dividend will be paid in either pounds sterling, Hong Kong dollars or US dollars on 15 May 2012 to shareholders on the UK register of members at the close of business in the UK (10:00 pm London time) on 9 March 2012, 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 9 March 2012. The 2011 final ordinary equity share dividend will be paid in Indian rupees on 15 May 2012 to Indian Depository Receipt holders on the Indian register at the close of business in India on 9 March 2012.

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 23 March 2012. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

Impact of the 2010 rights issue

On 13 October 2010, the Company announced the issue of 260,525,763 new ordinary shares by way of rights to qualifying shareholders at 1280 pence per new ordinary share. The issue was on the basis of 1 ordinary share for every 8 ordinary shares held on 21 October 2010.

In the absence of specific guidance in IFRS, the dividend per share amounts in the table below have been adjusted for the bonus element included within the 2010 rights issue in line with the restatement of prior period earnings per share amounts required by IAS 33 ‘Earnings per share’ (see note 14).

	Post-rights cents per share
2009 final dividend declared and paid during 2010	**43.16**
2010 interim dividend declared and paid during 2010	**22.50**

Total dividend recommended and declared relating to 2010 on a post-rights basis is 69.15 cents per share (2009: 63.61 cents per share), comprising interim dividend per share of 22.50 cents (2009: 20.45 cents) and final dividend per share of 46.65 cents (2009: 43.16 cents).

For the 98.5 per cent of shareholders who exercised their rights, a comparison of the actual cash payments received by the shareholders is better reflected by adjusting the dividend per share amounts by the ratio of shares outstanding immediately before the rights issue to the number of shares outstanding immediately following the rights issue as set out in the table below. This approach is consistent with the adjustments to the dividend per share amounts following the rights issue in 2008.

	Adjusted cents per share
2009 final dividend declared and paid during 2010	**39.82**
2010 interim dividend declared and paid during 2010	**20.76**

Total dividend recommended and declared relating to 2010 adjusted using the ratio above is 67.41 cents per share (2009: 58.69 cents per share), comprising interim dividend per share of 20.76 cents (2009: 18.87 cents) and final dividend per share of 46.65 cents (2009: 39.82 cents).

Preference shares		2011 $million	2010 $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 these preference shares classified as equity are recorded in the period in which they are declared

14. Earnings per ordinary share

	2011			2010		
	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						
Pre-rights issue bonus earnings per ordinary share	**4,748**	**2,364,445**	**200.8**	4,231	2,048,759	206.5
Impact of rights issue[2]	**–**	**–**	**–**	–	106,559	–
Post-rights issue bonus basic earnings per ordinary share	**4,748**	**2,364,445**	**200.8**	4,231	2,155,318	196.3
Effect of dilutive potential ordinary shares:						
Options[3]	**–**	**31,408**	**–**	–	37,322	–
Diluted earnings per ordinary share	**4,748**	**2,395,853**	**198.2**	4,231	2,192,640	193.0

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* (IAS 33).

The table below provides a reconciliation.

	2011 $million	2010 $million
Profit attributable to ordinary shareholders	**4,748**	4,231
Amortisation of intangible assets arising on business combinations	**69**	62
Gain on disposal of property	**(49)**	(45)
Profit arising on change of control	**–**	(4)
Recovery on structured notes	**(96)**	–
UK bank payroll tax	**–**	7
Tax on normalised items	**10**	(6)
Normalised earnings	**4,682**	4,245
Normalised basic earnings per ordinary share (cents)	**198.0**	197.0[2]
Normalised diluted earnings per ordinary share (cents)	**195.4**	193.6[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 (see note 13)

2 On 13 October 2010 the Company announced the issue of 260,525,763 new ordinary shares by way of rights to qualifying shareholders at 1280 pence per share. The issue was made as 1 share for every 8 shares held on 21 October 2010. As required by IAS 33 the impact of the bonus element included within the rights issue has been included in the calculations of the basic and diluted earnings per share for 2010

3 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		**–**	**–**	**–**	**–**	**47,364**	**–**	**–**	**47,364**
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		**463**	**–**	**105**	**–**	**–**	**–**	**–**	**568**
Loans and advances to customers[1]		**4,676**	**–**	**312**	**–**	**–**	**–**	**–**	**4,988**
Treasury bills and other eligible bills	16	**4,609**	**–**	**–**	**–**	**–**	**–**	**–**	**4,609**
Debt securities	16	**13,025**	**–**	**45**	**–**	**–**	**–**	**–**	**13,070**
Equity shares	16	**1,028**	**–**	**565**	**–**	**–**	**–**	**–**	**1,593**
		23,801	**–**	**1,027**	**–**	**–**	**–**	**–**	**24,828**
Derivative financial instruments	17	**65,894**	**2,039**	**–**	**–**	**–**	**–**	**–**	**67,933**
Loans and advances to banks[1]	18	**–**	**–**	**–**	**–**	**65,981**	**–**	**–**	**65,981**
Loans and advances to customers[1]	19	**–**	**–**	**–**	**–**	**263,765**	**–**	**–**	**263,765**
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		**89,695**	**2,039**	**1,027**	**79,790**	**403,139**	**18**	**6,732**	**582,440**
Cash and balances at central banks		–	–	–	–	32,724	–	–	32,724
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		1,206	–	–	–	–	–	–	1,206
Loans and advances to customers[1]		5,651	–	395	–	–	–	–	6,046
Treasury bills and other eligible bills	16	5,933	–	265	–	–	–	–	6,198
Debt securities	16	11,781	–	36	–	–	–	–	11,817
Equity shares	16	1,329	–	425	–	–	–	–	1,754
		25,900	–	1,121	–	–	–	–	27,021
Derivative financial instruments	17	46,256	1,603	–	–	–	–	–	47,859
Loans and advances to banks[1]	18	–	–	–	–	52,058	–	–	52,058
Loans and advances to customers[1]	19	–	–	–	–	240,358	–	–	240,358
Investment securities									
Treasury bills and other eligible bills	21	–	–	–	17,895	–	–	–	17,895
Debt securities	21	–	–	–	50,555	4,804	25	–	55,384
Equity shares	21	–	–	–	2,517	–	–	–	2,517
		–	–	–	70,967	4,804	25	–	75,796
Other assets	22	–	–	–	–	19,628	–	5,728	25,356
Total at 31 December 2010		72,156	1,603	1,121	70,967	349,572	25	5,728	501,172

1 Further analysed in Risk review on pages 61 to 64

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		**973**	**–**	**119**	**–**	**–**	**1,092**
Customer accounts		**1,518**	**–**	**7,600**	**–**	**–**	**9,118**
Debt securities in issue		**2,441**	**–**	**1,992**	**–**	**–**	**4,433**
Short positions		**4,956**	**–**	**–**	**–**	**–**	**4,956**
		9,888	**–**	**9,711**	**–**	**–**	**19,599**
Derivative financial instruments	17	**64,850**	**1,076**	**–**	**–**	**–**	**65,926**
Deposits by banks	28	**–**	**–**	**–**	**35,296**	**–**	**35,296**
Customer accounts	29	**–**	**–**	**–**	**342,701**	**–**	**342,701**
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		**74,738**	**1,076**	**9,711**	**461,023**	**4,665**	**551,213**
Financial liabilities held at fair value through profit or loss							
Deposits by banks		885	–	38	–	–	923
Customer accounts		2,307	–	7,203	–	–	9,510
Debt securities in issue		2,256	–	1,054	–	–	3,310
Short positions		6,545	–	–	–	–	6,545
		11,993	–	8,295	–	–	20,288
Derivative financial instruments	17	46,192	941	–	–	–	47,133
Deposits by banks	28	–	–	–	28,551	–	28,551
Customer accounts	29	–	–	–	306,992	–	306,992
Debt securities in issue	30	–	–	–	31,381	–	31,381
Other liabilities	31	–	–	–	15,890	5,204	21,094
Subordinated liabilities and other borrowed funds	32	–	–	–	15,939	–	15,939
Total at 31 December 2010		58,185	941	8,295	398,753	5,204	471,378

Valuation of financial instruments

Valuation of financial assets and liabilities held at fair value are subject to a review independent of the business by Valuation Control. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices or market observable pricing inputs to valuation model, price testing is performed monthly against external market data. Financial instruments held at fair value in the balance sheet have been classified into a three level valuation hierarchy (see below for how each level is defined and the types of instruments included within them) that reflects the significance of the observability of the inputs used in the fair value measurement.

The market data used for price testing may include those sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. The market data used should be most representative of the market as much as possible, which can evolve over time as markets and financial instruments develop. To determine the extent of how representative the market data is, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider, are considered.

For instruments classified as level 2 or level 3 fair value adjustments are also made to system valuations to arrive at fair value in accordance with accounting requirements. The main adjustments are described below:

Bid Offer Valuation Adjustments

Where market parameters are marked on a mid market basis in the revaluation systems, a bid offer valuation adjustment is required to quantify the expected cost of neutralising the business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. Where long positions are marked to bid and short positions marked to offer in the systems, e.g. for cash securities, no bid offer valuation adjustments are required.

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. These pricing deficiencies or limitations could be due to the choice, implementation and calibration of the pricing model, amongst other reasons.

Day One Profit and Loss

A financial instrument is initially recognised at fair value, which is generally its transaction price. In those cases where the value obtained from the relevant valuation model differs, we record the asset or liability based on our valuation model, but do not recognise that initial difference in profit and loss. This is unless the valuation model used is widely accepted and all inputs to the model are observable.

Funding Adjustments

The funding adjustment attributes underlying funding costs for derivative transactions (or series of transactions) where these involve a funding component (a pre-paid swap, for example, or a funded loan in the form of a derivative). The Group incurs funding costs where it matches the liquidity profile on these transactions and the overall funding for the Group.

In total, the Group has made $334 million (2010: $294 million) of valuation adjustments in determining fair value for financial assets and financial liabilities.

Control framework

A Product Valuation Control Committee exists for each business where there is a material valuation risk. The Committees meet monthly and comprise representatives from Front Office, Group market risk, Product control and Valuation control. The Committees are responsible for reviewing the results of the valuation control process.

Valuation hierarchy

The valuation hierarchy, and the types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Valuation models with directly or indirectly market observable inputs	Valuation models using significant non-market observable inputs
Types of financial assets:	Actively traded government and agency securities Listed equities Listed derivative instruments Investments in publicly traded mutual funds with listed market prices	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives Asset backed securities	Asset backed securities Private equity investments Highly structured OTC derivatives with unobservable parameters Corporate bonds in illiquid markets
Types of financial liabilities:	Listed derivative instruments	OTC derivatives Structured deposits Credit structured debt securities in issue	Highly structured OTC derivatives with unobservable parameters. Illiquid or highly structured debt securities in issue

Level 1 portfolio

Level 1 assets and liabilities are typically exchange traded positions and some government bonds traded in active markets. These positions are valued using quoted prices in active markets.

Level 2 portfolio

Where instruments are not quoted in an active market the Group utilises a number of valuation techniques to determine fair value. These valuation techniques include discounted cash flow analysis models, option pricing models, simulation models and other standard models commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as Level 2.

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.

15. Financial instruments continued

At 31 December 2011, Level 3 assets with a fair value of $3,347 million (2010: $2,348 million) and Level 3 liabilities with a fair value of $356 million (2010: $593 million) were held in respect of which there were no observable market data. For these instruments, a sensitivity analysis is presented on page 196 in respect of reasonably possible changes to the valuation assumptions.

The primary products classified as Level 3 are as follows:

Debt Securities – Asset-backed securities
Due to the severe lack of liquidity in the market and the prolonged period of time under which many securities have not traded, obtaining external prices is not a strong enough measure to determine whether an asset has an observable price or not. Therefore, once external pricing has been verified, an assessment is made whether each security is traded in a liquid manner based on its credit rating and sector. If a security is of low credit rating and/or is traded in a less liquid sector, it will be classified as Level 3. Where third party pricing is not available, the valuation of the security will be estimated from market standard cash flow models with input parameter assumptions which include prepayment speeds and default rates. These input parameter assumptions are estimated with reference to factors such as underlying collateral performance, prices of comparable securities and sector spreads. These securities are also classified as Level 3.

Debt Securities – Non Asset backed securities
These debt securities include certain convertible bonds, corporate bonds, credit and equity structured notes where there are significant valuation inputs 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 Earning Before Income Tax, Depreciation and Amortisation (EV/EBITDA) ratios – of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. In circumstances where an investment does not 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 to historical levels or benchmark data.

Debt securities in issue
These debt securities relate to credit structured notes issued by the Group where there are significant valuation inputs 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.

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	67,261	276	67,933
Investment securities				
Treasury bills and other eligible bills	18,831	2,800	49	21,680
Debt securities	17,938	36,884	745	55,567
Equity shares	1,116	9	1,418	2,543
	37,885	39,693	2,212	79,790
At 31 December 2011	51,441	117,763	3,347	172,551

Notes to the financial statements continued

15. Financial instruments continued

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**	**65,193**	**184**	**65,926**
At 31 December 2011	**5,136**	**80,033**	**356**	**85,525**

There were no significant transfers between Level 1 and Level 2 in 2011.

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2010.

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	406	800	–	1,206
Loans and advances to customers	19	6,027	–	6,046
Treasury bills and other eligible bills	6,055	143	–	6,198
Debt securities	7,257	4,333	227	11,817
Equity shares	1,434	19	301	1,754
	15,171	11,322	528	27,021
Derivative financial instruments	135	47,537	187	47,859
Investment securities				
Treasury bills and other eligible bills	15,335	2,560	–	17,895
Debt securities	20,631	29,342	582	50,555
Equity shares	1,020	446	1,051	2,517
	36,986	32,348	1,633	70,967
At 31 December 2010	52,292	91,207	2,348	145,847

Liabilities	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Deposit by banks	320	603	–	923
Customer accounts	–	9,510	–	9,510
Debt securities in issue	–	2,999	311	3,310
Short positions	6,072	473	–	6,545
	6,392	13,585	311	20,288
Derivative financial instruments	105	46,746	282	47,133
At 31 December 2010	6,497	60,331	593	67,421

There were no significant transfers between Level 1 and Level 2 in 2010.

15. Financial instruments continued

Level 3 movement tables

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 financial instruments 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.

Assets	Held at fair value through profit or loss: Debt securities $million	Held at fair value through profit or loss: Equity shares $million	Derivative financial instruments $million	Investment securities: Debt securities $million	Investment securities: Equity shares $million	Total $million
At 1 January 2010	129	576	138	437	756	2,036
Total (losses)/gains recognised in income statement	(3)	170	39	–	(15)	191
Total gains recognised in other comprehensive income	–	–	–	103	146	249
Purchases	107	135	–	156	225	623
Sales	(80)	(574)	–	(147)	(1)	(802)
Settlements	(63)	(6)	–	–	(50)	(119)
Transfers out	(23)	–	(24)	–	(12)	(59)
Transfers in	160	–	34	33	2	229
At 31 December 2010	227	301	187	582	1,051	2,348
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2010	(6)	50	130	–	(1)	173

Transfers in during the year primarily relate to markets for certain debt securities becoming illiquid or where the valuation parameters became unobservable during the year.

Notes to the financial statements continued

15. Financial instruments continued

Financial liabilities

Liabilities	2011 Debt securities in issue $million	2011 Derivative financial instruments $million	2011 Total $million	2010 Debt securities in issue $million	2010 Derivative financial instruments $million	2010 Total $million
At 1 January	**311**	**282**	**593**	–	150	150
Total (gains)/losses recognised in income statement	**(8)**	**38**	**30**	32	93	125
Issues	**65**	**51**	**116**	69	33	102
Settlements	**(242)**	**(128)**	**(370)**	(2)	–	(2)
Transfers out	**(34)**	**(59)**	**(93)**	–	(23)	(23)
Transfers in	**80**	**–**	**80**	212	29	241
At 31 December	**172**	**184**	**356**	311	282	593
Total (gains)/losses recognised in the income statement relating to liabilities held at 31 December	**(38)**	**37**	**(1)**	32	163	195

Transfers in during the periods primarily relate to certain financial instruments for which parameters became unobservable during the year.

Sensitivities in respect of the fair values of Level 3 assets and liabilities

	Held at fair value through profit or loss: Net exposure $million	Held at fair value through profit or loss: Favourable changes $million	Held at fair value through profit or loss: Unfavourable changes $million	Available-for-sale: Net exposure $million	Available-for-sale: Favourable changes $million	Available-for-sale: Unfavourable changes $million
Financial instruments held at fair value through profit or loss						
Debt securities	**293**	**298**	**288**	**–**	**–**	**–**
Equity shares	**566**	**623**	**509**	**–**	**–**	**–**
Derivative financial instruments	**92**	**115**	**69**	**–**	**–**	**–**
Debt securities in issue	**(172)**	**(172)**	**(172)**	**–**	**–**	**–**
Investment securities						
Treasury bills				**49**	**49**	**48**
Debt securities	**–**	**–**	**–**	**745**	**774**	**716**
Equity shares	**–**	**–**	**–**	**1,418**	**1,557**	**1,279**
At 31 December 2011	**779**	**864**	**694**	**2,212**	**2,380**	**2,043**
Financial instruments held at fair value through profit or loss						
Debt securities	227	234	220	–	–	–
Equity shares	301	331	270	–	–	–
Derivative financial instruments	(95)	(80)	(109)	–	–	–
Debt securities in issue	(311)	(310)	(312)			
Investment securities						
Debt securities	–	–	–	582	590	576
Equity shares	–	–	–	1,051	1,167	935
At 31 December 2010	122	175	69	1,633	1,757	1,511

Where the fair value of financial instruments is 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 2011, these reasonably possible alternatives could have increased fair values of financial instruments held at fair value through profit or loss by $85 million (2010: $53 million) and available-for-sale by $168 million (2010: $124 million) or decreased fair values of financial instruments held at fair value through profit or loss by $85 million (2010: $53 million) and available-for-sale by $169 million (2010: $122 million).

15. Financial instruments continued

Instruments carried at amortised cost

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. The fair values in the table below are stated as at 31 December and may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument.

	2011		2010	
	Carrying value $million	**Fair value $million**	Carrying value $million	Fair value $million
Assets				
Cash and balances at central banks	**47,364**	**47,364**	32,724	32,724
Loans and advances to banks	**65,981**	**65,964**	52,058	51,942
Loans and advances to customers	**263,765**	**264,529**	240,358	239,446
Investment securities	**5,493**	**5,241**	4,829	4,765
Other assets	**20,554**	**20,554**	19,628	19,628
Liabilities				
Deposits by banks	**35,296**	**35,259**	28,551	28,501
Customer accounts	**342,701**	**342,544**	306,992	305,560
Debt securities in issue	**47,140**	**46,836**	31,381	30,710
Subordinated liabilities and other borrowed funds	**16,717**	**16,599**	15,939	16,298
Other liabilities	**19,169**	**19,169**	15,890	15,890

The following sets out the Group's basis of establishing fair values of the financial instruments shown above.

Cash and balances at central banks

The fair value of cash and balances at central banks is their carrying amounts.

Loans and advances to banks and customers

For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity.

The Group's loans and advances to customers portfolio is well diversified by geography and industry. Approximately one-third of the portfolio reprices within one month, and approximately half reprices within 12 months. The fair value of loans and advances to customers with a residual maturity of less than one year is their carrying value. Loans and advances are presented net of provisions for impairment. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, where appropriate, credit spreads. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

Investment securities

For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using inputs proxied from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or inputs proxied from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxied as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relate to asset backed securities. The fair value for such instruments is usually proxied from internal assessments of the underlying cash flows. The Group has a wide range of individual investments within the unlisted debt securities portfolio. Given the number of instruments involved, providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

Debt securities in issue, subordinated liabilities and other borrowed funds

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity.

Notes to the financial statements continued

15. Financial instruments continued

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.

The following tables provide details of the remaining balances of assets reclassified during 2008:

			If assets had not been reclassified, fair value gains/(losses) from 1 January 2011 to 31 December 2011 which would have been recognised within				
For assets reclassified:	**Carrying amount at 31 December 2011 $million**	**Fair value at 31 December 2011 $million**	**Income $million**	**AFS reserve $million**	**Income recognised in income statement in 2011 $million**	**Effective interest rate at date of reclassification %**	**Estimated amounts of expected cash flows $million**
From trading to AFS	**176**	**176**	**1**[1]	**–**	**9**	**5.8**	**316**
From trading to loans and receivables	**816**	**711**	**(44)**	**–**	**27**	**5.6**	**961**
From AFS to loans and receivables	**856**	**796**	**–**	**1**	**27**	**5.5**	**1,118**
	1,848	**1,683**	**(43)**	**1**	**63**		
Of which asset backed securities:							
Reclassified to 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

			If assets had not been reclassified, fair value gains from 1 January 2010 to 31 December 2010 which would have been recognised within				
For assets reclassified:	Carrying amount at 31 December 2010 $million	Fair value at 31 December 2010 $million	Income $million	AFS reserve $million	Income recognised in income statement in 2010 $million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows $million
From trading to AFS	339	339	40[1]	–	23	5.2	416
From trading to loans and receivables	1,562	1,490	80	–	73	5.6	1,686
From AFS to loans and receivables	1,090	1,052	–	75	35	5.4	1,132
	2,991	2,881	120	75	131		
Of which asset-backed securities:							
Reclassified to AFS	122	122	35[1]	–	8		
Reclassified to loans and receivables	1,725	1,648	42	75	53		

1 Post-reclassification, this is recognised within the available-for-sale reserve

16. Financial instruments held at fair value through profit or loss

Loans and advances held at fair value through profit and loss

The maximum exposure to credit risk for loans designated at fair value through profit or loss was $417 million (2010: $395 million).

The net fair value gain on loans and advances to customers designated at fair value through profit or loss was $2.3 million (2010: gain of $6.6 million). Of this, $nil million (2010: $nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was $3.4 million (2010: $3.4 million).

The changes in fair value attributable to credit risk has been determined by comparing fair value movements in risk-free bonds with similar maturities to the changes in fair value of loans designated at fair value through profit or loss.

For certain loans and advances designated at fair value through profit or loss, the difference arising between the fair value at initial recognition and the amount that would have arisen had the valuation techniques used for subsequent measurement been used at initial recognition, is amortised to the income statement until the inputs become observable or the transaction matures or is terminated. This amount is not material for the Group's financial statements.

16. Financial instruments held at fair value through profit or loss continued

Debt securities, equity shares and treasury bills held at fair value through profit or loss

	2011			
	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	7,766			
Other public sector securities	65			
	7,831			
Issued by banks:				
Certificates of deposit	488			
Other debt securities	1,564			
	2,052			
Issued by corporate entities and other issuers:				
Other debt securities	3,187			
Total debt securities	13,070			
Of which:				
Listed on a recognised UK exchange	517	26	–	543
Listed elsewhere	7,269	1,002	799	9,070
Unlisted	5,284	565	3,810	9,659
	13,070	1,593	4,609	19,272
Market value of listed securities	7,786	1,028	799	9,613

	2010			
	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	7,156			
Other public sector securities	120			
	7,276			
Issued by banks:				
Certificates of deposit	151			
Other debt securities	1,302			
	1,453			
Issued by corporate entities and other issuers:				
Other debt securities	3,088			
Total debt securities	11,817			
Of which:				
Listed on a recognised UK exchange	180	–	–	180
Listed elsewhere	5,865	1,453	769	8,087
Unlisted	5,772	301	5,429	11,502
	11,817	1,754	6,198	19,769
Market value of listed securities	6,045	1,453	769	8,267

Financial liabilities held at fair value through profit and loss

The net fair value loss on liabilities designated at fair value through profit or loss was $438 million for the year (2010: net loss of $14 million). Of this, $nil million (2010: $nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was a loss of $10.4 million (2010: $10.4 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 2011, the amount the Group is contractually obliged to pay at maturity to the holders of these obligations was $60 million lower (2010: $446 million higher) than the carrying amount at fair value.

Notes to the financial statements continued

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	2011 Notional principal amounts $million	2011 Assets $million	2011 Liabilities $million	2010 Notional principal amounts $million	2010 Assets $million	2010 Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	1,130,075	17,412	16,521	986,615	12,503	12,236
Currency swaps and options	1,098,433	18,003	18,774	566,291	11,343	11,712
Exchange traded futures and options	363	–	–	855	–	–
	2,228,871	35,415	35,295	1,553,761	23,846	23,948
Interest rate derivative contracts:						
Swaps	2,009,872	23,994	22,220	1,745,286	17,487	17,001
Forward rate agreements and options	242,843	1,086	1,093	234,926	1,010	1,029
Exchange traded futures and options	273,089	343	347	619,859	350	346
	2,525,804	25,423	23,660	2,600,071	18,847	18,376
Credit derivative contracts	77,776	1,783	1,807	65,986	1,602	1,679
Equity and stock index options	12,057	678	845	8,842	479	757
Commodity derivative contracts	62,426	4,634	4,319	36,524	3,085	2,373
Total derivatives	4,906,934	67,933	65,926	4,265,184	47,859	47,133

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 not presented net in these accounts as in the ordinary course of business they are not intended to be settled net. Details of the amounts available for offset can be found in the Risk review on page 59.

The Derivatives and Hedging sections of the Risk review on page 81 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. The tables below list the types of derivatives that the Group holds for hedge accounting.

Group

	2011 Notional principal amounts $million	2011 Assets $million	2011 Liabilities $million	2010 Notional principal amounts $million	2010 Assets $million	2010 Liabilities $million
Derivatives designated as fair value hedges:						
Interest rate swaps	45,249	1,806	760	33,280	1,424	652
Currency swaps	3,768	60	221	3,178	46	172
Forward foreign exchange contracts	843	67	–	1,650	28	11
	49,860	1,933	981	38,108	1,498	835
Derivatives designated as cash flow hedges:						
Interest rate swaps	23,536	40	21	18,591	20	23
Options	–	–	–	950	54	–
Forward foreign exchange contracts	2,999	2	72	148	22	6
Currency swaps	3,609	30	2	1,751	9	1
	30,144	72	95	21,440	105	30
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	707	34	–	803	–	76
Total derivatives held for hedging	80,711	2,039	1,076	60,351	1,603	941

17. Derivative financial instruments continued

Fair value hedges

The swaps exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange fixed rates on assets to match the floating rates paid on funding.

For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss. In respect of fair value hedges, gains arising on the hedging instruments during the year were $795 million (2010: gains of $272 million) compared to losses arising on the hedged items of $808 million (2010: losses of $256 million).

Cash flow hedges

The Group uses interest rate swaps to manage the variability in future cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts, currency swaps and options to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies.

Gains and losses arising on the effective portion of the hedges are deferred in equity until the variability on the cash flow affects profit and loss, at which time the gains or losses are transferred to profit and loss. During the year, $nil million (2010: $2 million) was recognised in the income statement in respect of ineffectiveness arising on cash flow hedges. During the year net gains of $94 million (2010: losses of $17 million) were reclassified to profit and loss from the cash flow hedge reserve, of which gains of $96 million (2010: losses of $30 million) were recognised within operating costs and losses of $2 million (2010: gains of $13 million) recognised within net interest income.

The Group has hedged the following cash flows that are expected to impact the income statement in the following periods:

	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)**

	2010						
	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	769	190	181	129	79	–	1,348
Forecast payable cash flows	(1,432)	(170)	(170)	(124)	(80)	–	(1,976)
	(663)	20	11	5	(1)	–	(628)

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 (2010: $nil million) was recognised in the income statement in respect of ineffectiveness arising on net investment hedges.

18. Loans and advances to banks

	2011 $million	2010 $million
Loans and advances to banks	**66,633**	53,359
Individual impairment provision	**(82)**	(93)
Portfolio impairment provision	**(2)**	(2)
	66,549	53,264
Of which: loans and advances held at fair value through profit or loss (note 15)	**(568)**	(1,206)
	65,981	52,058

Analysis of loans and advances to banks by geography are set out in the Risk review section on pages 61 and 62.

Notes to the financial statements continued

19. Loans and advances to customers

	2011 $million	2010 $million
Loans and advances to customers	**271,403**	248,988
Individual impairment provision	**(1,890)**	(1,824)
Portfolio impairment provision	**(760)**	(760)
	268,753	246,404
Of which: loans and advances held at fair value through profit or loss (note 15)	**(4,988)**	(6,046)
	263,765	240,358

The Group has outstanding residential mortgage loans to Korea residents of $20.8 billion (2010: $23.1 billion) and Hong Kong residents of $18.8 billion (2010: $18.2 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 61 to 71.

20. Assets leased to customers

Finance leases and instalment credit

	2011 $million	2010 $million
Finance leases	**526**	508
Instalment credit agreements	**1,949**	790
	2,475	1,298

The above assets are included within loans and advances to customers. The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to $275 million (2010: $131 million) this excludes amounts relating to acquisitions during the year.

	2011 $million	2010 $million
Minimum lease receivables under finance leases falling due:		
Within one year	**91**	282
Later than one year and less than five years	**391**	244
After five years	**141**	41
	623	567
Interest income relating to future periods	**(97)**	(59)
Present value of finance lease receivables	**526**	508
Of which:		
Falls due within one year	**73**	261
Falls due later than one year and less than five years	**344**	219
Falls due after five years	**109**	28

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft and ships, which are included within Property, plant and equipment in note 26. At 31 December 2011 these assets had a net book value of $2,782 million (2010: $2,033 million).

	2011 $million	2010 $million
Minimum lease receivables under operating leases falling due:		
Within one year	**317**	196
Later than one year and less than five years	**1,177**	575
After five years	**768**	713
	2,262	1,484

21. Investment securities

	2011					
	Debt securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	18	20,462	389			
Other public sector securities	–	690	–			
	18	21,152	389			
Issued by banks:						
Certificates of deposit	–	5,811	–			
Other debt securities	–	18,292	1,043			
	–	24,103	1,043			
Issued by corporate entities and other issuers:						
Other debt securities	–	10,312	4,043			
Total debt securities	18	55,567	5,475			
Of which:						
Listed on a recognised UK exchange	–	5,431	242[1]	150	–	5,823
Listed elsewhere	18	17,082	820[1]	869	7,516	26,305
Unlisted	–	33,054	4,413	1,524	14,164	53,155
	18	55,567	5,475	2,543	21,680	85,283
Market value of listed securities	18	22,513	954	1,019	7,516	32,020

1 These debt securities listed or registered on a recognised UK exchange or elsewhere are thinly traded or the market for these securities is illiquid

	2010					
	Debt securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	25	20,776	388			
Other public sector securities	–	629	–			
	25	21,405	388			
Issued by banks:						
Certificates of deposit	–	4,670	44			
Other debt securities	–	15,135	864			
	–	19,805	908			
Issued by corporate entities and other issuers:						
Other debt securities	–	9,345	3,508			
Total debt securities	25	50,555	4,804			
Of which:						
Listed on a recognised UK exchange	–	1,443	285[1]	140	–	1,868
Listed elsewhere	25	14,937	1,081[1]	830	6,574	23,447
Unlisted	–	34,175	3,438	1,547	11,321	50,481
	25	50,555	4,804	2,517	17,895	75,796
Market value of listed securities	25	16,380	1,348	970	6,574	25,297

1 These debt securities listed or registered on a recognised UK exchange or elsewhere are thinly traded or the market for these securities is illiquid

Equity shares largely comprise investments in corporates.

Notes to the financial statements continued

21. Investment securities continued

The change in the carrying amount of investment securities comprised:

	2011				2010			
	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million
At 1 January	**55,384**	**2,517**	**17,895**	**75,796**	55,121	1,649	18,958	75,728
Exchange translation differences	**(960)**	**5**	**(848)**	**(1,803)**	1,403	10	483	1,896
Additions	**79,385**	**982**	**50,893**	**131,260**	78,225	757	35,094	114,076
Maturities and disposals	**(72,668)**	**(672)**	**(46,491)**	**(119,831)**	(79,595)	(279)	(36,784)	(116,658)
Impairment, net of recoveries on disposal	**(84)**	**(12)**	**–**	**(96)**	(24)	(9)	–	(33)
Changes in fair value (including the effect of fair value hedging)	**99**	**(277)**	**(38)**	**(216)**	355	389	46	790
Amortisation of discounts and premiums	**(96)**	**–**	**269**	**173**	(101)	–	98	(3)
At 31 December	**61,060**	**2,543**	**21,680**	**85,283**	55,384	2,517	17,895	75,796

At 31 December 2011, unamortised premiums on debt securities held for investment purposes amounted to $387 million (2010: $430 million) and unamortised discounts amounted to $308 million (2010: $397 million). Income from listed equity shares amounted to $36 million (2010: $8 million) and income from unlisted equity shares amounted to $37 million (2010: $45 million).

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables.

	2011 $million	2010 $million
At 1 January	**32**	30
Exchange translation differences	**(1)**	1
Amounts written off	**(23)**	(1)
Impairment	**25**	2
At 31 December	**33**	32

22. Other assets

	2011 $million	2010 $million
Financial assets held at amortised cost (note 15)		
Hong Kong SAR Government certificates of indebtedness (note 31)	**4,043**	4,063
Cash collateral	**4,856**	5,620
Acceptances and endorsements	**5,485**	4,847
Unsettled trades and other financial assets	**6,170**	5,098
	20,554	19,628
Non-financial assets		
Commodities	**3,523**	2,852
Other	**3,209**	2,876
	27,286	25,356

The Hong Kong SAR government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued.

23. Investments in subsidiary undertakings, joint ventures and associates

Investment in subsidiary undertakings	2011 $million	2010 $million
At 1 January	**14,291**	12,906
Additions	**–**	1,385
At 31 December	**14,291**	14,291

During the year the Company made a deemed contribution and received a deemed dividend of $430 million (2010: $360 million) on account of share based payments.

At 31 December 2011, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital %
Standard Chartered Bank, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100
Standard Chartered First Bank Korea Limited, Korea[1]	Korea	100
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	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

1 Subsequently renamed Standard Chartered Bank Korea Limited on 11 January 2012

Joint ventures

The Group has a 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 $286 million (2010: $175 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 47.

The following amounts have been included in the consolidated accounts of the Group:

	2011 $million	2010 $million
Current assets	**3,006**	1,878
Long-term assets	**2,050**	1,905
Total assets	**5,056**	3,783
Current liabilities	**(4,066)**	(2,968)
Long-term liabilities	**(314)**	(190)
Total liabilities	**(4,380)**	(3,158)
Net assets	**676**	625
Income	**257**	227
Expenses	**(151)**	(132)
Impairment	**(20)**	(20)
Operating profit	**86**	75
Tax	**(22)**	(15)
Share of post-tax result from joint ventures	**64**	60

Long-term assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

Notes to the financial statements continued

23. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in associates

	2011 $million	2010 $million
At 1 January	**631**	514
Translation	**10**	–
Additions	**272**	139
Dividends received	**(10)**	(22)
At 31 December	**903**	631

The following amounts represent the total profit, assets and liabilities of the Group's associated undertakings:

	2011 $million	2010 $million
Profit for the year	**405**	227
Total assets	**57,006**	47,344
Total liabilities	**(53,738)**	(45,368)
Net assets	**3,268**	1,976

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 the listed element of our investment in Asia Commercial Bank ('ACB') at 31 December 2011 is $145 million (2010: $157 million). The Group's investments in ACB and China Bohai Bank are less than 20 per cent but both ACB and China Bohai Bank are considered to be associates because of the significant influence the Group is able to exercise over the management of these companies and their financial and operating policies. Significant influence is evidenced largely through the 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

2011 acquisitions

Following the finalisation of the provisional fair values relating to deferred tax in respect of the Group's acquisition of the custody business of Barclays Bank PLC across various locations in Africa in 2010, the fair value of net assets acquired decreased by $18 million increasing goodwill by the same amount. Prior period numbers have been restated accordingly.

On 8 April 2011, the Group acquired 100 per cent interest in GE Money Pte Limited, a leading specialist in auto and unsecured personal loans in Singapore, for a total cash consideration of $695 million, recognising goodwill of $199 million.

On 2 September 2011, the Group acquired 100 per cent interest in Gryphon Partners Advisory Pty Ltd and Gryphon Partners Canada Inc (together 'Gryphon Partners') for a total consideration of $53 million. As required by IFRS 3 'Business Combinations', 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. These acquisitions contributed $66 million to the Group's operating income and $40 million to the Group's profit before taxation since acquisition.

The assets and liabilities arising from the acquisitions are as follows:

	Fair value $million
Cash and balances at central banks	6
Loans and advances to customers	1,545
Intangibles other than goodwill	17
Other assets	24
Total assets	1,592
Other liabilities	1,079
Total liabilities	1,079
Net assets acquired	513
Purchase consideration settled in cash	(718)
Cash and cash equivalents in subsidiary acquired	6
Cash outflow on acquisition	(712)
Purchase consideration:	
Cash paid	718
Contingent consideration	5
Less: 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 amounts contain some provisional balances that will be finalised within 12 months of the acquisition date.

The fair value of loans to banks is $16 million. The gross contractual amount due is $16 million, which is expected to be collected. The fair value of loans to customers is $1,545 million. The gross contractual amount due is $1,554 million, of which $9 million is the best estimate of the contractual cash flows not expected to be collected.

Acquisition related costs of $1.9 million are included within operating expenses.

Notes to the financial statements continued

24. Business Combinations continued

2010 acquisitions

On 12 April 2010, the Group acquired 100 per cent of the consumer finance business of GE Capital (Hong Kong) Limited, a Hong Kong (restricted licence) banking company. The Group purchased this interest for $144 million, recognising goodwill of $3 million.

On 2 August 2010, the Group acquired 100 per cent of the consumer finance business of GE Commercial Financing (Singapore) Limited in Singapore. The businesses were acquired for $70 million and goodwill of $14 million was recognised.

On 1 October 2010 the Group purchased the remaining 25.1 per cent interest in Standard Chartered STCI Capital Markets (STCI) for $18 million. By virtue of this transaction STCI became a subsidiary of the Group. The fair value of the 74.9 per cent interest held by the Group at 1 October 2010, which is included in the purchase consideration, was $55 million. As required by IFRS 3 – 'Business Combinations', the Group recognised a gain (net of foreign exchange) of $4 million within 'Other operating income' from remeasuring the 74.9 per cent interest held by the Group to fair value. Following this transaction, goodwill relating to STCI increased to $75 million.

Between 31 October 2010 and 5 December 2010 the Group acquired the custody business of Barclays Bank PLC across various locations in Africa. The business was acquired for $130 million and goodwill of $21 million was recognised.

If the acquisitions had occurred on 1 January 2010, the operating income of the Group would have been approximately $16,099 million and profit before taxation would have been approximately $6,135 million. The acquisitions contributed $22 million to the Group's operating income and $8 million to the Group's profit before taxation following acquisition.

The assets and liabilities arising from the acquisitions were as follows:

	Fair value $million
Cash and balances at central banks	20
Loans and advances to banks	6
Loans and advances to customers	894
Investment securities	2
Intangibles other than goodwill	112
Deferred tax assets	4
Other assets	16
Total assets	1,054
Other liabilities	737
Accruals and deferred income	11
Total liabilities	748
Net assets acquired	306
Purchase consideration settled in cash	(364)
Cash and cash equivalents in subsidiary acquired	20
Cash outflow on acquisition	(344)
Purchase consideration:	
Cash paid	364
Fair value of interest held prior to change in control	55
Fair value of net assets acquired	(306)
Goodwill	113
Intangible assets acquired:	
Customer relationships	112
Total	112

Goodwill arising on the acquisitions is attributable to the synergies expected to arise from their integration with the Group and to those intangibles that are not recognised separately, such as the acquired skilled workforce. The primary reason for its acquisition was to enhance capability and for strategic intent.

25. Goodwill and intangible assets

	2011				2010			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill[1] $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	6,257	654	774	7,685	6,016	519	650	7,185
Exchange translation differences	(120)	(5)	(10)	(135)	154	18	64	236
Acquisitions	210	17	–	227	87	117	–	204
Additions	–	–	240	240	–	–	197	197
Disposals	–	–	(47)	(47)	–	–	–	–
Amounts written off	–	–	(141)	(141)	–	–	(137)	(137)
At 31 December	6,347	666	816	7,829	6,257	654	774	7,685
Provision for amortisation								
At 1 January	–	359	328	687	–	285	280	565
Exchange translation differences	–	(5)	(1)	(6)	–	12	17	29
Amortisation for the period	–	69	184	253	–	62	168	230
Disposals	–	–	(31)	(31)	–	–	–	–
Amounts written off	–	–	(135)	(135)	–	–	(137)	(137)
At 31 December	–	423	345	768	–	359	328	687
Net book value	6,347	243	471	7,061	6,257	295	446	6,998

1 Amounts have been restated as explained in note 46

At 1 January 2010, the net book value was: goodwill, $6,016 million; acquired intangibles, $234 million; and software, $370 million.

At 31 December 2011, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $69 million (2010: $69 million).

	2011 $million	2010 $million
Acquired intangibles comprise:		
Core deposits	25	37
Customer relationships	174	202
Brand names	40	51
Licences	4	5
Net book value	243	295

Acquired intangibles primarily comprise those recognised as part of the acquisitions of Korea First Bank (subsequently renamed Standard Chartered First Bank Korea Limited and from 11 January 2012, Standard Chartered Bank Korea Limited), Permata, Union Bank (now amalgamated into Standard Chartered Bank (Pakistan) Limited), Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan) Limited), Pembroke, Harrison Lovegrove, American Express Bank and the custody business in Africa. The acquired intangibles are amortised over periods from four years to a maximum of 16 years in the case of the customer relationships intangible acquired in Korea First Bank (KFB).

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 on page 210 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 multiples consistent with available market data. These cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the CGU as set out in the table on page 210.

The cash flow projections are based on budgets and forecasts approved by management covering one year, except for Taiwan, Korea, Thailand, Pakistan and Permata CGUs, where management forecasts cover the three years to 2015. Management forecasts project growth rates greater than long-term GDP rates but which are in line with past performance as adjusted to reflect the current economic climate. For the period after management approved forecasts, the cash flows are extrapolated forward using steady long-term forecast GDP growth rates appropriate to the CGU.

Management believes that a reasonable possible change in any of the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

Notes to the financial statements continued

25. Goodwill and intangible assets continued

The following table sets out the allocation of goodwill arising on acquisitions to CGUs, together with the pre-tax discount rate and long-term GDP growth rates used in determining value-in-use.

		2011			2010		
Acquisition	**Cash Generating Unit**	**Goodwill $million**	**Pre-tax discount rate %**	**Long-term forecast GDP growth rates %**	Goodwill $million	Pre-tax discount rate %	Long-term forecast GDP growth rates %
KFB, A Brain and Yeahreum	Korean business	**1,720**	**18.1**	**4.0**	1,745	16.3	4.5
Union Bank	Pakistan business	**292**	**27.1**	**4.8**	307	24.7	5.9
Hsinchu and Asia Trust	Taiwan business	**1,294**	**17.2**	**4.9**	1,286	16.2	4.9
Manhattan Card Business	Credit card and personal loan – Asia, India & MESA	**895**	**16.5**	**1.6**	896	16.7	1.8
Grindlays (India) and STCI	India business	**377**	**18.7**	**8.1**	444	22.4	8.0
Grindlays (MESA)	MESA business	**370**	**21.1**	**3.7**	370	18.2	1.8
Standard Chartered Bank (Thai)	Thailand business	**324**	**16.3**	**4.9**	337	25.2	5.3
Permata	Group's share of Permata (Indonesia business)	**172**	**20**	**6.9**	174	23.3	7.5
American Express Bank	Financial Institutions and Private Banking business	**396**	**15.6**	**1.6**	396	16.7	1.8
Harrison Lovegrove, Pembroke, Cazenove Asia, First Africa and Gryphon partners.	Corporate advisory business	**76**	**16.7**	**1.6**	64	16.7	1.8
GE Money and GE Singapore	Consumer banking business in Singapore	**208**	**12.8**	**4.1**	14	–	–
Other		**223**	**15.9-17.4**	**1.6-5.3**	224[1]	16.7-17.1	3.8-9.2
		6,347			6,257		

1 Amounts have been restated as explained in note 46

26. Property, plant and equipment

	2011				2010			
	Premises $million	**Equipment $million**	**Operating lease assets $million**	**Total $million**	Premises $million	Equipment $million	Operating lease assets $million	Total $million
Cost or valuation								
At 1 January	**2,665**	**837**	**2,183**	**5,685**	2,647	775	1,685	5,107
Exchange translation differences	**(74)**	**(40)**	**–**	**(114)**	69	33	–	102
Additions	**138**	**148**	**1,049**	**1,335**	240	130	498	868
Acquisitions	**–**	**1**	**–**	**1**	–	1	–	1
Disposals and fully depreciated assets written off	**(138)**	**(120)**	**(211)**	**(469)**	(200)	(102)	–	(302)
Transfers from/(to) assets held for re-sale	**(32)**	**–**	**–**	**(32)**	(91)	–	–	(91)
At 31 December	**2,559**	**826**	**3,021**	**6,406**	2,665	837	2,183	5,685
Depreciation								
Accumulated at 1 January	**471**	**557**	**150**	**1,178**	423	502	79	1,004
Exchange translation differences	**(7)**	**(29)**	**–**	**(36)**	9	15	–	24
Charge for the year	**123**	**145**	**100**	**368**	118	140	71	329
Attributable to assets sold, transferred or written off	**(56)**	**(115)**	**(11)**	**(182)**	(79)	(100)	–	(179)
Accumulated at 31 December	**531**	**558**	**239**	**1,328**	471	557	150	1,178
Net book amount at 31 December	**2,028**	**268**	**2,782**	**5,078**	2,194	280	2,033	4,507

At 1 January 2010, the net book value was: premises, $2,224 million; equipment, $273 million; and operating lease assets, $1,606 million.

Assets held under finance leases have a net book value of $192 million (2010: $44 million) with minimum lease payments of $7 million (2010: $7 million) before and after future finance charges.

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 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)**

	At 1 January 2010 $million	Exchange & other adjustments $million	Acquisitions/ disposals $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2010 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(193)	25	(94)	88	–	(174)
Impairment provisions on loans and advances	(131)	–	–	172	–	41
Tax losses carried forward	(277)	(20)	(1)	(26)	–	(324)
Available-for-sale assets	75	5	–	–	(9)	71
Premises revaluation	1	–	–	–	–	1
Cash flow hedges	–	1	–	–	17	18
Unrelieved foreign tax	(53)	–	–	53	–	–
Retirement benefit obligations	(119)	–	–	25	17	(77)
Share based payments	(149)	(1)	–	(58)	33	(175)
Other temporary differences	(57)	(37)	16	(66)	–	(144)
Net deferred tax assets	(903)	(27)	(79)	188	58	(763)

Deferred taxation comprises assets and liabilities as follows:

	2011			2010		
	Total $million	**Asset $million**	**Liability $million**	Total $million	Asset $million	Liability $million
Deferred taxation comprises:						
Accelerated tax depreciation	**(47)**	**(114)**	**67**	(174)	(222)	48
Impairment provisions on loans and advances	**19**	**(196)**	**215**	41	(180)	221
Tax losses carried forward	**(433)**	**(401)**	**(32)**	(324)	(309)	(15)
Available-for-sale assets	**(3)**	**(18)**	**15**	71	42	29
Premises revaluation	**–**	**1**	**(1)**	1	–	1
Cash flow hedges	**(2)**	**(6)**	**4**	18	16	2
Retirement benefit obligations	**(105)**	**(98)**	**(7)**	(77)	(77)	–
Share based payments	**(88)**	**(63)**	**(25)**	(175)	(162)	(13)
Other temporary differences	**(45)**	**60**	**(105)**	(144)	(54)	(90)
	(704)	**(835)**	**131**	(763)	(946)	183

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised based on enacted laws and rates. Management's judgment is used to assess availability of future taxable profit. For the majority of deferred tax assets, the period over which availability of future taxable profit is assessed is less than 5 years. For those deferred tax assets where the period exceeds 5 years (to a maximum of 10 years), there are defined profit streams that are expected to continue beyond that point.

	2011 $million	2010 $million
No account has been taken of the following potential deferred taxation assets/(liabilities):		
Unrelieved foreign tax[1]	**–**	664
Withholding tax on unremitted earnings from overseas subsidiaries	**(294)**	(309)
Foreign exchange movements on investments in branches	**45**	(117)
Tax losses	**78**	124
Held over gains on incorporations of overseas branches	**(476)**	(473)

1 Following election into Branch Profits Exemption Regime, unrelieved foreign tax suffered by branches will no longer be eligible for UK relief

Notes to the financial statements continued

28. Deposits by banks

	2011 $million	2010 $million
Deposits by banks	**35,296**	28,551
Deposits by banks included within:		
Financial liabilities held at fair value through profit or loss (note 15)	**1,092**	923
	36,388	29,474

29. Customer accounts

	2011 $million	2010 $million
Customer accounts	**342,701**	306,992
Customer accounts included within:		
Financial liabilities held at fair value through profit or loss (note 15)	**9,118**	9,510
	351,819	316,502

Included in customer accounts were deposits of $2,000 million (2010: $1,659 million) held as collateral for irrevocable commitments under import letters of credit.

30. Debt securities in issue

	2011			2010		
	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	**15,783**	**31,357**	**47,140**	9,021	22,360	31,381
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	**166**	**4,267**	**4,433**	207	3,103	3,310
	15,949	**35,624**	**51,573**	9,228	25,463	34,691

31. Other liabilities

	2011 $million	2010 $million
Financial liabilities held at amortised cost (note 15)		
Notes in circulation	**4,043**	4,063
Acceptances and endorsements	**5,473**	4,774
Cash collateral	**3,145**	2,527
Unsettled trades and other financial liabilities	**6,508**	4,526
	19,169	15,890
Non-financial liabilities		
Cash-settled share based payments	**85**	128
Other liabilities	**4,580**	5,076
	23,834	21,094

Hong Kong currency notes in circulation of $4,043 million (2010: $4,063 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

	2011 $million	2010 $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)	**730**	659
£600 million 8.103 per cent Step Up Callable Perpetual Preferred Securities (Callable and floating rate from 2016)	**1,154**	1,137
£700 million 7.75 per cent Subordinated Notes 2018	**1,281**	1,192
£300 million 6.0 per cent Subordinated Notes 2018 (Callable and floating rate from 2013)	**488**	509
£200 million 7.75 per cent undated Step Up Subordinated Notes (Callable and floating rate from 2022)	**419**	384
€1,100 million 5.875 per cent Subordinated Notes 2017	**1,662**	1,622
€750 million 3.625 per cent Subordinated Notes 2017 (Callable and floating rate from 2012)	**977**	1,034
€675 million Floating Rate Subordinated Notes 2018 (Callable 2013)	**886**	915
$1.5 billion 9.5 per cent Step Up Perpetual Preferred Securities (Callable 2014)	**1,602**	1,580
$1 billion 6.4 per cent Subordinated Notes 2017	**1,193**	1,143
$750 million 5.875 per cent Subordinated Notes	**763**	738
$700 million 8.0 per cent Subordinated Notes 2031	**683**	594
$500 million Floating Rate Subordinated Notes 2016 (Callable 2011)	**–**	499
$300 million Floating Rate Subordinated Notes 2017 (Callable 2012)	**300**	299
$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)	**25**	22
BWP 75 million Floating Rate Subordinated Notes 2017 (Callable 2012)	**10**	12
BWP 70 million Floating Rate Subordinated Notes 2021 (Callable 2016)	**9**	–
BWP 50 million Floating Rate Subordinated Notes 2015 (Callable 2011)	**–**	8
IDR 1,750 billion 11 per cent Subordinated notes 2018	**82**	–
IDR 500 billion Floating Rate Notes 2016 (Callable 2011)	**–**	22
JPY 10 billion 3.35 per cent Subordinated Note 2023 (Callable 2018)	**149**	138
KRW 300 billion 7.05 per cent Subordinated debt 2019 (Callable 2014)	**260**	266
KRW 270 billion 4.67 per cent Subordinated debt 2021 (Callable 2016)	**235**	–
KRW 260 billion 6.08 per cent Subordinated debt 2018 (callable 2013)	**230**	236
KRW 90 billion 6.05 per cent Subordinated debt 2018	**86**	84
KRW 30 billion Floating Rate Subordinated debt 2011	**26**	26
KRW 3 billion 6.11 per cent Subordinated debt 2011	**–**	2
MYR 500 million 4.28 per cent Subordinated Bonds 2017 (Callable and floating rate from 2012)	**157**	164
PKR 1 billion Floating Rate Notes 2013	**8**	11
PKR 750 million Floating Rate Notes 2011	**–**	2
SGD 750 million 4.15 per cent Subordinated Notes 2021 (Callable and Floating rate from 2016)	**624**	–
SGD 450 million 5.25 per cent Subordinated Notes 2023 (Callable and floating rate from 2018)	**376**	363
TWD 10 billion 2.9 per cent Subordinated debt 2019 (Callable 2014)	**337**	331
TZS 10 billion 11 per cent Subordinated Notes 2021 (Callable and floating rate from 2015)	**6**	7
UGX 40 billion 13 per cent Subordinated Notes 2020 (Callable 2015)	**16**	17
	14,874	14,116
Issued by the Company:		
Primary capital floating rate notes		
$400 million	**57**	57
$300 million (Series 2)	**81**	81
$400 million (Series 3)	**83**	83
$200 million (Series 4)	**51**	51
£150 million	**233**	234
Other borrowings[1, 2]	**1,338**	1,317
	1,843	1,823
Total for Group	**16,717**	15,939

1 In the balance sheet of the Company the amount recognised is $1,223 million (2010: $1,224 million) with the difference being the effect of hedge accounting achieved on a Group basis

2 Other borrowings comprise irredeemable sterling preference shares 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, $12,918 million is at fixed interest rates (2010: $11,611 million).

On 12 May 2011, Standard Chartered Bank (Botswana) Limited issued BWP 70 million floating notes due May 2021.

On 28 June 2011, PT Bank Permata Tbk issued IDR 1,750 billion fixed interest rate subordinated notes due June 2018.

On 27 October 2011, Standard Chartered Bank (Hong Kong) Limited issued SGD 750 million fixed interest rate subordinated notes due 2021.

On 6 December 2011, Standard Chartered First Bank Korea Limited[1] issued KRW 270 billion fixed interest rate subordinated debt due 2021.

During January 2011, Standard Chartered (Pakistan) Limited redeemed the remaining balance of its PKR 750 million floating rates note 2011 of PKR 187 million.

On 21 January 2011, Standard Chartered First Bank Korea Limited[1] redeemed its KRW 3 billion 6.11 per cent notes in full.

On 9 June 2011, Standard Chartered Bank exercised its right to redeem its $500 million subordinated floating rate notes in full on the first optional call date.

On 20 June 2011, Standard Chartered Bank (Botswana) Limited redeemed BWP 50 million fixed rates notes in full.

On 15 December 2011, PT Bank Permata Tbk redeemed IDR 500 billion floating rate notes.

1 Has been renamed as Standard Chartered Bank Korea Limited on 11 January 2012

33. Provisions for liabilities and charges

	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January 2011	21	294	315
Exchange translation differences	(1)	–	(1)
Charge against profit	2	263	265
Provisions utilised	(8)	(202)	(210)
At 31 December 2011	14	355	369

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations. Other provisions include provisions for regulatory settlements, legal claims and restructuring.

34. Retirement benefit obligations

Retirement benefit obligations comprise:

	2011 $million	2010 $million
Defined benefit schemes obligation	**499**	297
Defined contribution schemes obligation	**20**	13
Net book amount	**519**	310

	2011 $million	2010 $million
At 1 January	**310**	506
Exchange translation differences	**(5)**	(9)
Acquisitions	**–**	2
Charge against profit	**282**	182
Change in other comprehensive income	**189**	(83)
Net payments	**(257)**	(288)
At 31 December	**519**	310

Retirement benefit charge comprises:

	2011 $million	2010 $million
Defined benefit schemes	**103**	39
Defined contribution schemes	**179**	143
Charge against profit (note 8)	**282**	182

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2011. Pension costs for the purpose of these accounts were assessed using the projected unit method and the assumptions set out below, which were based on market data at the date of calculation.

The principal assumptions relate to the rate of inflation and the discount rate. The discount rate is equal to the yield on high-quality corporate bonds that have a term to maturity approximating that of the related liability, and is potentially subject to significant variation.

UK Fund

The financial position of the Group's principal retirement benefit scheme, the Standard Chartered Pension Fund (the 'Fund') (a defined benefit scheme), is assessed in the light of the advice of an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was performed as at 31 December 2008 by A Zegelman, Fellow of the Faculty of Actuaries, of Towers Watson Actuaries, using the projected unit method. As part of the 31 December 2008 actuarial valuation, the Trustee reviewed the life expectancy assumptions adopted.

The actuarial assumptions having the most significant effect on valuing future defined benefit obligations were:

Return from Gilts	3.85 per cent per annum
Return from return seeking assets	6.05 per cent per annum
General increase in salaries	2.80 per cent per annum
Rate of price inflation	2.80 per cent per annum

Applying these assumptions, at the valuation date the market value of the assets of the Fund ($1,228 million) was sufficient to cover 89.3 per cent of the benefits that had accrued to members. Regular contributions were set at 28 per cent of pensionable salary for all members. No additional contributions were paid in 2011 and none are payable over the two years to 31 December 2013.

Contributions paid to the Fund during 2011 were $10 million (2010: $78 million).

With effect from 1 July 1998 the Fund was closed to new entrants, and new employees have subsequently been offered membership of a defined contribution scheme. Due to the closure of the Fund to new entrants, it is expected that the current service cost will increase, as a percentage of pensionable pay, as the members approach retirement.

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 United States (US).

Employer contributions to defined benefit plans over 2012 are expected to be $87 million.

The financial assumptions used at 31 December 2011 were:

	Funded defined benefit schemes			
	UK Fund[1]		Overseas Schemes[2]	
	2011 %	2010 %	**2011 %**	2010 %
Price inflation	**3.10**	3.50	**1.50-4.50**	1.50-4.50
Salary increases	**3.10**	3.50	**3.10-6.00**	3.50-5.00
Pension increases	**2.10**	2.60	**1.75-3.10**	1.75-3.30
Discount rate	**4.80**	5.50	**1.40-8.80**	1.60-8.10

1 The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 26 years (2010: 26 years) and a female member 29 years (2010: 29 years) and a male member currently aged 40 will live for 29 years (2010: 29 years) and a female member 31 years (2010: 31 years) after their 60th birthday

2 The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the US. These comprise over 87 per cent of the total liabilities of funded overseas schemes

There is uncertainty that these assumptions will continue in the future and any changes would affect the value placed on the liabilities. For example, if the discount rate for the UK Fund increased by 25 basis points the liability would reduce by approximately $50 million and vice versa. Whilst changes in other assumptions would also have an impact, the effect would not be as significant.

	Unfunded schemes			
	Post-retirement medical[1]		Other[2]	
	2011 %	2010 %	**2011 %**	2010 %
Price inflation	**2.50**	2.50	**3.10-5.00**	1.50-7.50
Salary increases	**4.00**	4.00	**3.10-6.00**	3.50-9.00
Pension increases	**N/A**	N/A	**2.10**	1.75-2.60
Discount rate	**4.70**	5.40	**4.70-8.80**	1.60-9.00
Post-retirement medical rate	**8% in 2011 reducing by 1% per annum to 5% in 2014**	9% in 2010 reducing by 1% per annum to 5% in 2014	**N/A**	N/A

1 The Post-retirement medical plan is in the US

2 The range of assumptions shown is for the main Unfunded schemes in India, Indonesia, UAE and the UK

34. Retirement benefit obligations continued

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2011 were:

	Funded defined benefit schemes				**Unfunded schemes**			
	UK Fund		**Overseas schemes**		**Post-retirement medical**		**Other**	
At 31 December 2011	**Expected return on assets %**	**Value $million**	**Expected return on assets %**	**Value $million**	**Expected return on assets %**	**Value $million**	**Expected return on assets %**	**Value $million**
Equities	**8.00**	**320**	**6.38-16.00**	**210**	**N/A**	**N/A**	**N/A**	**N/A**
Bonds	**3.20**	**889**	**1.00-16.00**	**208**	**N/A**	**N/A**	**N/A**	**N/A**
Property	**7.50**	**50**	**5.25-16.00**	**7**	**N/A**	**N/A**	**N/A**	**N/A**
Others	**8.00**	**276**	**0.50-16.00**	**158**	**N/A**	**N/A**	**N/A**	**N/A**
Total market value of assets		**1,535**		**583**		**N/A**		**N/A**
Present value of the schemes' liabilities		**(1,609)**		**(832)**[1]		**(28)**		**(148)**
Net pension liability		**(74)**		**(249)**		**(28)**		**(148)**

1 Includes $4 million impact as a result of IFRIC 14 'unrecognisable surplus' in Kenya

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2010	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million
Equities	8.00	375	5.00-12.00	242	N/A	N/A	N/A	N/A
Bonds	4.00	856	2.75-14.00	196	N/A	N/A	N/A	N/A
Property	7.50	21	5.00-12.00	4	N/A	N/A	N/A	N/A
Others	8.00	300	0.50-12.00	155	N/A	N/A	N/A	N/A
Total market value of assets		1,552		597		N/A		N/A
Present value of the schemes' liabilities		(1,545)		(741)		(21)		(139)
Net pension asset/(liability)		7		(144)		(21)		(139)

	Funded defined benefit schemes		Unfunded schemes	
	UK Fund	Overseas schemes	Post-retirement medical	Other
At 31 December 2009	Value $million	Value $million	Value $million	Value $million
Total market value of assets	1,478	531	N/A	N/A
Present value of the schemes' liabilities	(1,704)	(649)	(20)	(134)
Net pension liability	(226)	(118)	(20)	(134)
At 31 December 2008				
Total market value of assets	1,232	489	N/A	N/A
Present value of the schemes' liabilities	(1,296)	(693)	(12)	(153)
Net pension liability	(64)	(204)	(12)	(153)
At 31 December 2007				
Total market value of assets	1,913	575	N/A	N/A
Present value of the schemes' liabilities	(1,931)	(602)	(11)	(257)
Net pension liability	(18)	(27)	(11)	(257)

The expected return on plan assets is set by reference to historical returns in each of the main asset classes, current market indicators such as long-term bond yields and the expected long-term strategic asset allocation of each plan.

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 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

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of $300 million (2010: loss of $111 million).

	Funded defined benefit schemes		Unfunded schemes		
Year ending 31 December 2010	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	8	63	1	16	88
Past service (benefit)/cost	(54)	5	–	(4)	(53)
Gain on settlements and curtailments	–	(1)	–	(9)	(10)
Expected return on pension scheme assets	(79)	(32)	–	–	(111)
Interest on pension scheme liabilities	91	26	1	7	125
Total (credit)/charge to profit before deduction of tax	(34)	61	2	10	39
Gain on assets in excess of expected return[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)

1 The actual return on the UK fund assets was $122 million and on overseas scheme assets was $48 million

34. Retirement benefit obligations continued

Year ending 31 December 2009	Funded defined benefit schemes: UK Fund $million	Funded defined benefit schemes: Overseas schemes $million	Unfunded schemes: Post-retirement medical $million	Unfunded schemes: Other $million	Total $million
Gain on assets in excess of expected return[1]	(76)	(38)	–	–	(114)
Experience loss/(gain) on liabilities	236	(4)	7	25	264
Total loss/(gain) recognised directly in statement of comprehensive income before tax	160	(42)	7	25	150
Deferred taxation	(41)	4	–	–	(37)
Total loss/(gain) after tax	119	(38)	7	25	113
Year ending 31 December 2008					
Loss on assets below expected return[2]	203	130	–	–	333
Experience (gain)/loss on liabilities	(143)	35	–	4	(104)
Total loss recognised directly in statement of comprehensive income before tax	60	165	–	4	229
Deferred taxation	(16)	(44)	–	–	(60)
Total loss after tax	44	121	–	4	169
Year ending 31 December 2007					
Gain on assets in excess of expected return[3]	(28)	(2)	–	–	(30)
Experience (gain)/loss on liabilities	(113)	12	2	(108)	(207)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(141)	10	2	(108)	(237)
Deferred taxation	44	–	–	27	71
Total (gain)/loss after tax	(97)	10	2	(81)	(166)

1 The actual return on the UK fund assets was $159 million and on overseas scheme assets was $67 million
2 The actual return on the UK fund assets was $99 million and on overseas scheme assets was $94 million
3 The actual return on the UK fund assets was $128 million and on overseas scheme assets was $34 million

Movement in the defined benefit pension schemes and post retirement medical deficit during the year comprise:

Year ending 31 December 2011	**Funded defined benefit schemes: UK Fund $million**	**Funded defined benefit schemes: Overseas schemes $million**	**Unfunded schemes: Post-retirement medical $million**	**Unfunded schemes: Other $million**	**Total $million**
Surplus/(Deficit) at 1 January 2011	**7**	**(144)**	**(21)**	**(139)**	**(297)**
Contributions	**10**	**46**	**1**	**20**	**77**
Current service cost	**(8)**	**(74)**	**(1)**	**(18)**	**(101)**
Past service cost	**(2)**	**(1)**	**–**	**–**	**(3)**
Settlement/curtailment costs	**–**	**6**	**–**	**(1)**	**5**
Other finance income/(charge)	**1**	**4**	**(1)**	**(8)**	**(4)**
Actuarial loss	**(84)**	**(93)**	**(7)**	**(5)**	**(189)**
Exchange rate adjustment	**2**	**7**	**1**	**3**	**13**
Deficit at 31 December 2011	**(74)**	**(249)**	**(28)**	**(148)**	**(499)**

Movement in the defined benefit pension schemes and post retirement medical deficit during the year comprise:

Year ending 31 December 2010	Funded defined benefit schemes: UK Fund $million	Funded defined benefit schemes: Overseas schemes $million	Unfunded schemes: Post-retirement medical $million	Unfunded schemes: Other $million	Total $million
Deficit at 1 January 2010	(226)	(118)	(20)	(134)	(498)
Contributions	78	55	1	16	150
Current service cost	(8)	(63)	(1)	(16)	(88)
Past service benefit/(cost)	54	(5)	–	4	53
Settlement/curtailment costs	–	1	–	9	10
Other finance (charge)/income	(12)	6	(1)	(7)	(14)
Actuarial gain/(loss)	109	(18)	–	(8)	83
Acquisitions	–	–	–	(2)	(2)
Exchange rate adjustment	12	(2)	–	(1)	9
Surplus/(Deficit) at 31 December 2010	7	(144)	(21)	(139)	(297)

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 2011	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2011	2,149	(2,446)	(297)
Contributions	77	–	77
Current service cost	–	(101)	(101)
Past service cost	–	(3)	(3)
Settlement/curtailment costs	(19)	24	5
Interest cost	–	(124)	(124)
Expected return on scheme assets	120	–	120
Benefits paid out	(140)	140	–
Actuarial loss	(58)	(131)	(189)
Exchange rate adjustment	(11)	24	13
Deficit at 31 December 2011	2,118	(2,617)	(499)

Year ending 31 December 2010	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2010	2,009	(2,507)	(498)
Contributions	150	–	150
Current service cost	–	(88)	(88)
Past service cost	–	53	53
Settlement/curtailment costs	(4)	14	10
Interest cost	–	(125)	(125)
Expected return on scheme assets	111	–	111
Benefits paid out	(129)	129	–
Actuarial gain	59	24	83
Acquisitions	–	(2)	(2)
Exchange rate adjustment	(47)	56	9
Deficit at 31 December 2010	2,149	(2,446)	(297)

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 2011, 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 IAS 32.

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
At 1 January 2010	2,025	1,013	–	1,013
Capitalised on scrip dividend	28	14	–	14
Shares issued	295	147	–	147
At 31 December 2010	**2,348**	**1,174**	**–**	**1,174**
Capitalised on scrip dividend	**25**	**12**	**–**	**12**
Shares issued	**11**	**6**	**–**	**6**
At 31 December 2011	**2,384**	**1,192**	**–**	**1,192**

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 shares were issued under employee share plans at prices between nil and 1463 pence.

2010

On 11 June 2010, the Company completed the listing of Indian Depository Receipts (IDRs) on the Bombay and National stock exchanges by issuing 24,000,000 shares of the Company against 240,000,000 IDRs (at a ratio of 10 IDRs representing 1 Company share). The shares were issued at a price of Indian Rupees (INR)104 per IDR representing a 6 per cent discount to the Company's closing share price of 1637 pence on 28 May 2010, which contributed $504 million towards the Group's capital, net of expenses of $27 million. The proceeds of this listing will be used by the Group in the ordinary course of business.

On 13 May 2010, the Company issued 18,190,898 new ordinary shares instead of the 2009 final dividend. On 4 October 2010 the Company issued 9,688,558 new ordinary shares instead of the 2010 Interim dividend.

During the year 10,550,826 shares were issued under employee share plans at prices between nil and 1146 pence.

On 13 October 2010, the Company announced the issue of 260,525,763 new ordinary shares by way of rights to qualifying shareholders at 1280 pence per new ordinary share. The issue was on the basis of 1 ordinary share for every 8 ordinary shares held on 21 October 2010. The rights issue raised $5.2 billion in additional capital for the Company, net of expenses of $122 million. The proceeds will be used in the ordinary course of business. The rights issue used a cash box structure involving a Jersey subsidiary (JerseyCo), which was fully owned by the Company prior to the transaction. In return for an issue of shares by the Company to the investors, the net proceeds of the share issue were paid to JerseyCo. Pursuant to the issue of those shares, the Company acquired the remaining share capital of JerseyCo, being all of its redeemable preference shares it did not own. Under this structure merger relief applies under Section 612 of the Companies Act 2006, which provides relief from the requirements under Section 610 of the Companies Act 2006 to create a share premium account. JerseyCo then redeemed its redeemable shares in exchange for the share issue proceeds.

Reserves

Transaction costs relating to share issues deducted from reserves account total $149 million (2010: $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 (2010: $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 until such time as the underlying asset is sold, matures or becomes impaired.

Notes to the financial statements continued

35. Share capital, reserves and own shares continued

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 until such time as the underlying hedged item affects profit and loss 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 until such time as the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations.

Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions and own shares 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.

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 Limited 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	**2011**	2010	**2011**	2010	**2011**	2010
Shares purchased	**4,500,000**	6,856,494	**1,136,086**	401,018	**5,636,086**	7,257,512
Market price of shares purchased ($ million)	**117**	182	**29**	10	**146**	192
Shares held at the end of the year	**11,049,476**	13,429,212	**281,670**	539,605	**11,331,146**	13,968,817
Maximum number of shares held during year					**15,590,159**	13,971,029

36. Non controlling interests

	$300m 7.267% Hybrid Tier 1 Securities $million	Other non-controlling interests $million	Total $million
At 1 January 2010	324	256	580
Income in equity attributable to non-controlling interests	–	30	30
Other profits attributable to non-controlling interests	19	63	82
Comprehensive income for the year	19	93	112
Distributions	(22)	(32)	(54)
Other increases	–	15	15
At 31 December 2010	**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**

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:

	2011			2010		
	Cash $million	**Equity $million**	**Total $million**	Cash $million	Equity $million	Total $million
Deferred share awards	**17**	**264**	**281**	28	234	262
Other share awards	**(4)**	**115**	**111**	45	83	128
Total share based payments	**13**	**379**	**392**	73	317	390
Deferred and current tax charge/(credit)			**59**			(18)
Total charge taken to the income statement			**451**			372

2011 Standard Chartered Share Plan (the 2011 Plan)

The 2011 Standard Chartered Share Plan replaced all the Group's existing discretionary share plan arrangements following approval by shareholders at the Group's Annual General Meeting on 5 May 2011. It is the Group's main share plan, applicable to all employees with the flexibility to provide a variety of award types including performance shares, deferred awards (shares or cash) and restricted shares. Performance and restricted share awards will generally be in the form of nil price options to acquire shares in the Company. The remaining life of the plan is 10 years.

Further details regarding the 2011 Plan are included in the Directors' remuneration report.

Performance shares

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

Valuation

The fair value of awards is based on the market value less an adjustment to take into account the expected dividends over the vesting period and the relevant performance condition applying to that portion of the award. The fair value of the TSR component is derived by discounting a third of the award that is subject to the TSR condition by the loss of expected dividends over the performance period together with the probability of meeting the TSR condition, which is calculated by the area under the TSR vesting schedule curve. The EPS fair value is derived by discounting one third of the award respectively by the loss of expected dividends over the performance period. The same approach is applied to calculate the RoRWA fair value for one third of the award. In respect of the EPS and RoRWA components only, the number of shares expected to vest is adjusted for actual performance when calculating the charge for the year. The same fair value is applied to awards made to both directors and employees of the Group.

	2011			
Grant date	**14 December**	**20 September**	**22 June**	**6 May**
Share price at grant date (£)	**14.35**	**13.52**	**15.75**	**16.31**
Vesting period (years)	**3**	**3**	**3**	**3**
Expected dividend yield (%)	**4.0**	**4.0**	**3.7**	**3.7**
Fair value (EPS) (£)	**4.26**	**4.01**	**4.70**	**4.87**
Fair value (RoRWA) (£)	**4.26**	**4.01**	**4.70**	**4.87**
Fair value (TSR) (£)	**1.67**	**1.58**	**1.85**	**1.91**

The expected dividend yield is based on the historical dividend yield over the three years prior to grant.

Deferred share awards/restricted shares

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

Awards 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 vest in equal instalments on the second and the third anniversaries of the award date.

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

Valuation

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period for non-deferred awards. The same fair value is applied for awards made to both the directors and employees of the Group.

Notes to the financial statements continued

37. Share based payments continued

Deferred share awards

Grant date	2011 22 June
Share price at grant date (£)	15.75
Vesting period (years)	1/2/3
Expected dividend yield (%)	n/a
Fair value (£)	15.75

Deferred awards accrue dividend equivalent payments during the vesting period.

Other restricted share awards

	2011		
Grant date	14 December	20 September	22 June
Share price at grant date (£)	14.35	13.52	15.75
Vesting period (years)	2/3	2/3	2/3
Expected dividend yield (%)	2.9	2.9	4.1
Fair value (£)	13.36	12.59	14.25

The expected dividend yield is based on the historical dividend for three years prior to grant.

2000 Executive Share Option Scheme (2000 ESOS)

The Group previously operated the 2000 ESOS for executive directors and selected senior managers. Executive share options to purchase ordinary shares in Standard Chartered PLC were exercisable after the third, but before the 10th, 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. Although there are unexercised awards outstanding under the 2000 ESOS, the scheme is now closed to new grants.

2001 Performance Share Plan (PSP)

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

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

Valuation

The fair value of awards is based on the same principles as the TSR and EPS element of performance shares granted under the 2011 Plan with half the awards subject to the TSR valuation and the balance subject to the EPS valuation.

	2010			
Grant date	16 December	21 September	18 June	11 March
Share price at grant date (£)	17.66	19.12	17.40	17.40
Vesting period (years)	3	3	3	3
Expected dividend yield (%)	3.8	3.8	3.5	3.5
Fair value (EPS) (£)	7.90	8.55	7.85	7.85
Fair value (TSR) (£)	3.10	3.36	3.08	3.08

The expected dividend yield is based on the historical dividend yield over the three years prior to grant.

37. Share based payments continued

1997/2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS)
The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There are still unvested and vested awards outstanding under these plans which were previously used to deliver the deferred portion of annual performance awards and as an incentive to motivate and retain high performing employees. Awards will generally be in the form of nil cost options and do not have any performance conditions. Generally deferred restricted share awards vest equally over three years and for non-deferred awards, half vests two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

Valuation
For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period. The same fair value is applied for awards made to both the directors and employees of the Group.

	2011	2010			
Grant date	**10 March**	16 December	21 September	18 June	11 March
Share price at grant date (£)	**16.82**	17.66	19.12	17.40	17.40
Vesting period (years) 2006 RSS	**1/2/3**	2/3	2/3	2/3	2/3
Vesting period (years) 2007 SRSS	**2/3**	2/3	2/3	2/3	1/2/3
Expected dividend yield (%) 2006 RSS	**4.1**	3.7	3.7	3.9	3.9
Expected dividend yield (%) 2007 SRSS	**4.1**	3.7	3.7	3.9	2.7/3.9
Fair value 2006 RSS (£)	**16.82/15.22**	16.11	17.46	15.80	15.80
Fair value 2007 SRSS (£)	**15.22**	16.11	17.46	15.80	16.93/15.80

The expected dividend yield for the 2006 RSS and 2007 SRSS is based on the historical dividend for three years prior to grant. Deferred awards accrue dividend equivalent payments during the vesting period.

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 three years.

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

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

Valuation
Options under the Sharesave schemes are valued using a binomial option-pricing model. The same fair value is applied for awards made to both the directors and employees of the Group. The fair value per option granted and the assumptions used in the calculation are as follows:

	2011		2010	
Grant date	**11 October**	**4 October**	9 October	5 October
Share price at grant date	**14.11**	**11.70**	18.70	18.48
Exercise price (£)	**10.65**	**10.65**	15.19	15.19
Vesting period (years)	**3/5**	**3/5**	3/5	3/5
Expected volatility (%)	**53.8/45.8**	**53.3/45.5**	56.0/46.0	56.0/46.0
Expected option life (years)	**3.33/5.33**	**3.33/5.33**	3.33/5.33	3.33/5.33
Risk free rate (%)	**0.9/1.4**	**0.7/1.2**	0.9/0.6	0.9/0.6
Expected dividend yield (%)	**3.9/3.5**	**3.9/3.5**	3.5/3.4	3.5/3.4
Fair value (£)	**5.46/5.39**	**3.87/3.87**	7.2/7.0	7.0/6.9

The expected volatility is based on historical volatility over the last three to five years, or three to five years prior to grant. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend for three years prior to grant. Where two amounts are shown for volatility, risk free rates, expected dividend yield and fair values, the first relates to a three-year vesting period and the second to a five-year vesting period.

Notes to the financial statements continued

37. **Share based payments** continued

Reconciliation of option movements for the year to 31 December 2011

	2011 Plan[1]									
	Performance shares	Deferred/ Restricted shares	PSP[1]	RSS[1]	SRSS[1]	DBP[1,2]	ESOS	Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)
Outstanding at 1 January	–	–	9,571,846	24,500,160	13,885,072	383,985	1,386,144	7.01	14,818,577	11.33
Granted	4,195,006	635,136	–	12,500,000	250,000	70,255	–	–	5,927,063	10.65
Lapsed	(35,163)	(3,611)	(1,134,210)	(1,094,879)	(121,192)	–	–	–	(1,777,148)	11.31
Exercised	–	–	(1,576,869)	(5,833,733)	(6,903,430)	(398,445)	(427,768)	6.71	(3,586,853)	9.74
Outstanding at 31 December	4,159,843	631,525	6,860,767	30,071,548	7,110,450	55,795	958,376	7.10	15,381,639	11.42
Exercisable at 31 December	–	–	1,035,851	2,354,817	1,633,368	–	958,376	7.10	1,859,857	9.72
Range of exercise prices (£)	–	–	–	–	–	–	5.82-8.77	–	8.32-14.63	–
Intrinsic value of vested but not exercised options ($ million)	–	–	9	10	4	–	1	–	7	–
Weighted average contractual remaining life (years)	9.35	6.67	7.18	5.25	4.85	–	1.70	–	2.53	–
Weighted average share price for options exercised during the period (£)	–	–	15.61	15.74	15.76	16.64	15.04	–	14.81	–

1 Employees do not contribute toward the cost of these awards

2 Notes: a) The market value of shares on date of awards (8 March 2011) was £16.80. b) The shares vest one year after the date of award. c) A notional scrip dividend accrues on the shares held in the Trust. The dividend is normally delivered in the form of shares and is released on vesting

37. Share based payments continued

Reconciliation of option movements for the year to 31 December 2010

	PSP[1]	RSS[1]	SRSS[1]	DBP[1,2]	ESOS	Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)
Outstanding at 1 January	10,775,552	17,277,162	7,414,532	350,581	3,403,965	7.29	17,521,228	10.27
Additional shares for rights issue	1,326,976	9,998,480	7,280,693	14,375	58,484	–	650,471	–
Granted	359,003	918,061	508,709	378,569	–	–	3,495,017	15.19
Lapsed	(938,348)	(1,041,580)	(300,657)	–	–	–	(2,995,921)	9.53
Exercised	(1,951,337)	(2,651,963)	(1,018,205)	(359,540)	(2,094,305)	7.28	(3,852,218)	9.58
Outstanding at 31 December	9,571,846	24,500,160	13,885,072	383,985	1,386,144	7.01	14,818,577	11.33
Exercisable at 31 December	836,321	1,841,565	637,014	–	1,386,144	7.01	2,099,064	9.95
Range of exercise prices (£)	–	–	–	–	5.82-8.76	–	8.32-14.63	–
Intrinsic value of vested but not exercised options ($ million)	1	16	–	–	1	–	28	–
Weighted average contractual remaining life (years)	7.8	5.4	5.7	–	2.8	–	2.23	–
Weighted average share price for options exercised during the period (£)	17.58	17.79	18.13	–	17.78	–	17.60	–

1 Employees do not contribute toward the cost of these awards

2 Notes: a) The market value of shares on date of awards (9 March 2010) was £17.19. b) The shares vest one year after the date of award. c) A notional scrip dividend accrues on the shares held in the Trust. The dividend is normally delivered in the form of shares and is released on vesting

38. Cash flow statement

Adjustment for non-cash items and other adjustments included within income statement

	Group		Company	
	2011 $million	2010[1] $million	**2011 $million**	2010[1] $million
Amortisation of discounts and premiums of investment securities	**(173)**	3	**–**	–
Interest expense on subordinated liabilities	**474**	430	**104**	102
Interest expense on senior debts liabilities	**809**	328	**228**	183
Other non-cash items	**204**	95	**3**	–
Pension costs for defined benefit schemes	**103**	39	**–**	–
Share based payment costs	**392**	390	**–**	–
UK bank levy	**69**	–	**–**	–
Impairment losses on loans and advances and other credit risk provisions	**908**	883	**–**	–
Dividend income from subsidiaries	**–**	–	**(1,176)**	(770)
Other impairment	**111**	76	**–**	–
Profit from associates	**(74)**	(42)	**–**	–
Total	**2,823**	2,202	**(841)**	(485)

Change in operating assets

	Group		Company	
	2011 $million	2010[1] $million	**2011 $million**	2010[1] $million
Increase in derivative financial instruments	**(21,617)**	(8,736)	**(160)**	(150)
Net increase in debt securities, treasury bills and equity shares held at fair value through profit or loss	**(2,373)**	(13,554)	**–**	–
Net increase in loans and advances to banks and customers	**(38,771)**	(50,519)	**–**	–
(Increase)/decrease in pre-payments and accrued income	**(440)**	1,165	**–**	–
(Increase)/decrease in other assets	**(4,810)**	(10,708)	**184**	(182)
Total	**(68,011)**	(82,352)	**24**	(332)

1 Amounts have been restated as explained in note 46

Notes to the financial statements continued

38. Cash flow statement continued

Change in operating liabilities

	Group		Company	
	2011 $million	2010[1] $million	2011 $million	2010[1] $million
Increase/(decrease) in derivative financial instruments	20,266	9,628	(48)	(65)
Net increase in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions	55,069	43,879	598	3,573
Increase/(decrease) in accruals and deferred income	217	298	(22)	23
Increase/(decrease) in other liabilities	2,926	5,159	(4)	(2,832)
Total	78,478	58,964	524	699

1 Amounts have been restated as explained in note 46

39. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition. Restricted balances comprise minimum balances required to be held at central banks.

	Group		Company	
	2011 $million	2010 $million	2011 $million	2010 $million
Cash and balances at central banks	47,364	32,724	–	–
Less restricted balances	(9,961)	(7,385)	–	–
Treasury bills and other eligible bills	3,244	4,770	–	–
Loans and advances to banks	27,470	26,161	–	–
Trading securities	2,333	3,464	–	–
Amounts owed by and due to subsidiary undertakings	–	–	15,878	13,931
Total	70,450	59,734	15,878	13,931

40. Capital commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

	2011 $million	2010 $million
Contracted	9	42

41. Operating lease commitments

	2011		2010	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	290	2	259	4
Later than one year and less than five years	637	2	518	5
After five years	479	–	405	–
	1,406	4	1,182	9

During the year $393 million (2010: $354 million) was recognised as an expense in the income statement in respect of operating leases. The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2011 is $2 million (2010: $3 million).

42. Contingent liabilities and commitments

The table below shows the contract or underlying principal amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

	2011 $million	2010 $million
Contingent liabilities[1]		
Guarantees and irrevocable letters of credit	**27,022**	31,765
Other contingent liabilities	**15,858**	10,039
	42,880	41,804
Commitments[1]		
Documentary credits and short-term trade-related transactions	**8,612**	7,505
Forward asset purchases and forward deposits placed	**733**	877
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	**28,507**	24,014
Less than one year	**24,193**	21,610
Unconditionally cancellable	**88,652**	80,525[2]
	150,697	134,531

1 Includes amounts relating to the Group's share of its joint ventures

2 Amounts have been restated to include facilities extended to certain Consumer Banking customers

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).

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. Repurchase and reverse repurchase agreements

The Group enters into collateralised reverse repurchase and repurchase agreements and securities borrowing and lending transactions. It also receives securities as collateral for commercial lending.

Balance sheet assets – Reverse repurchase agreements

	2011 $million	2010 $million
Banks	5,706	10,740
Customers	1,890	3,540
	7,596	14,280

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:

	2011 $million	2010 $million
Securities and collateral which can be repledged or sold (at fair value)	7,076	14,168
Thereof repledged/transferred to others for financing activities, to satisfy commitments under short sale transactions or liabilities under sale and repurchase agreements (at fair value)	1,005	2,153

Balance sheet liabilities – Repurchase agreements

	2011 $million	2010 $million
Banks	1,913	1,707
Customers	1,850	1,305
	3,763	3,012

The terms and conditions relating to the collateral pledged typically permits the collateral to be sold or repledged, subject to the obligation to return the collateral at the end of the agreement. The table below discloses the collateral pledged against repurchase agreements.

Collateral pledged against repurchase agreements

	2011 $million	2010 $million
Debt securities	2,055	1,242
Treasury bills	724	1,198
Loans and advances to customers	15	39
Repledged securities	1,005	2,153
	3,799	4,632

44. Special purpose entities

The Group uses Special Purpose Entities (SPEs) in the normal course of business across a variety of activities. SPEs are established for specific limited purposes and take a number of legal forms. The main types of activities for which the Group utilises SPEs cover synthetic credit default swaps for portfolio management purposes, managed investment funds (including specialised principal finance funds) and structured finance.

SPEs are consolidated into the Group's financial statements where the Group bears the majority of the residual risk or reward. Most of the Group's consolidated SPEs are in respect of the Group's securitised portfolios of residential mortgages (see page 59 of the Risk review).

The total assets of unconsolidated SPEs in which the Group has an interest are set out below.

	2011		2010	
	Total assets $million	**Maximum exposure $million**	Total assets $million	Maximum exposure $million
Portfolio management vehicles	**1,136**	**130**	2,083	262
Principal Finance Funds[1]	**1,089**	**131**	995	134
Structured finance	**291**	**99**	948	690
	2,516	**360**	4,026	1,086

1 Committed capital for these funds is $375 million (2010: $375 million) of which $129 million (2010: $129 million) has been drawn down net of provisions for impairment of $33 million (2010: $33 million)

For the purposes of portfolio management, the Group has entered into synthetic credit default swaps with note-issuing SPEs. The referenced assets remain on the Group's balance sheet as the credit risk is not transferred to these SPEs. The Group's exposure arises from (a) the capitalised start-up costs in respect of the swap vehicles and (b) interest in the first loss notes and investment in a minimal portion of the mezzanine and senior rated notes issued by the note issuing SPEs. The proceeds of the notes issuance are typically invested in AAA rated Government securities, which are used to collateralise the SPE's swap obligations to the Group, and to repay the principal to investors at maturity. The SPEs reimburse the Group on actual losses incurred, through the realisation of the collateral security. Correspondingly, the SPEs write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All the funding is committed for the life of these vehicles and hence the Group has no indirect exposure in respect of the vehicles' liquidity position.

The Group's exposure to Principal Finance Funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure and real estate.

Structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more SPEs, which provide beneficial arrangements for customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions in 2011 largely related to the provision of ship finance.

The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the SPEs have Standard Chartered branding.

45. Post balance sheet events

Tax

On 23 March 2011, the UK government announced a further reduction in the UK corporation tax rate of 1 per cent with effect from 1 April 2011, in addition to the stepped reductions as announced in June 2010. The effect of the further reduction is to reduce the UK corporation tax rate from 28 per cent in 2010-11 to 26 per cent in 2011-12, with further reductions to 25 per cent in 2012-13, 24 per cent in 2013-14 and 23 per cent in 2014-15.

As of 31 December 2011, only the further tax rate change for 2012-13 to 25 per cent had been substantively enacted. Had the changes of UK corporation tax rates for 2013-15 been enacted at that date, the Group estimates that the UK deferred tax assets for 2011 would have reduced by a further $25 million.

Notes to the financial statements continued

46. Restatement of prior periods

Cash flow statement

The cash flow statement has been re-presented as follows:

- Interest expense relating to senior debts has been reclassified to 'non-cash items included within income statement' from 'change in operating liabilities'.
- Also reflects restatement relating to Group's acquisition of the custody business from Barclays Bank PLC in 2010 of $18 million.

Group	As reported at 2010 $million	Reclassified $million	Re-presented at 2010 $million
Non-cash items included within income statement	1,874	328	2,202
Change in operating assets	(82,334)	(18)	(82,352)
Change in operating liabilities	59,274	(310)	58,964

Company	As reported at 2010 $million	Reclassified $million	Re-presented at 2010 $million
Non-cash items included within income statement	(668)	183	(485)
Change in operating liabilities	882	(183)	699

Acquisitions

Provisional balances relating to the Group's acquisition of the custody business from Barclays Bank PLC in 2010 have been finalised. As a result, the Group has revised the fair value of the deferred tax balances by $18 million. Goodwill at acquisition has been restated to $39 million.

Balance sheet	As reported 2010 $million	Restated $million	Restated at 2010 $million
Goodwill and intangible assets	6,980	18	6,998
Deferred tax liabilities	165	18	183
Tangible net asset value per share (cents)	1,274.1	(0.7)	1,273.4
Cash flow statement			
Change in operating assets	(24,355)	(18)	(24,373)
Change in operating liabilities	14,425	18	14,443

47. 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, which includes all executive directors.

	2011 $million	2010 $million
Salaries, allowances and benefits in kind	**19**	19
Pension contributions	**5**	6
Bonuses paid or receivable	**11**	12
Share based payments	**39**	35
	74	72

Transactions with directors, officers and others

At 31 December 2011, the total amounts to be disclosed under the Companies Act 2006 (the Act) and the Listing Rules of the Hong Kong Stock Exchange Limited (HK Listing Rules) about loans to directors and officers were as follows:

	2011		2010	
	Number	**$000**	Number	$000
Directors	**2**	**2,550**	2	3,030
Officers[1]	**2**	**3,064**	2	3,458

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

47. Related party transactions continued

As at 31 December 2011, Standard Chartered Bank had created a charge over $42 million (2010: $38 million) of cash assets in favour of the independent trustees of its employer financial retirement benefit schemes.

Other than as disclosed in this 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 $39 million and $172 million respectively at 31 December 2011 (2010: $42 million and $6 million respectively) and amounts payable to Merchant Solutions and China Bohai Bank of $30 million and $10 million respectively at 31 December 2011 (2010: $34 million and $2 million respectively). During the year China Bohai Bank and ACB undertook a rights issue to which the Group subscribed, increasing its investment by $182 million and $12 million respectively.

Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling $7 million at 31 December 2011 (2010: $2 million), and deposits of $29 million (2010: $24 million). The Group has investments in subordinated debt issued by PT Bank Permata Tbk of $132 million (2010: $127 million).

Company

The Company has received $318 million (2010: $208 million) of interest income from Standard Chartered Bank. The Company issues debt externally and lends proceeds to Group companies. At 31 December 2011, it had loans to and debt instruments issued by Standard Chartered Bank of $17,625 million (2010: $14,691 million), derivative financial assets of $601 million (2010: $441 million) and derivative financial liabilities of $43 million (2010: $90 million) with Standard Chartered Bank, loans of $1,731 million (2010: $1,700 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 2011, $72 million (2010: $91 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.

48. Standard Chartered PLC (Company)

Classification and measurement of financial instruments

	2011			2010		
Financial assets	**Derivatives held for hedging $million**	**Amortised cost $million**	**Total $million**	Derivatives held for hedging $million	Amortised cost $million	Total $million
Derivatives	**601**	**–**	**601**	441	–	441
Debt securities	**–**	**4,025**	**4,025**	–	2,725	2,725
Amounts owed by subsidiary undertakings	**–**	**15,878**	**15,878**	–	13,931	13,931
Total at 31 December	**601**	**19,903**	**20,504**	441	16,656	17,097

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 $4,062 million (2010: $2,762 million).

In 2010 and 2011, amounts owed by subsidiary undertakings have a fair value equal to carrying value.

	2011			2010		
Financial liabilities	**Derivatives held for hedging $million**	**Amortised cost $million**	**Total $million**	Derivatives held for hedging $million	Amortised cost $million	Total $million
Derivatives	**43**	**–**	**43**	90	–	90
Debt securities in issue	**–**	**11,374**	**11,374**	–	8,343	8,343
Subordinated liabilities and other borrowed funds	**–**	**1,728**	**1,728**	–	1,730	1,730
Total at 31 December	**43**	**13,102**	**13,145**	90	10,073	10,163

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 $11,374 million (2010: $8,343 million).

The fair value of subordinated liabilities and other borrowed funds is $1,584 million (2010: $1,608 million).

Notes to the financial statements continued

48. Standard Chartered PLC (Company) continued

Derivative financial instruments

Total derivatives	2011 Notional principal amounts $million	2011 Assets $million	2011 Liabilities $million	2010 Notional principal amounts $million	2010 Assets $million	2010 Liabilities $million
Foreign exchange derivative contracts:						
Currency swaps	5,180	326	43	4,671	318	90
Interest rate derivative contracts:						
Swaps	5,250	275	–	3,500	123	–
Total derivatives	10,430	601	43	8,171	441	90

Credit Risk

Maximum exposure to credit risk

	2011 $million	2010 $million
Derivative financial instruments	601	441
Investment Securities	4,025	2,725
Amounts owed by subsidiary undertakings	15,878	13,931
	20,504	17,097

In 2010 and 2011, amounts owed by subsidiary undertakings were neither past due nor impaired; the Company had no individually impaired loans.

In 2010 and 2011, 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+.

Liquidity risk

The following table analyses the residual contractual maturity of the assets and liabilities of the Company, on a discounted basis:

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					
Derivative financial instruments	–	–	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

48. Standard Chartered PLC (Company) continued

	2010				
	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	–	–	441	–	441
Investment securities	–	–	250	2,475	2,725
Amounts owed by subsidiary undertakings	–	–	–	13,931	13,931
Investments in subsidiary undertakings	–	–	–	14,291	14,291
Other assets	–	–	–	48	48
Total assets	–	–	691	30,745	31,436
Liabilities					
Derivative financial instruments	90	–	–	–	90
Debt securities in issue	–	–	8,343	–	8,343
Other liabilities	–	–	273	92	365
Subordinated liabilities and other borrowed funds	–	–	–	1,730	1,730
Total liabilities	90	–	8,616	1,822	10,528
Net liquidity gap	(90)	–	(7,925)	28,923	20,908

Financial liabilities excluding derivative financial instruments on an undiscounted basis

	2011				2010			
	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	**2**	**107**	**11,649**	**–**	49	1,333	6,733	1,640
Subordinated liabilities and other borrowed funds	**1**	**102**	**1,264**	**813**	13	90	255	1,892
Other liabilities	**–**	**–**	**68**	**127**	–	–	192	154
Total liabilities	**3**	**209**	**12,981**	**940**	62	1,423	7,180	3,686

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.

	2011				2010			
	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	**21**	**142**	**495**	**–**	4	69	166	–

Supplementary information

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 2011 and 31 December 2010. 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.

	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**

	2010			
	Average non-interest earning balance $million	Average interest earning balance $million	Interest income $million	Gross yield %
Assets				
Cash and balances at central banks	9,682	14,019	17	0.1
Gross loans and advances to banks	6,418	44,513	764	1.7
Gross loans and advances to customers	691	232,338	10,026	4.3
Impairment provisions against loans and advances to banks and customers	–	(2,478)	–	–
Investment securities	4,058	94,967	2,693	2.8
Property, plant and equipment and intangible assets	5,338	–	–	–
Prepayments, accrued income and other assets	92,668	–	–	–
Total average assets	118,855	383,359	13,500	3.5

Average balance sheets and yield continued

	2011			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
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**

	2010			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
Liabilities				
Deposits by banks	3,705	31,124	486	1.6
Customer accounts:				
Current accounts and savings deposits	26,061	126,591	1,021	0.8
Time and other deposits	4,883	137,984	2,342	1.7
Debt securities in issue	2,704	36,516	751	2.1
Accruals, deferred income and other liabilities	84,128	–	–	–
Subordinated liabilities and other borrowed funds	312	14,843	430	2.9
Non-controlling interests	586	–	–	–
Shareholders' funds	32,778	–	–	–
Total average liabilities and shareholders' funds	155,157	347,058	5,030	1.4
Net yield				2.1
Net interest margin				2.2

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.

	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**

	2010 versus 2009		
	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	8	3	11
Loans and advances to banks	(46)	56	10
Loans and advances to customers	1,705	(1,108)	597
Investment securities	325	(370)	(45)
Total interest-earning assets	1,992	(1,419)	573
Interest-bearing liabilities			
Subordinated liabilities and other borrowed funds	129	(200)	(71)
Deposits by banks	(194)	(174)	(368)
Customer accounts:			
Current accounts and savings deposits	229	7	236
Time and other deposits	273	(327)	(54)
Debt securities in issue	236	(254)	(18)
Total interest-bearing liabilities	673	(948)	(275)

Five-year summary

	2011 $million	2010 $million	2009 $million	2008 $million	2007 $million
Operating profit before impairment losses and taxation	**7,720**	7,039	7,232	6,357	4,852
Impairment losses on loans and advances and other credit risk provisions	**(908)**	(883)	(2,000)	(1,321)	(761)
Other impairment	**(111)**	(76)	(102)	(469)	(57)
Profit before taxation	**6,775**	6,122	5,151	4,568	4,035
Profit attributable to shareholders	**4,849**	4,332	3,380	3,241	2,841
Loans and advances to banks[1]	**65,981**	52,058	50,885	46,583	35,365
Loans and advances to customers[1]	**263,765**	240,358	198,292	174,178	154,266
Total assets	**599,070**	516,560[4]	436,653	435,068	329,871
Deposits by banks[1]	**35,296**	28,551	38,461	31,909	25,880
Customer accounts[1]	**342,701**	306,992	251,244	234,008	179,760
Shareholders' equity	**40,714**	38,212	27,340	22,140	20,851
Total capital resources[2]	**58,092**	54,804	44,650	39,681	37,192
Information per ordinary share					
Basic earnings per share	**200.8c**	196.3c	161.8c	185.1c	169.6c
Normalised earnings per share[3]	**198.0c**	197.0c	173.2c	168.5c	166.7c
Dividend per share	**76.00c**	69.15c	63.61c	59.36c	57.46c
Net asset value per share	**1,653.2c**	1,573.2c	1,281.6c	1,091.1c	1,374.2c
Net tangible asset value per share	**1,355.6c**	1,273.4c[4]	953.4c	755.0c	921.8c
Ratios					
Post-tax return on ordinary shareholders' equity – normalised basis[3]	**12.2%**	14.1%	14.3%	15.2%	15.6%
Basic cost-income ratio	**56.2%**	56.2%	52.4%	54.5%	56.2%
Cost-income ratio – normalised basis[3]	**56.5%**	55.9%	51.3%	56.1%	56.0%
Capital ratios:					
Tier 1 capital[5]	**13.7%**	14.0%	11.5%	9.9%	8.8%
Total capital[5]	**17.6%**	18.4%	16.5%	15.6%	15.2%

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 46
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 financial statements on pages 163 to 169 are presented in Indian rupees (INR) using a US dollar / Indian rupee exchange rate of 53.27 as at 31 December 2011 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 2011

	2011 ₹million	2010 ₹million
Interest income	**883,430**	719,145
Interest expense	**(342,579)**	(267,948)
Net interest income	**540,850**	451,197
Fees and commission income	**237,904**	242,698
Fees and commission expense	**(22,373)**	(16,940)
Net trading income	**140,899**	137,277
Other operating income	**42,243**	41,391
Non-interest income	**398,673**	404,426
Operating income	**939,523**	855,623
Staff costs	**(353,180)**	(307,102)
Premises costs	**(45,919)**	(42,616)
General administrative expenses	**(96,099)**	(101,160)
Depreciation and amortisation	**(33,081)**	(29,778)
Operating expenses	**(528,279)**	(480,655)
Operating profit before impairment losses and taxation	**411,244**	374,968
Impairment losses on loans and advances and other credit risk provisions	**(48,369)**	(47,037)
Other impairment	**(5,913)**	(4,049)
Profit from associates	**3,942**	2,237
Profit before taxation	**360,904**	326,119
Taxation	**(98,123)**	(90,985)
Profit for the year	**262,781**	235,134

Profit attributable to:		
Non-controlling interests	**4,475**	4,368
Parent company shareholders	**258,306**	230,766
Profit for the year	**262,781**	235,134

	Rupees	Rupees
Earnings per share:		
Basic earnings per ordinary share	**107.0**	104.6
Diluted earnings per ordinary share	**105.6**	102.8

Consolidated statement of comprehensive income (translated to INR)

For the year ended 31 December 2011

	2011 ₹million	2010 ₹million
Profit for the year	**262,781**	235,134
Other comprehensive income:		
Exchange differences on translation of foreign operations:		
Net (losses)/gains taken to equity	**(53,430)**	44,853
Net gains/(losses) on net investment hedges	**266**	(4,102)
Reclassified to income on change of control	**–**	213
Actuarial (losses)/gains on retirement benefit obligations	**(10,068)**	4,421
Share of other comprehensive income from associates	**53**	(266)
Available-for-sale investments:		
Net valuation (losses)/gains taken to equity	**(11,293)**	41,870
Reclassified to income statement	**(14,223)**	(15,129)
Cash flow hedges:		
Net gains taken to equity	**213**	2,237
Reclassified to income statement	**(5,007)**	906
Taxation relating to components of other comprehensive income	**5,220**	(5,380)
Other comprehensive income for the year, net of taxation	**(88,268)**	69,624
Total comprehensive income for the year	**174,513**	304,758
Total comprehensive income attributable to:		
Non-controlling interests	**2,983**	5,966
Parent company shareholders	**171,529**	298,791
	174,513	304,758

Supplementary financial information continued

Consolidated balance sheet (translated to INR)

As at 31 December 2011

	2011 ₹million	2010 ₹million
Assets		
Cash and balances at central banks	**2,523,080**	1,743,207
Financial assets held at fair value through profit or loss	**1,322,588**	1,439,409
Derivative financial instruments	**3,618,791**	2,549,449
Loans and advances to banks	**3,514,808**	2,773,130
Loans and advances to customers	**14,050,762**	12,803,871
Investment securities	**4,543,025**	4,037,653
Other assets	**1,453,525**	1,350,714
Current tax assets	**12,359**	9,535
Prepayments and accrued income	**134,294**	113,305
Interests in associates	**48,103**	33,613
Goodwill and intangible assets	**376,139**	372,783[1]
Property, plant and equipment	**270,505**	240,088
Deferred tax assets	**44,480**	50,393
Total assets	**31,912,459**	27,517,151
Liabilities		
Deposits by banks	**1,880,218**	1,520,912
Customer accounts	**18,255,682**	16,353,464
Financial liabilities held at fair value through profit or loss	**1,044,039**	1,080,742
Derivative financial instruments	**3,511,878**	2,510,775
Debt securities in issue	**2,511,148**	1,671,666
Other liabilities	**1,269,637**	1,123,677
Current tax liabilities	**53,536**	52,258
Accruals and deferred income	**237,478**	241,207
Subordinated liabilities and other borrowed funds	**890,515**	849,071
Deferred tax liabilities	**6,978**	9,748[1]
Provisions for liabilities and charges	**19,657**	16,780
Retirement benefit obligations	**27,647**	16,514
Total liabilities	**29,708,413**	25,446,813
Equity		
Share capital	**63,498**	62,539
Reserves	**2,105,337**	1,973,014
Total parent company shareholders' equity	**2,168,835**	2,035,553
Non-controlling interests	**35,211**	34,785
Total equity	**2,204,046**	2,070,339
Total equity and liabilities	**31,912,459**	27,517,151

1 Amounts have been restated

Consolidated statement of changes in equity (translated to INR)

For the year ended 31 December 2011

	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 2010	53,963	257,188	959	388,019	(4,954)	799	(63,125)	823,554	1,456,402	30,897	1,487,298
Profit for the year	–	–	–	–	–	–	–	230,766	230,766	4,368	235,134
Other comprehensive income	–	–	–	–	21,361	2,237	41,178	3,249[2]	68,026	1,598	69,624
Distributions	–	–	–	–	–	–	–	–	–	(2,877)	(2,877)
Shares issued, net of expenses	7,831	30,470	–	273,648	–	–	–	–	311,949	–	311,949
Net own shares adjustment	–	–	–	–	–	–	–	(7,191)	(7,191)	–	(7,191)
Share option expense, net of taxation	–	–	–	–	–	–	–	15,768	15,768	–	15,768
Capitalised on scrip dividend	746	(746)	–	–	–	–	–	–	–	–	–
Dividends, net of scrip	–	–	–	–	–	–	–	(39,686)	(39,686)	–	(39,686)
Other increases	–	–	–	–	–	–	–	(479)	(479)	799	320
At 31 December 2010	**62,539**	**286,912**	**959**	**661,667**	**16,407**	**3,036**	**(21,947)**	**1,025,980**	**2,035,553**	**34,785**	**2,070,339**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**258,306**	**258,306**	**4,475**	**262,781**
Other comprehensive income	**–**	**–**	**–**	**–**	**(22,214)**	**(3,729)**	**(52,311)**	**(8,523)[3]**	**(86,777)**	**(1,492)**	**(88,268)**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,676)**	**(3,676)**
Shares issued, net of expenses	**320**	**3,090**	**–**	**–**	**–**	**–**	**–**	**–**	**3,409**	**–**	**3,409**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,409)**	**(3,409)**	**–**	**(3,409)**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**23,119**	**23,119**	**–**	**23,119**
Capitalised on scrip dividend	**639**	**(639)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(61,367)**	**(61,367)**	**–**	**(61,367)**
Other increases	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,119**	**1,119**
At 31 December 2011	**63,498**	**289,363**	**959**	**661,667**	**(5,806)**	**(693)**	**(74,258)**	**1,234,106**	**2,168,835**	**35,211**	**2,204,046**

1 Includes capital reserve of ₹266 million and capital redemption reserve of ₹693 million

2 Comprises actuarial gains, net of taxation and non-controlling interests of ₹3,516 million and share of comprehensive income from associates of ₹(266) million

3 Comprises actuarial losses, net of taxation, non-controlling interests of ₹(8,576) million and share of comprehensive income from associates of ₹53 million

Supplementary financial information continued

Cash flow statement (translated to INR)

For the year ended 31 December 2011

	Group		Company	
	2011 ₹million	2010[1] ₹million	**2011 ₹million**	2010[1] ₹million
Cash flows from operating activities				
Profit before taxation	**360,904**	326,119	**64,510**	38,994
Adjustments for:				
Non-cash items included within income statement	**150,381**	117,301	**(44,800)**	(25,836)
Change in operating assets	**(3,622,946)**	(4,386,891)	**1,278**	(17,686)
Change in operating liabilities	**4,180,523**	3,141,012	**27,913**	37,236
Contributions to defined benefit schemes	**(4,102)**	(7,991)	**–**	–
UK and overseas taxes paid	**(86,191)**	(75,697)	**–**	–
Net cash from/(used in) operating activities	**978,570**	(886,146)	**48,902**	32,708
Net cash flows from investing activities				
Purchase of property, plant and equipment	**(15,235)**	(19,710)	**–**	–
Disposal of property, plant and equipment	**7,405**	9,748	**–**	–
Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired	**(48,263)**	(29,032)	**–**	(53,270)
Purchase of investment securities	**(6,992,220)**	(6,076,829)	**(69,251)**	–
Disposal and maturity of investment securities	**6,383,397**	6,214,372	**–**	–
Dividends received from investment in subsidiaries and associates	**533**	1,172	**62,646**	41,018
Net cash (used in)/from investing activities	**(664,383)**	99,721	**(6,605)**	(12,252)
Net cash flows from financing activities				
Issue of ordinary and preference share capital, net of expenses	**3,409**	311,949	**3,409**	311,949
Purchase of own shares[2]	**(7,777)**	(9,695)	**(7,777)**	(9,695)
Exercise of share options through ESOP	**3,036**	2,504	**3,036**	2,504
Interest paid on subordinated liabilities	**(44,853)**	(41,178)	**(5,540)**	(5,540)
Gross proceeds from issue of subordinated liabilities	**49,488**	41,018	**–**	–
Repayment of subordinated liabilities	**(28,766)**	(82,515)	**–**	(213)
Interest paid on senior debts	**(47,623)**	(50,926)	**(18,964)**	(16,780)
Gross proceeds from issue of senior debts	**830,692**	737,949	**205,249**	172,382
Repayment of senior debts	**(431,061)**	(593,747)	**(56,626)**	(2,131)
Dividends paid to non-controlling interests and preference shareholders, net of scrip	**(9,056)**	(8,257)	**(5,380)**	(5,380)
Dividends paid to ordinary shareholders, net of scrip	**(55,987)**	(34,306)	**(55,987)**	(34,306)
Net cash from financing activities	**261,502**	272,796	**61,420**	412,789
Net increase/(decrease) in cash and cash equivalents	**575,689**	(513,629)	**103,717**	433,245
Cash and cash equivalents at beginning of year	**3,182,030**	3,626,249	**742,104**	308,859
Effect of exchange rate movements on cash and cash equivalents	**(4,848)**	69,411	**–**	–
Cash and cash equivalents at end of year	**3,752,872**	3,182,030	**845,821**	742,104

1 Amounts have been reclassified

2 Net of proceeds from sale of rights by the trusts for 2010

Company balance sheet (translated to INR)

As at 31 December 2011

	2011 ₹million	2010 ₹million
Non-current assets		
Investments in subsidiary undertakings	**761,282**	761,282
Current assets		
Derivative financial instruments	**32,015**	23,492
Investment securities	**214,412**	145,161
Amounts owed by subsidiary undertakings	**845,821**	742,104
Taxation	**2,397**	2,557
	1,094,645	913,314
Current liabilities		
Derivative financial instruments	**2,291**	4,794
Other creditors	**15,075**	14,596
Deferred income	**959**	959
	18,325	20,349
Net current assets	**1,076,320**	892,965
Total assets less current liabilities	**1,837,602**	1,654,247
Non-current liabilities		
Debt securities in issue	**605,893**	444,432
Deferred income	**2,877**	3,889
Subordinated liabilities and other borrowed funds	**92,051**	92,157
	700,820	540,477
Total assets less liabilities	**1,136,782**	1,113,769
Equity		
Share capital	**63,498**	62,539
Reserves	**1,073,284**	1,051,230
Total equity	**1,136,782**	1,113,769

Supplementary financial information continued

Company statement of changes in equity (translated to INR)

For the year ended 31 December 2011

	Share capital ₹million	Share premium account ₹million	Capital and capital redemption reserve[1] ₹million	Merger reserves ₹million	Retained earnings ₹million	Total ₹million
At 1 January 2010	53,963	257,188	959	388,019	92,210	792,338
Profit for the year	–	–	–	–	39,526	39,526
Shares issued, net of expenses	7,831	30,470	–	273,648	–	311,949
Net own shares adjustment	–	–	–	–	(7,191)	(7,191)
Share option expense	–	–	–	–	16,833	16,833
Capitalised on scrip dividend	746	(746)	–	–	–	–
Dividends, net of scrip	–	–	–	–	(39,686)	(39,686)
At 31 December 2010	**62,539**	**286,912**	**959**	**661,667**	**101,692**	**1,113,769**
Profit for the year	**–**	**–**	**–**	**–**	**64,403**	**64,403**
Shares issued, net of expenses	**320**	**3,090**	**–**	**–**	**–**	**3,409**
Net own shares adjustment	**–**	**–**	**–**	**–**	**(3,409)**	**(3,409)**
Share option expense	**–**	**–**	**–**	**–**	**19,976**	**19,976**
Capitalised on scrip dividend	**639**	**(639)**	**–**	**–**	**–**	**–**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**(61,367)**	**(61,367)**
At 31 December 2011	**63,498**	**289,363**	**959**	**661,667**	**121,296**	**1,136,782**

1 Includes capital reserve of ₹266 million and capital redemption reserve of ₹693 million

B. Summary of significant differences between Indian GAAP and IFRS

The consolidated financial statements of the Group for the year ended 31 December 2011 with comparatives as at 31 December 2010 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 2011 and 31 December 2010 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 2011. 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 which 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 Vehicles

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 SPV is controlled by that entity. The definition of an SPV includes employee share trusts.

Indian GAAP
No specific guidance. SPVs 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 which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement 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

B. Summary of significant differences between Indian GAAP and IFRS continued

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 are recognised in reserves.

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 AS30 with respect to hedge accounting are largely similar to that of IAS39.

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 which 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 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.

Supplementary financial information continued

B. Summary of significant differences between Indian GAAP and IFRS continued

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 value. The net pension surplus or deficit, representing the difference between plan assets and liabilities, is recognised on the balance sheet.

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	29 February 2012	1 August 2012
Ex dividend date	7 March 2012	8 August 2012
Record date for dividend	9 March 2012	10 August 2012
Last date to elect for share dividend or to change standing instructions	30 April 2012	25 September 2012
Dividend payment date	15 May 2012	9 October 2012

Preference shares	1st half yearly dividend	2nd half yearly dividend
7⅜ per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2012	1 October 2012
8¼ per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2012	1 October 2012
6.409 per cent Non-cumulative redeemable preference shares of $5 each	30 January 2012	30 July 2012
7.014 per cent Non-cumulative redeemable preference shares of $5 each	30 January 2012	30 July 2012
8.125 per cent Non-cumulative redeemable preference shares of $5 each	27 May 2012	27 November 2012

Annual General Meeting

The Annual General Meeting (AGM) will be held at 12.00pm London time (7.00pm Hong Kong time) on Wednesday 9 May 2012 at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ. 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 10 May 2012.

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 2001	12 October 2001	12.82c/8.6856p	No offer
Final 2001	17 May 2002	29.10c/19.91p	£8.43/$12.32
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

*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 2011 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公司索取，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 (IRB) approach
The advanced IRB approach under the **Basel II** framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters.

Alt-A
Loans regarded as lower risk than sub-prime, but they share higher risk characteristics than lending under normal criteria.

ASEAN
Association of South East Asian Nations (ASEAN), which includes the Group's operations in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Attributable profit to ordinary shareholders
Profit for the year after non-controlling interests and the declaration of dividends on preference shares classified as equity.

Basel II
The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

Basel III
In December 2010, the BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements will be phased in starting 1 January 2013 with full implementation by 31 December 2019.

Basis points (bps)
One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities.

CAD2
An amendment to the Capital Adequacy Directive that gives national regulators the discretion to permit firms to use their own value at risk model for calculating capital requirements subject to certain criteria.

Collateralised Debt Obligations (CDOs)
Securities issued by a third party which reference **ABSs** and/or certain other related assets purchased by the issuer. CDOs may feature exposure to sub-prime mortgage assets through the underlying assets.

Collateralised Loan Obligation (CLO)
A security backed by the repayments from a pool of commercial loans. The payments may be made to different classes of owners (in tranches).

Collectively assessed loan impairment provisions
Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses 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 (CDS)
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.

Glossary continued

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 Adjustment (CVA)
An adjustment to fair value primarily in respect of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions.

Customer deposits
Money deposited by all individuals and companies 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 an undrawn commitments.

Exposure at default (EAD)
The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

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 there is a commitment to provide future funding is made but funds have been released/not released.

Guaranteed mortgages
Mortgages for which there is a guarantor to provide the lender a certain level of financial security in the event of default of the borrower.

Impaired loans
Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

Impairment allowances
Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

Individually assessed loan impairment provisions
Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Wholesale Banking business of the Group are assessed individually.

Innovative Tier 1 Capital
Innovative Tier 1 capital consists of instruments which incorporate certain features, the effect of which is to weaken (but only marginally) the key characteristics of Tier 1 capital (that is, fully subordinated, perpetual and non-cumulative). Innovative Tier 1 capital is subject to a limit of 15 per cent of total Tier 1 capital.

Internal Ratings Based (IRB) approach
The IRB approach is used to calculate risk weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters.

Investment grade
A **debt security**, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.

Jaws
The rate of income growth less the rate of expense growth, expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws).

Leveraged finance
Loans or other financing agreements provided to companies whose overall level of debt is high in relation to their cash flow (net debt: EBITDA (earnings before interest tax, depreciation and amortisation)) typically arising from private equity sponsor led acquisitions of the businesses concerned.

Liquidity and credit enhancements
Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through over-collateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing **commercial paper**.

Liquid asset buffer
High quality unencumbered assets that meet the UK FSA's requirements for liquidity. These assets include high quality government or central bank securities, certain deposits with central banks and securities issued by designated multilateral development banks.

Liquid asset ratio
Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.

Loans and advances
This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument. An example of a loan product is a home loan.

Loans to individuals
Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays, and other consumer uses.

Loan-to-value ratio
The loan-to-value ratio is a mathematical calculation 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 note (MTN)
Corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years.

Net asset value per share
Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.

Net interest income
The difference between interest received on assets and interest paid on liabilities.

Net interest margin
The margin is expressed as net interest income divided by average interest earning assets.

Net interest yield
Interest income divided by average interest earning assets less interest expense divided by average interest bearing liabilities.

Non-performing loans
A non performing loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is:

- **renegotiated** before 90 days past due, and on which no default in interest payments or loss of principal is expected; or
- **renegotiated** at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.

Normalised earnings
Profit attributable to ordinary shareholders adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.

Over the counter (OTC) derivatives
A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.

Pre-provision profit
Operating profit before impairment losses and taxation.

Private equity investments
Equity securities in operating companies generally not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.

Probability of default (PD)
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Profit attributable to ordinary shareholders
Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.

Glossary continued

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.

Residential Mortgage Backed Securities (RMBS)
Securities that represent interests in a group of **residential mortgages**. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Return on equity
Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.

Risk weighted assets
A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the FSA.

Securitisation
Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a **special purpose entity (SPE)** 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.

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.

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 judgements and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, high debt-to-income ratios, or other criteria indicating heightened risk of default.

Tangible net asset value per share
Ratio of parent shareholders' equity less preference shares classified as equity and goodwill and intangible assets to the number of ordinary shares outstanding at the end of the reporting period.

Tier 1 capital
Tier 1 capital comprises **Core Tier 1 capital** plus innovative Tier 1 securities and preference shares and tax on excess expected losses less material holdings in credit or financial institutions.

Tier 1 capital ratio
Tier 1 capital as a percentage of risk weighted assets.

Tier 2 capital
Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.

UK bank levy
A levy that applies to certain UK banks and the UK operations of foreign banks from 1 January 2011. The levy is payable each year based on a percentage of the chargeable liabilities of the Group as at 31 December.

VaR
Value at Risk is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.

Working profit
Operating profit before impairment losses and taxation.

Write-downs
After an advance has been identified as impaired and is subject to an **impairment allowance**, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write-downs will occur when and to the extent that, the whole or part of a debt is considered irrecoverable.

Major awards 2011

Asian Banker Technology Implementation Awards 2011
Best eBanking Project in Thailand

The Asian Banker International Excellence in Retail Financial Services Awards 2011
Best Customer Relationship Management in Hong Kong

Best Payments Product (Pay Any Card)

Asian Private Banker Awards 2011
Best Private Bank in the Middle East

Asiamoney Country Deals of the Year 2011
Country Deal of the Year – Philippines: San Miguel US$950 million concurrent exchangeable bond and equity placement

Asiamoney Deals of the Year 2011
Best Leveraged Finance Deal: Hyva Global US$375 million senior secured notes

The Asset Country Awards 2011
Best Debt Bank in China

Best Debt Bank in Singapore

Best Debt Bank in Vietnam

Best M&A House in India

Best Debt House in India

Best Bank in Pakistan

Best Debt House in Pakistan

Asia Risk Awards 2011
Interest Rate Derivatives House of the Year

Asia Risk Corporate Rankings 2011
#1 Overall for Derivatives in Asia

#1 for Currency Derivatives

#1 for Interest Rate Derivatives

The Asset Transaction Banking Awards 2011
Best Transaction Bank

Best Trade Finance Bank in India

Best Structured Trade Finance Bank

Best Cash Management Specialist for Payments and Receivables in Asia

Best Cash Management Bank in Southeast Asia

Best Cash Management Bank in the Middle East

Best SME Bank in Hong Kong

The Asset Triple A Awards 2011
Best SME Bank, Hong Kong

The Asset Triple A Islamic Finance Awards 2011
Best Islamic Project Finance House

The Asset Triple A Regional Awards 2011
Best Leveraged Finance House

Best Project Finance Advisory House

Best Asian Currency Bond House

Best Securitisation House

The Asset Triple A Regional Deal Awards 2011
Best Equity Linked Deal: Temasek Holdings

Best Corporate Bond/Best High Yield Bond: Vedanta Resources

Best Project Finance Deal: AES VCM Mong Duong Power

Best Cross-Border Securitization: Silver Oak

Most Innovative Deal: Hyva Global

The Banker Awards 2011
Best Investment Advisory in the Middle East

The Banker Bank of the Year Awards 2011
Bank of the Year – Financial Inclusion

Best Bank in Afghanistan

Best Bank in Tanzania

Best Bank in Zambia

The Banker Deals of the Year 2011
Infrastructure & Project Finance Deal of the Year in Africa: DPW Dakar Senegalese PPP

Corporate Deal of the Year in Americas (Bonds): McDonald's Corporation

Sovereigns, Supras and Agencies Deal of the Year in Middle East (Bonds): Govt of Dubai Dual Tranche US$1.25 billion bond

Deal of the Year in Middle East (Loans): Qatar Aviation Lease Co.

Islamic Finance Deal of the Year in Europe: Albaraka Turk Katilim Bankasi

The Banker Middle East Industry Awards 2011
Best Investment Advisory Services/Priority Banking in the UAE

Major awards 2011 continued

Banking and Payments Asia Trailblazer Awards 2011
Process Excellence Award in Thailand

Service Excellence Award – Best in Category (Breeze)

China Trade Finance Awards 2011
Best RMB Cross-Border Settlement Bank

Dun & Bradstreet – Polaris Software Banking Awards 2011
Best Foreign Bank in India

Best Priority Sector Lending – Foreign Bank in India

EMEA Finance Middle East Banking Awards 2011
Best Foreign Bank – Bahrain

Best Foreign Investment Bank – Bahrain

Best Foreign Bank – Jordan

Best Foreign Investment Bank – Jordan

Best Foreign Bank – Oman

Best Foreign Bank – UAE

Best Foreign Investment Bank – UAE

EMEA Finance Treasury Services Awards 2011
Best cash management services in EMEA

Best FX services in the Middle East

Euromoney Awards for Excellence 2011
Best Investment Bank in Africa

Best Project Finance House in Africa

Best Flow House in Africa

Best Bank in Tanzania

Best Bank in Hong Kong

Best Cash Management House in Asia

Best Investment Bank in the Middle East

Best Project Finance House in the Middle East

Euromoney Islamic Finance Awards 2011
Best Project Finance House

Most Improved Islamic Bank in Asia

Outstanding Contribution: Afaq Khan

FinanceAsia Achievement Awards 2011
Best High-Yield Bond: Vedanta Resources US$6 billion acquisition financing for Cairn India and US$1.65 billion bond

Best Leveraged Finance Deal: Vedanta Resources US$6 billion acquisition financing for Cairn India and US$1.65 billion bond

Best Vietnam Deal: US$1.5 billion financing of Mong Duong II Power Project/AES & Posco Power

FinanceAsia Country Awards for Achievement 2011
Best Foreign Commercial Bank in India

The Financial Times and Investors Chronicle Wealth Management Awards 2011
Best Global Private Bank

FX Week Best Banks Awards Survey 2011
Best Bank for FX in Asia-Pacific

Best Bank for Emerging Asian Currencies

Global Custodian Agent Banks in Major Markets Survey 2011
Leading Clients – Top Rated in Hong Kong

Leading Clients – Top Rated in Japan

Leading Clients – Top Rated in Singapore

Leading Clients – Top Rated in South Korea

Global Finance Awards 2011
World's Best Foreign Exchange provider in Africa, Asia Pacific, Southeast Asia

Global Finance Best Bank Awards 2011
Best Bank in Africa

Global Finance Best Investment Bank Awards 2011

Advising Acquirer, Best M&A deal: Bharti Airtel's acquisition of Zain African operations

Best Debt Bank in Asia

Best Investment Bank in Singapore

Global Finance Best Supply Chain Finance Providers 2011

Best Supply Chain Finance Provider in Asia

Best Supply Chain Finance Provider in Africa

Best Payables Supplier Financing Solution

Global Finance Stars of China 2011

Best Supply Chain Finance Provider (Foreign)

Best Small Business Lending (Foreign)

Global Finance World's Best Derivatives Providers 2011

Best Interest Rate Derivatives Bank

Global Finance World Best Internet Bank Awards 2011

Best Bill Payment and Presentment in Asia

Best Design for a Global Banking Website

Best Consumer Internet Bank – Singapore

Global Finance World's Best Sub-Custodian Banks 2011

Best Sub-Custodian Bank in Asia

Best Sub-Custodian Bank in Africa

Global Finance World's Best Treasury & Cash Management Providers 2011

Best Bank for Liquidity Management in Asia

Best Bank for Liquidity Management in Africa

Global Private Banking Awards 2011

Best Private Bank in Asia

Best Private Bank in India

GTR Leaders in Trade 2011

Best Trade Finance Bank in South Asia (including India, Pakistan and Bangladesh)

#2 Best Supply Chain Finance Bank

#2 Best Trade Finance Bank in Asia-Pacific

GTR Asia Leaders in Trade 2011

Best Commodity Finance Bank in Asia-Pacific

Best Trade Finance Bank in Singapore

Best Trade Finance Bank in Bangladesh

Hong Kong General Chamber of Small and Medium Business 2011

Best SMEs Partner, Hong Kong

Hong Kong Service Awards 2011

Priority Banking (Financial Services) in Hong Kong

ICSA Hermes Transparency in Governance Awards 2011

Best FTSE 100 Annual Report

IDC Financial Insights Innovation Awards 2011

Excellence in Customer Centricity in Hong Kong

Major awards 2011 continued

IFR Awards 2011

Asia-Pacific High-Yield Bond of the Year: Hyva Global's US$350m 8.625% notes due 2016

Asia-Pacific Securitisation of the Year: Silver Oak's US$645m CMBS

Emerging EMEA Loan of the Year: Kosmos Energy

Asia-Pacific Loan of the Year: Birla Carbon's US$900m acquisition financing

IFR Asia Awards 2011

APAC High-Yield Bond of the Year: Hyva Global's US$350m 8.625% notes due 2016

APAC Loan of the Year: Birla Carbon's US$900m acquisition financing

APAC Securitisation Deal of the Year: Silver Oak's US$645m CMBS

Vietnam Capital Markets Deal of the Year: Mong Duong 2 US$1.5bn project financing

Interactive Media Awards 2011

Outstanding Achievement in Banking

Jane's Transport Finance Awards 2011

Shipping Finance Innovator of the Year

Shipping Leasing Innovator of the Year

Aircraft Debt Deal of the Year: Delivery of 25 A320s with Tiger Airways

Shipping Debt Deal of the Year Asia: Essar Shipping and Logistics

Shipping Debt Deal of the Year: Topaz Energy and Marine

Lloyd's List Asia Awards 2011

Ship Financier Award

Lloyd's List Awards 2011

Ship Financier Award

PFI Awards 2011

Asia Bank of the Year

Asia-Pacific Petrochemical Deal of the Year: Jurong Aromatics Corporation

India Deal of the Year: Sasan UMPP

Middle East Oil & Gas Deal of the Year: Barzan

Middle East Power Deal of the Year: Sur IPP

Private Banker International Awards 2011

One of Nine, Outstanding Young Private Bankers (Peggy Lee)

Outstanding Private Banker, Asia Pacific (Rajesh Malkani)

Risk.net Structured Product Asia Awards 2011

Best in China

Best in India Award for Structured Products

SCMP/IFPHK Financial Planner Awards 2011

Company for Financial Excellence – Banking in Hong Kong

Company of the Year – Banking in Hong Kong

Industry Winner – Banking in Hong Kong

Trade and Forfaiting Review Awards 2011 (Readers' Poll)

Best Trade Bank in Africa – Gold

Best Trade Bank in Asia-Pacific – Bronze

TFR Awards 2011

Best Trade Bank in Africa

Best Trade Bank in Asia-Pacific

TMI Awards for Innovation & Excellence in Treasury 2011

Best Bank for Cash Management – Middle East & Africa

Best Bank Financial Supply Chain – Asia

Best Bank Capital Markets & Investment Banking – Asia

Index

Index continued

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