Standard Chartered Bank

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

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Group summary

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

Operating income increased by $1,312 million, or 7 per cent, to $18,993 million. Profit before tax increased by $17million to $6,786 million. Excluding the impact of the settlements of $667 million with the US authorities, profit before tax increased 10 per cent.

Consumer Banking (CB) income increased 6 per cent to $7,202 million and operating profit grew 8 per cent to $1,775 million. Both 2012 and 2011 were impacted by a number of non-recurring items in income and expenditure which are explained further on page 7. Adjusting for these items, CB income increased 5 per cent, in line with the growth in expenses as we accelerated investment in the franchise, while CB operating profit fell 1 per cent.

Wholesale Banking (WB) income increased 8 per cent to $11,791 million and operating profit fell 2 per cent to $5,139 million. Excluding the impact of the settlements with the US authorities, WB operating profit rose 11 per cent.

Corporate items, which are not allocated to the businesses and include the UK bank levy, generated a loss of $128 million in the current year. These items are explained further in note 2 on page 108.

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

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

The Group's balance sheet remains resilient, well diversified and conservatively positioned, with limited exposure to problem asset classes. The Group's direct sovereign exposure to the eurozone remains immaterial (see page 60 for further details).

The Group remains highly liquid and we experienced strong deposit growth across both businesses, in particular in the Hong Kong, Singapore and Americas, UK & Europe regions. This further improved the advances-to-deposits ratio to 74.1 per cent from 76.6 per cent in 2011. Our funding profile remains conservative and we continue to be a net lender into the interbank market. We saw continued good appetite for our paper, successfully issuing €2 billion in the last quarter of 2012, and have limited refinancing requirements over the next few years. We have substantially pre-funded our repayment obligations for 2013.

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

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Operating income and profit

	2012 $million	2011 $million	%
Net interest income	**11,005**	10,166	8
Fees and commissions income, net	**4,117**	4,043	2
Net trading income	**2,769**	2,679	3
Other operating income	**1,102**	793	39
Non-interest income	**7,988**	7,515	6
Operating income	**18,993**	17,681	7
Operating expenses	**(10,908)**	(9,967)	9
Operating profit before impairment losses and taxation	**8,085**	7,714	5
Impairment losses on loans and advances and other credit risk provisions	**(1,221)**	(908)	34
Other impairment	**(194)**	(111)	75
Profit from associates	**116**	74	57
Profit before taxation	**6,786**	6,769	-

Group performance

Operating income grew by $1,312 million, or 7 per cent, to $18,993 million. The Group's income streams continue to be well diversified and all geographic segments delivered positive income growth, except India which was impacted by depreciation of the Indian rupee against the US dollar.

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

WB income was 8 per cent higher, at $11,791 million, reflecting well diversified with income streams, with client income up by 8 per cent and own account income growing by 12 per cent. This was underpinned by good growth in Trade Finance, up 22 per cent, and Corporate Finance, growing 19 per cent, which offset lower Foreign Exchange (FX) and Commodities income. Principal Finance also benefitted from an improvement in equity market conditions.

Net interest income increased by $839 million, or 8 per cent. In CB, net interest income grew $292 million, or 6 per cent, to $4,922 million. We continue to experience regulatory headwinds in a number markets and increasing competitive pressures driving asset margin compression and impacting volumes, particularly in Mortgages. This has been offset by good volume growth in CCPL and higher Current Accounts and Savings Accounts (CASA) balances coupled with widening liability margins. WB net interest income increased $547 million, or 10 per cent, benefitting from higher Trade and Cash average balances and improved Trade margins, which offset slightly lower lending margins.

Non-interest income, which comprises net fees and commissions, trading and other operating income, increased by $473 million to $7,988 million.

Net fees and commissions income increased by $74 million, or 2 per cent, to $4,117 million. Fee income in CB grew as we increased our participation in the Mortgage Purchase Program (MPP) in Korea (details of which are set out on page 8) and from higher sales of bancassurance products. WB fees were flat primarily due to a lower number of large value transactions within Corporate Finance.

Net trading income increased $90 million, or 3 per cent, to $2,769 million, as growth in Rates offset by lower Foreign Exchange (FX) and Commodities income.

Other operating income, which primarily comprises gains arising on sale from the investment securities portfolio, aircraft and shipping lease income, fixed asset realisations and dividend income, increased $309 million, or 39 per cent, to $1,102 million. Higher operating lease rental income, increased realisations out of the available-for-sale securities portfolio, a gain on the repurchase of subordinated debt of $90 million, and a $74 million gain on a property sale in Korea contributed to the increase.

Operating expenses increased $941 million, or 9 per cent, to $10,908 million. Operating expenses in 2012 were impacted by $667 million relating to the settlements with the US authorities and $86 million relating to a legacy commercial legal provision, while 2011 expenses included recoveries of $96 million on structured notes in Other Asia Pacific region and a $206 million charge in staff costs relating to the Early Retirement Programme (ERP) in Korea. Excluding these items for both 2011 and 2012, operating expenses increased by 3 per cent year on year. Although we continue to manage expenses tightly, we have sustained investment in both businesses with spend on branches, including renovations and relocations, and increased investment in mobile and online technology in CB and investment in Transaction Banking in WB. Staff costs (excluding the impact of the ERP charge in 2011) increased by 2 per cent as an increase in employee numbers across both businesses was partly offset by lower variable compensation and ongoing efficiency initiatives.

Pre-provision profit was higher by $371 million, or 5 per cent, at $8,085 million.

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

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

Operating profit was up $17 million to $6,786 million. CB profit was 8 per cent higher. WB profit was 2 per cent lower. Hong Kong remained our largest profit generator, growing operating profit by 7 per cent, and profit in Africa grew strongly, up 23 per cent. This helped offset lower profits across a number of other geographies, with Americas, UK & Europe in particular impacted by the settlements with the US authorities.

The Group’s effective tax rate (ETR) was 27.4 per cent, slightly up from 27.3 per cent in 2011, primarily due to change in profit mix offset by an increase in non-deductible expenses.

Balance Sheet

	2012	2011	Increase/ (decrease)	Increase/ (decrease)
	$million	$million	$million	%
Assets				
Advances and investments				
Cash and balances at central banks	**61,043**	47,364	13,679	29
Loans and advances to banks	**68,380**	65,980	2,400	4
Loans and advances to customers	**283,885**	266,790	17,095	6
Investment securities held at amortised cost	**3,851**	5,493	(1,642)	(30)
	417,159	385,627	31,532	8
Assets held at fair value				
Investment securities held available-for-sale	**95,562**	79,790	15,772	20
Financial assets held at fair value through profit or loss	**27,084**	24,828	2,256	9
Derivative financial instruments	**49,496**	58,567	(9,071)	(15)
	172,142	163,185	8,957	5
Other assets	**46,785**	43,439	3,346	8
Total assets	**636,086**	592,251	43,835	7
Liabilities				
Deposits and debt securities in issue				
Deposits by banks	**36,477**	35,296	1,181	3
Customer accounts	**377,639**	345,726	31,913	9
Debt securities in issue	**41,445**	35,766	5,679	16
	455,561	416,788	38,773	9
Liabilities held at fair value				
Financial liabilities held at fair value through profit or loss	**23,064**	19,599	3,465	18
Derivative financial instruments	**48,194**	57,118	(8,924)	(16)
	71,258	76,717	(5,459)	(7)
Subordinated liabilities and other borrowed funds	**23,084**	19,462	3,622	19
Other liabilities	**46,303**	43,834	2,469	6
Total liabilities	**596,206**	556,801	39,405	7
Equity	**39,880**	35,450	4,430	12
Total liabilities and shareholders' funds	**636,086**	592,251	43,835	7

Balance sheet

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

The profile of our balance sheet remains stable, with 71 per cent of our financial assets held on amortised cost basis, which reduces the risk of short term distress shocks, and 56 per cent of total assets have a residual maturity of less than one year. The Group has low exposure to problem asset classes, no direct sovereign exposure (as defined by the European Banking Authority (EBA)) to Greece, Ireland, Italy, Portugal and Spain and immaterial direct exposure to the remainder of the eurozone. Further details of our exposures to the eurozone are set out on page 60.

Total assets grew by $43.8 billion, or 7 per cent, during the year. Balance sheet growth was largely driven by an increase in customer lending on the back of significant growth in customer deposits. Surplus liquidity was held with central banks or in liquid investment securities that meet the more stringent regulatory liquidity requirements. Derivative mark to market decreased, largely reflecting lower levels of market volatility.

Cash and balances at central banks

Cash balances increased by $13.7 billion, or 29 per cent, compared to 2011. In addition to higher surplus liquidity, balances at central banks have also grown as a result of higher clearing balances together with increased requirements to meet regulatory liquidity ratios in several markets, due to the effect of a higher deposit liability base.

Loans and advances
Loans and advances to banks and customers, which include those held at fair value, grew by $19.7 billion, or 6 per cent, to $358 billion.

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

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

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

Derivatives
Unrealised mark to market positions are $9 billion lower compared to 2011, reflecting a mixture of lower volatility across interest rate, commodity and foreign exchange contracts. Our risk position continues to be balanced, resulting in a corresponding decrease in negative mark to market positions. Of the $49 billion mark to market positions, $35 billion is available to offset through master netting agreements.

Deposits
The Group has continued to see good deposit growth in both businesses. Deposits by banks and customers, including those held at fair value, increased by $36.1 billion, of which the increase in customer accounts was $35.0 billion. Customer deposit growth was seen across a number of markets with significant increases in deposits seen in Hong Kong, Singapore and within the Americas, UK & Europe region. CASA continues to be the core of the customer deposit base, constituting around 50 per cent of customer deposits. Deposits by banks increased by $1 billion largely due to higher clearing balances, particularly those held within the Americas.

Debt securities in issue, subordinated liabilities and other borrowed funds
Debt securities in issue, including those held at fair value, grew 16 per cent to $46.7 billion as we continued see strong demand for our paper. Subordinated debt increased by $3.6 billion, or 19 per cent, on the back of US dollar denominated issues in the second half of 2012.

Equity
Total shareholders' equity increased by $4.4 billion to $39.9 billion due to profit accretion, foreign exchange translation gains and gains on available for sale securities, partly offset by dividends paid to shareholders.

Consumer Banking

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

2012	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Consumer Banking Total $million
Operating income	**1,411**	**975**	**1,184**	**1,778**	**440**	**749**	**482**	**183**	**7,202**
Operating expenses	**(772)**	**(554)**	**(796)**	**(1,338)**	**(318)**	**(490)**	**(306)**	**(152)**	**(4,726)**
Loan impairment	**(95)**	**(62)**	**(223)**	**(209)**	**(27)**	**(51)**	**(20)**	**(10)**	**(697)**
Other impairment	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**(3)**	**(4)**
Operating profit	**544**	**359**	**164**	**231**	**95**	**208**	**156**	**18**	**1,775**

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

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

Operating income by product	2012 $million	2011 $million	2012 vs 2011 Better/(worse) %
CCPL	**2,707**	2,426	12
Wealth Management	**1,275**	1,274	-
Deposits	**1,566**	1,412	11
Mortgages and Auto Finance	**1,390**	1,480	(6)
Other	**264**	210	26
Total operating income	**7,202**	6,802	6

Performance in 2012

Operating income in CB increased $400 million, or 6 per cent, to $7,202 million. Income in the current year includes a property gain of $39 million and a gain of $13 million on disposal of our Private Banking business in Miami. Excluding these items income increased 5 per cent.

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

Net interest income increased by $292 million, or 6 per cent, to $4,922 million, largely driven by increased volumes. Asset margins continue to be under pressure, particularly across Mortgages and CCPL, where margins for both fell by 12 basis points (bps) although this was offset by strong volume growth in CCPL as we continue to selectively grow our unsecured business. Mortgage volumes continue to be impacted by increased regulatory pressures in a number of markets and margins have been impacted by high levels of liquidity across our markets, although margins increased in the second half of the year compared to the first half. On the liability side, both CASA and Time Deposits volumes increased with good CASA growth seen in Hong Kong and Korea. The proportion of customer deposits held as CASA remained broadly stable at 58 per cent.

Non-interest income at $2,296 million was $80 million, or 4 per cent, higher compared to 2011 and includes the gains relating to a property sale in Korea and the disposal of our Private Banking operations in Miami. Excluding these gains, non-interest income was 2 per cent higher. Wealth Management income from equity-related products continued to be impacted by market uncertainty in light of weaker equity markets although this was offset by growth in bancassurance and fixed income products.

Expenses were up $99 million, or 2 per cent, to $4,726 million. Expenses in 2011 included a charge of $189 million relating to the ERP in Korea, which was partly offset by $96 million of recoveries on certain structured note payouts made in prior periods. Excluding these items, expenses increased by 4 per cent, reflecting the flow through from investments in staff in 2011 and continuing improvements to branch infrastructure and technology to enhance frontline systems, mobile, remote and internet banking capabilities, including our Breeze mobile platform.

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

Operating profit increased by $136 million, or 8 per cent, to $1,775 million. Excluding the impact of non-recurring income and expense items, operating profit fell 1 per cent. Although regulatory and competitive headwinds have impacted profit growth in a number of our larger markets, there have been strong increases in a number of our smaller markets, including Indonesia and across the Africa, MESA and Americas, UK & Europe regions.

Product performance

Income from CCPL grew $281 million, or 12 per cent, to $2,707 million, with increased volumes more than offsetting continued pressure on margins, which have been impacted by competition across a number of our markets. We continued selectively to grow our unsecured portfolio, particularly in markets with positive credit bureaus and we have increased market share. Volume growth was also supported by increased levels of bundling with existing products.

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

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

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

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

Geographic performance

Hong Kong

Income was up $83 million, or 6 per cent, to $1,411 million. We saw good volume growth as we gained market share across all major asset and liability products together with an improvement in liability margins, and these more than offset continuing pressure on asset margins. Income from CCPL grew strongly as volume growth cushioned continuing margin compression. While mortgage volumes increased, income was lower than 2011 due to narrower margins, although margins saw an improvement in the latter part of 2012 with a focus on writing new business in higher margin Prime rate based products. Wealth Management income fell as growth in bancassurance and unit trust was largely offset by lower income from premium currency investment and structured products. SME income increased as we continued to drive growth in the trade book. Deposits income increased as margins improved together with strong volume growth in CASA.

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

Pre-provision profit was up $14 million, or 2 per cent, to $639 million. Loan impairment was $24 million higher at $95 million, reflecting growth in unsecured lending together with a small increase in bankruptcy filings. Operating profit fell $10 million, or 2 per cent, to $544 million.

Singapore

Income was up $49 million, or 5 per cent, to $975 million. Income growth was led by higher Wealth Management and CCPL income although there has been further compression in asset margins. Wealth Management income rose as we continued to optimise the product mix, with increased income from unit trusts, fixed income and bancassurance products offsetting lower income from equity-linked structured products. CCPL income grew with strong balance sheet momentum, supported by innovative products such as the Security Token Card offsetting lower margins. Retail mortgages income fell as an increase in mortgage balances was offset by margin compression as competition intensified. On the liability side, income growth was flat as volume growth was offset by lower TD margins as the competition for liquidity increased.

Operating expenses increased $50 million, or 10 per cent, to $554 million from investment in technology, higher staff costs and increased levels of marketing.

Pre-provision profit was flat at $421 million. Loan impairment more than doubled to $62 million, due to higher unsecured volumes and the seasoning of the unsecured portfolio. Operating profit fell by $34 million, or 9 per cent, at $359 million.

Korea

Income was up $28 million, or 2 per cent, to $1,184 million and included a $39 million gain on sale of property. Excluding this gain, income was down $9 million, or 1 per cent. Regulatory headwinds continued to impact mortgage income as margins narrowed and balances reduced further during the year as we continued to reshape the balance sheet. This was partly mitigated by fees earned from the MPP. Under this program, we sold KRW 6 trillion ($5 billion) of fixed rate mortgages, largely during the second half of the year, to the Korea Housing Finance Corporation. Lower Mortgages income was offset by a higher CCPL income, driven by growth in personal lending volumes as we increased market share together with improved margins, although the pace of growth moderated in the latter part of 2012 as we tightened underwriting standards. Wealth Management income increased reflecting strong bancassurance income. Deposits income fell as strong growth in CASA balances was offset by lower margins, which were impacted by a falling interest rate environment.

Operating expenses fell $240 million, or 23 per cent, to $796 million. Excluding the $189 million charge for the ERP in 2011, expenses were 5 per cent lower as flow through savings from ERP were partially offset by investments in technology and inflation related increases in staff costs.

Pre-provision profit was higher by $268 million at $388 million. Loan impairment was up $57 million, or 34 per cent, to $223 million due to growth in unsecured products and a market-wide increase in filings under the Personal Debt Rehabilitation Scheme in the face of a weakening credit environment. As a result of the above factors, the operating loss of $51 million improved to a profit of $164 million in the current year.

Other Asia Pacific (Other APR)
Income was up $161 million, or 10 per cent, to $1,778 million. All major markets saw positive income momentum. Income in China was up 30 per cent to $296 million, reflecting strong growth in Deposit and Personal loan volumes, improved mortgage margins and continued growth in SME. This was partially offset by lower Wealth Management income as weaker investor sentiment resulted in lower volumes of structured products. Income in Taiwan increased marginally to $424 million. Personal loan income grew as a result of widening margins although this was offset by lower income from Mortgages, as balances reduced due to continuing regulatory constraints. Wealth Management income also fell due to lower unit trust volumes but Deposits income increased strongly as CASA margins improved in the second half of 2012. Income in Malaysia increased 10 per cent due to increased income from Personal Loans. Indonesia grew 12 per cent with good growth in Mortgages volumes, secured lending and higher income from CCPL.

Operating expenses were up $228 million, or 21 per cent, to $1,338 million. Excluding the benefit of recoveries on payouts made in respect of structured notes in prior years, current year expenses were up $136 million, or 11 per cent. Expenses in China were up by 20 per cent to $384 million as we continued to invest in new branch outlets, opening 19 in 2012 to end the year at 100 branches.

Pre-provision profit was down $67 million, or 13 per cent, to $440 million. Loan impairment was up by $92 million, or 79 per cent, to $209 million, reflecting a lower level of loan portfolio sales in Taiwan and Malaysia and increased levels of provisioning in line with portfolio growth and mix change. Other APR delivered an operating profit of $231 million, down 41 per cent from 2011, with Taiwan and Malaysia being the most significant contributors to the decline. The operating loss in China increased to $114 million from $108 million in 2011 as we continued to invest in the franchise.

India
Income was down $44 million, or 9 per cent, to $440 million. During the year, we acquired two portfolios from Barclays in India, the first of which was in February 2012 and the second in December 2012. These portfolios contributed $10 million to income in the current year. Deposits income increased as a result of higher TD volumes and improved CASA margins. SME income benefitted from higher volumes and improved liability margins.

Operating expenses were $35 million, or 10 per cent, lower at $318 million. Pre-provision profit was down $9 million, or 7 per cent, to $122 million. Loan impairment was lower by $5 million, or 16 per cent, at $27 million as a result of the continued focus on secured lending and an improved portfolio quality. Operating profit was lower by $4 million, or 4 per cent, at $95 million.

Middle East and Other South Asia (MESA)
Income was up $28 million, or 4 per cent, to $749 million. Income in the UAE increased by 8 per cent with strong growth in CCPL, driven by higher payroll-led lending which offset slightly lower margins. Mortgages income grew in line with portfolio growth and SME revenues increased due to improved trade flows and focused penetration strategies. This was offset by lower Deposits income with muted liability growth and margin compression. Income from Islamic banking grew 30 per cent in the UAE. Income in Pakistan fell 2 per cent reflecting some margin compression following interest rate cuts. Bahrain grew 10 per cent as sentiment improved following the uncertainty caused by the 'Arab Spring' in 2011.

Operating expenses in MESA were higher by $4 million, or 1 per cent, at $490 million. While UAE expenses were up 6 per cent, reflecting investments in frontline sales capacity, expenses in most other markets were lower reflecting tight cost discipline across the region.

Pre-provision profit for MESA was up $24 million, or 10 per cent, to $259 million. Loan impairment continued to fall and was considerably lower at $51 million, down 43 per cent compared to 2011. Most of the reduction arose in UAE and Bahrain due to adherence to tighter underwriting criteria in addition to an improvement in a number of market factors, including job market stability. MESA operating profit increased 43 per cent, up $63 million to $208 million.

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

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

Operating expenses were $37 million, or 14 per cent, higher at $306 million, as we continued to build out the distribution network, adding 27 new branches, increasing frontline staff and expanding digital distribution channels such as mobile banking.

Pre-provision profit in Africa was higher by $23 million or 15 per cent, at $176 million. Loan impairment was up $3 million to $20 million. Operating profit was up $26 million, or 20 per cent, to $156 million.

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

Operating expenses fell $14 million, or 8 per cent, to $152 million as we continued to tightly manage costs. Impairment was higher by $7 million to $10 million. Operating profit increased to $18 million from a loss of $21 million in 2011.

Wholesale Banking

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

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Wholesale Banking Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Operating income	1,939	1,230	670	2,184	1,147	1,483	1,112	2,026	11,791
Operating expenses	(803)	(617)	(283)	(1,099)	(435)	(607)	(479)	(1,685)	(6,008)
Loan impairment	(14)	(4)	(26)	(37)	(138)	(265)	(18)	(22)	(524)
Other impairment	(7)	(2)	(7)	(95)	9	(32)	-	14	(120)
Operating profit	1,115	607	354	953	583	579	615	333	5,139

	2011								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Wholesale Banking Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Operating income	1,723	1,267	569	1,905	1,326	1,497	963	1,629	10,879
Operating expenses	(694)	(603)	(316)	(967)	(479)	(600)	(450)	(1,066)	(5,175)
Loan impairment	(32)	(19)	(32)	(18)	(80)	(197)	(7)	1	(384)
Other impairment	-	(31)	(8)	31	(60)	(13)	(10)	(8)	(99)
Operating profit	997	614	213	951	707	687	496	556	5,221

Income by product is set out below:

Operating Income by product	2012 $million	2011 $million	2012 vs 2011 Better/(worse) %
Lending and Portfolio Management	892	844	6
Transaction Banking			
Trade	1,942	1,600	21
Cash management and custody	1,733	1,657	5
	3,675	3,257	13
Global Markets[1]			
Financial Markets	3,667	3,699	(1)
Asset and Liability Management ('ALM')	850	924	(8)
Corporate Finance	2,224	1,879	18
Principal Finance	483	276	75
	7,224	6,778	7
Total operating income	11,791	10,879	8

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

Financial Markets operating income by desk	2012 $million	2011 $million	%
Foreign Exchange	1,283	1,438	(11)
Rates	967	896	8
Commodities and Equities	522	605	(14)
Capital Markets	592	550	8
Credit and Other	303	210	44
Total Financial Markets operating income	3,667	3,699	(1)

Performance in 2012
WB continued to be disciplined in the execution of its strategy, delivering strong results and a tenth consecutive year of income growth. Operating income grew $912 million, or 8 per cent, to $11,791 million and is increasingly diversified, with the Africa region exceeding $1 billion of income for the first time. Client income, which constitutes over 80 per cent of WB income, increased by 8 per cent compared to 2011 as we continued to strengthen and deepen relationships across a broader client base. Own account income increased 12 per cent.

Net interest income was up $547 million, or 10 per cent, to $6,083 million as average balances across Trade and Cash Management (Cash) increased and Trade margins improved. Non-interest income increased by $393 million, or 7 per cent, to $5,692 million.

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

Income from Financial Markets (FM) fell marginally by 1 per cent to $3,667 million, with strong growth in Rates and Credit offset by lower flow FX and Commodities income. ALM income fell by 8 per cent as a result of increased holdings of lower yielding, highly liquid securities to comply with regulatory requirements in the UK. Corporate Finance income grew 18 per cent, supported by continued product and geographic diversity. Income in Principal Finance increased by 75 per cent, primarily reflecting valuation gains.

Operating expenses grew $833 million, or 16 per cent, to $6,008 million. Excluding the impact of the $667 million settlements with the US authorities and a legacy legal provision of $86 million, expenses increased by 2 per cent, 7 per cent lower than income growth. We maintained strong expense discipline with staff costs held flat through efficiency initiatives and lower levels of variable compensation. The increase in expenses was concentrated in targeted investment in systems and infrastructure to support our Cash and flow FX businesses.

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

Operating profit fell $82 million, or 2 per cent, to $5,139 million. Excluding the impact of the settlements with the US authorities, operating profit increased 11 per cent.

Product performance
Lending and Portfolio Management income grew by $48 million, or 6 per cent, to $892 million. We continue to focus on return optimisation, maintaining margins at similar levels to 2011. Income also benefitted from one-off gains on asset sales.

Transaction Banking income was up $418 million, or 13 per cent, at $3,675 million. Trade income grew 21 per cent due to higher average asset and contingent balances and improved margins, which were up 10bps, although we saw high levels of liquidity in the second half of 2012 which led to increasing competitive pressure. Cash income increased by 5 per cent, as average balances increased due to targeted liability drives. Cash margins were flat compared to 2011 and started to tighten in the second half of the year driven by excess liquidity in markets.

Global Markets income increased by $446 million, or 7 per cent, to $7,224 million. Within Global Markets, the Financial Markets business, which primarily comprises sales and trading of foreign exchange and interest rate products, continued to be the largest contributor to income and has increasingly diverse income streams. FM income fell by $32 million, or 1 per cent, to $3,667 million against a backdrop of regulatory tightening, lower volatility and lack of directional trends. Client income, which represents over three-quarters of FM income, was flat against 2011 as good momentum in Rates and Credit was offset by lower FX income. Own account income decreased by 3 per cent. Fixed Income, Currency & Commodities (FICC), which includes FX, Rates, Commodities and Credit, was 3 per cent lower.

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

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

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

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

ALM income was $74 million, or 8 per cent, lower at $850 million as a result of increased holdings of highly liquid assets in line with regulatory requirements.

Corporate Finance income rose $345 million, or 18 per cent, to $2,224 million. Approximately 60 per cent of Corporate Finance income is reported within net interest income. We saw an 18 per cent increase in new deals compared to 2011 with increased client demand for financing solutions, particularly in Structured Trade Finance. We continued to build increasing levels of product and geographic diversification within this business, and derived a higher proportion of new deal fee income from small and medium-sized ticket deals compared to prior years.

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

Geographic performance

Hong Kong

Income was up $216 million, or 13 per cent, to $1,939 million. Client income was up 10 per cent as we continued to leverage the opportunities from increasing RMB internationalisation and trade flows between Hong Kong and China. Income from RMB business grew 30 per cent, and generated increased income in Trade, although regulatory changes and margin compression moderated growth in the latter part of 2012. FX income increased reflecting market demand for RMB hedging products although market sentiment impacted growth in the second half of 2012. Cash income increased strongly due to higher average balances and slightly improved margins. Corporate Finance income also continued to grow, and was up strongly compared to 2011 reflecting a full year's contribution from our transport leasing business which we expanded into Hong Kong in the latter part of 2011. Hong Kong continued to leverage the Group's network, enhancing its position as both a hub into and out of China, with inbound revenues from China up 23 per cent compared to 2011.

Operating expenses grew $109 million, or 16 per cent, to $803 million. Almost half of the increase relates to depreciation of assets held within our transport leasing business with the balance reflecting flow through impact from 2011 and ongoing investment in frontline technology.

Pre-provision profit was up $107 million, or 10 per cent, to $1,136 million. Loan impairment was lower by $18 million reflecting higher recoveries. Operating profit was up $118 million, or 12 per cent, at $1,115 million.

Singapore

Income fell $37 million, or 3 per cent, to $1,230 million. The current year consolidated on the strong performance in 2011, with client income increasing by 5 per cent. However, this was more than offset by lower own account income. Transaction Banking grew strongly as a result of higher Cash and Trade average balances and a widening of margins, although margins narrowed in the second half of 2012. FM income fell, due to lower Commodities income reflecting reduced client flow in the current year. This was partially mitigated by increased volumes of smaller transactions, generating a greater degree of diversification in income flows. FX revenues were impacted by reduced corporate volumes reflecting continuing market uncertainty. ALM income fell primarily due to lower reinvestment yields as we continued to grow our portfolio of highly liquid assets to comply with regulatory requirements. Corporate Finance income was impacted by the absence of large ticket transactions in the current year.

Operating expenses were well managed and were slightly higher at $617 million, with higher staff costs due to the flow through impact of prior year investments being offset by lower variable compensation and operating efficiencies through disciplined cost management.

Pre-provision profit fell $51 million, or 8 per cent, to $613 million. Loan impairment was $15 million lower and credit quality remains good. Other impairment was lower at $29 million as prior year Principal Finance provisions did not repeat. Operating profit fell by $7 million to $607 million.

Korea

Income increased $101 million, or 18 per cent, to $670 million and included a $35 million gain on a property disposal. Excluding this gain, income increased by 12 per cent. Client income fell 6 per cent, as the FM business was impacted by low corporate hedging activity resulting from continuing global market uncertainties. Transaction Banking income grew, led by Trade, which benefitted from asset growth and widening margins. Cash income also increased as higher average balances offset margin compression in the second half of 2012. Lending income fell as average asset balances declined reflecting sluggish demand and increasing competitive pressures. Own account income increased, primarily in the Private Equity portfolio. Income earned on transactions with Korean clients, but delivered across our network markets continued to grow strongly, with double digit growth against 2011.

Operating expenses were lower by $33 million, or 10 per cent, at $283 million, reflecting disciplined cost management.

Pre-provision profit was higher by $134 million, or 53 per cent, at $387 million. Loan impairment decreased by $6 million to $26 million as higher levels of recoveries offset a small increase in new provisions. Operating profit was higher by $141 million, or 66 per cent, at $354 million.

Other APR

Income was up $279 million, or 15 per cent, at $2,184 million. Income grew in most of the major markets in this region, driven by strong FM flow business. China delivered income growth of 18 per cent to $703 million. Trade and Lending saw improved margins through active re-pricing, while Capital Markets income grew strongly. Corporate Finance income grew as we provided advisory and financing solutions across a wider range of industries. Client income was moderated by lower margins in Cash, following interest rate cuts, and reduced FM income, with FX impacted by lower RMB volatility and client demand shifting to vanilla flow products. Own account income rose strongly following realignment of the portfolio to higher yields. Income earned on transactions with China clients and delivered across our network markets continued to grow strongly with Hong Kong remaining the main cross-border partner. Income in Taiwan fell marginally to $143 million. Strong growth in Trade and Cash, reflecting higher margins, and higher FX income, which saw good momentum in RMB derivatives and commodities, was more than offset by lower Capital Markets and Corporate Finance income. Income in Malaysia was up 27 per cent, with good growth in Lending and higher Corporate Finance income. Indonesia also delivered good growth, up 13 per cent due to higher Corporate Finance and Capital Markets revenues.

Operating expenses in Other APR were up $132 million, or 14 per cent, to $1,099 million. The increase in expenses is primarily driven by a legacy commercial legal provision. China operating expenses were up 8 per cent to $374 million largely due to increased staff costs.

Pre-provision profit in Other APR was higher by 16 per cent at $1,085 million. Loan impairment increased by $19 million to $37 million, $12 million of which relates to China. Other impairment resulted in a charge of $95 million. 2011 benefitted from impairment recoveries on disposal of previously impaired Private Equity investments while the 2012 charge was driven by provisions against unrelated Private Equity investments in China. Operating profit was $2 million higher at $953 million. China contributed $272 million of operating profit, with Indonesia and Malaysia as the other major profit contributors in this region.

India
Income fell $179 million, or 13 per cent, to $1,147 million. Flow business and Transaction Banking continues to grow well. Cash was up with a strong growth in average balances partially offset by slightly lower margins reflecting a shift in product mix. Trade income also increased as a result of higher average balances against a backdrop of lower export levels and an improvement in margins. On a constant currency basis, FM income fell and Corporate Finance was also lower, as these businesses continued to be impacted by subdued business sentiment. We continued to support our Indian clients' cross-border needs and income booked across our network grew at a strong double digit rate as we continued to leverage the Group's international franchise.

Operating expenses were lower by $44 million, or 9 per cent, at $435 million. On a constant currency basis, expenses were higher by 4 per cent, with the flow through impact of prior year investments offset by tight cost management.

Pre-provision profit was down $135 million, or 16 per cent, at $712 million. Loan impairment increased by $58 million to $138 million primarily due to credit concerns around a single corporate exposure, the impact of which was partially mitigated by a release of the additional portfolio impairment provisions established in 2011 in respect of market uncertainty. Other impairment saw a net recovery of $9 million compared to a charge of $60 million in 2011, as the prior year was impacted a charge relating to a specific bond exposure which was partially released in the current year. Operating profit was down $124 million, or 18 per cent, to $583 million. On a constant currency basis, operating profit fell 6 per cent.

MESA
Income was lower by $14 million, at 1 per cent to $1,483 million. Client income demonstrated resilient performance in a challenging environment with growth driven by Transaction Banking and Corporate Finance. Own account income, however, was impacted by the run-off of higher yielding assets and lower levels of volatility. Income in the UAE, which generates almost 50 per cent of the income in this region, was down 5 per cent overall. While client income increased due to higher Trade and Corporate Finance income this was offset by lower levels of own account income. Islamic banking capabilities continue to be enhanced, with income up compared to 2011. Income in Bangladesh grew 5 per cent driven by Cash. Income in Pakistan fell 10 per cent primarily due to lower levels of ALM income while Bahrain fell 16 per cent as a result of lower Corporate Finance activity.

MESA operating expenses were up $7 million, or 1 per cent, to $607 million, as we managed costs tightly across the region.

MESA pre-provision was down $21 million, or 2 per cent, to $876 million. Loan impairment increased $68 million to $265 million, driven by a small number of accounts in the UAE. Operating profit fell 16 per cent to $579 million.

Africa
Income exceeded $1 billion for the first time increasing $149 million, or 15 per cent, to $1,112 million. We continue to diversify our revenue engines within this region across products, client groups and countries, with four markets now delivering WB income over $100 million of income. Income growth was led by a strong Transaction Banking performance, with both Trade and Cash performing well, and higher Corporate Finance income.. Nigeria continues to be the largest WB market in the region with income up by 13 per cent, with growth in Rates and Corporate Finance income offsetting lower Lending margins. Income also grew strongly in Ghana, up 28 per cent, Kenya, up 40 per cent, and South Africa, up 22 per cent. Growth in these markets was primarily driven by Transaction Banking reflecting a combination of improved cash margins and higher average balances.

Operating expenses were up $29 million, or 6 per cent, to $479 million, reflecting investments to build capability together with inflation related increases.

Pre-provision profit was up $120 million, or 23 per cent, to $633 million. Loan impairment remained low at $18 million, up $11 million from 2011. Operating profit was $119 million higher at $615 million, up 24 per cent.

Americas, UK & Europe
This region acts as a two way bridge, linking Americas, UK & Europe with our markets in Asia, Africa and the Middle East, and leverages capabilities built within the region to support our clients' cross-border needs. Income was up 24 per cent to $2,026 million, with client income up 27 per cent. Double digit income growth was recorded across our core products of Transaction Banking, FX Rates and Corporate Finance, driving increasingly diversified income streams. Transaction Banking grew strongly, reflecting higher average balances and wider margins in Trade. Corporate Finance income grew with an increase in the volume of medium-sized deals as we deepened global relationships. Own account income increased with a strong performance in Credit from selling Asian credit products to US clients.

Operating expenses were increased by $619 million, or 58 per cent. Excluding the impact of the settlements with the US authorities, expenses fell by $48 million, reflecting efficiencies and continued cost discipline across the region.

Pre-provision profit fell $222 million, or 39 per cent to $341 million. Loan impairment increased by $23 million to a charge of $22 million whilst other impairment fell by $22 million to a net recovery of $14 million. Operating profit fell 40 per cent to $333 million. Excluding the impact of the settlements with the US authorities, operating profit increased 80 per cent compared to 2011.

Principal uncertainties

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

Financial risk management

The following parts of the Risk Review form part of the audited financial statements: from the start of the "Risk management" section on page 18 to the end of the Liquidity section on page 82, with the exception of the "Asset backed securities.

Risk overview

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

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

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

Our lending portfolio is diversified across a wide range of products, industries and customer segments, which serves to mitigate risk. We operate in 68 markets and there is no single market that accounts for more than 20 per cent of loans and advances to customers, or operating income. Our cross-border asset exposure is diversified and reflects our strategic focus on our core markets and customer segments. Approximately 47 per cent of our loans and advances to customers are of short maturity, and within Wholesale Banking 62 per cent of loans and advances have a tenor of one year or less. In Consumer Banking 72 per cent of assets are secured and the overall loan to value ratio on our mortgage portfolio is less than 48 per cent.

We have low exposure to asset classes and segments outside of our core markets and target customer base. We have no direct sovereign exposure (as defined by the European Banking Authority (EBA)) to Greece, Ireland, Italy, Portugal or Spain. Our total gross exposure to all counterparties in these countries, more than half of which relates to currency and interest rate derivatives, is 0.6 per cent of total assets. Our direct sovereign exposure to the remainder of the eurozone is immaterial. Further details on page 60. Our exposure to countries impacted by the political developments in the Middle East and North Africa are also low. Exposures in Bahrain, Syria, Egypt, Libya, Algeria and Tunisia represent less than 0.5 per cent of our total assets.

Our exposure to commercial real estate and leveraged loans accounts for less than 2 and 1 per cent of our total assets respectively. The notional value of the Asset Back Securities (ABS) portfolio which accounts for 0.7 per cent of our total assets increased by $2.3 billion in 2012 due to investments in high quality, senior ABS and Residential Mortgage Backed Securities (RMBS) assets in the Group's portfolio of liquid assets. Further details are given on page 59.

Market risk is tightly monitored using Value at Risk (VaR) methodologies complemented by sensitivity measures, gross nominal limits and loss triggers at a detailed portfolio level. This is supplemented with extensive stress testing which takes account of more extreme price movements. Further details on market risk are given on page 67.

Our liquidity in 2012 benefited from continued good inflows of customer deposits, which helped us to maintain a strong advances-to-deposits ratio. Liquidity will continue to be deployed to support growth opportunities in our chosen markets. We manage liquidity in each of our geographical locations, ensuring that we can meet all short-term funding requirements and that our balance sheet remains structurally sound. Our customer deposit base is diversified by type and maturity and we are a net provider of liquidity to the interbank money markets. We have a substantial portfolio of marketable securities which can be realised in the event of liquidity stress. Further details on liquidity are given on page 72.

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

We have a well-established risk governance structure which is set out on page 18 and an experienced senior team. Members of our executive committee (the Court) sit on our principal risk executive committees, which ensure that risk executive oversight is a critical focus for all our directors, while common membership between these committees helps us address the inter-relationships between risk types. Board committees provide additional risk management oversight and challenge.

We continue to build on the Group's culture of risk management discipline. The management of operational risk, in particular, continues to be enhanced across all areas of the Group. We are introducing increased rigour in the process for anticipating a wide variety of operational risks and in our assessments of risks and control effectiveness. Operational risk is covered in more detail on page 81.

Risk performance review

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

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

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

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

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

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

Principal uncertainties

We are in the business of taking selected risks to generate shareholder value, and we seek to contain and mitigate these risks to ensure they remain within our risk appetite and are adequately compensated.

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

Deteriorating macroeconomic conditions in footprint countries

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

The world economy is coming out of a difficult period and uncertainty remains. The sovereign crisis in the eurozone continues and, although acute risks have been addressed by ongoing policy initiatives, there is still a need for substantial new structural reform (see additional information on the risk of redenomination on page 60). The US will likely continue to be held back by fiscal challenges unless political compromises are struck, though economic fundamentals are improving.

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

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

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

Inflation and property prices appear to be under control in most of the countries in which we operate. This and other factors equip the authorities in our significant footprint countries with the policy flexibility to support growth.

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

Regulatory changes and compliance

Our business as an international bank will continue to be subject to an evolving and complex regulatory framework comprising legislation, regulation and codes of practice, in each of the countries in which we operate. A key uncertainty relates to the way in which governments and regulators adjust laws, regulations and economic policies in response to macroeconomic and other systemic conditions. The nature and impact of such future changes are not predictable and could run counter to our strategic interests. Some are anticipated to have a significant impact such as changes to capital and liquidity regimes, changes to the calculation of risk weighted assets, derivatives reform, remuneration reforms, recovery and resolution plans, banking structural reforms in a number of markets, the UK bank levy and the US Foreign Account Tax Compliance Act. In particular, the outcome of discussions on the European Union's Capital Requirements Directive IV (CRD IV) and Over The Counter (OTC) Derivative reforms across our markets will potentially have a material impact on the Group and its business model. Proposed changes could also adversely affect economic growth, the volatility and liquidity of the financial markets and, consequently, the way we conduct business and manage capital and liquidity. These effects may directly or indirectly impact our financial performance. Despite these concerns, we remain a highly liquid and well capitalised bank.

It is in the wider interest to have a well run financial system, and we are supportive of a tighter regulatory regime which enhances the resilience of the international financial system. The Group will continue to participate in the regulatory debate through responses to consultations and working towards an improved and workable regulatory architecture. We are also encouraging our international regulators to work together to develop coordinated approaches to regulating and resolving cross border banking groups. We support changes to laws, regulations and codes of practice that will improve the overall stability of, and the conduct within the financial system because this provides benefits to our customers, clients and shareholders. However, we also have concerns that certain proposals may not achieve this desired objective and may have unintended consequences, either individually or in terms of aggregate impact.

The Group seeks to comply with all applicable laws and regulations but may be subject to regulatory actions and investigations across our markets, the outcome of which are generally difficult to predict and can be material to the Group. The Group seeks to co-operate with regulators in response to requests for information, inquiries and investigations and takes remedial actions as necessary. Regulators and other agencies in certain markets are conducting investigations or reviews into submissions made to set various market interest rates and other benchmarks. Certain of the Group's branches and subsidiaries were (and are) submitting data to bodies that set such rates and benchmarks.

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

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

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

Financial markets dislocation

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

We closely monitor the performance of our financial institution counterparties and adjust our exposure to these counterparties as necessary. We maintain robust processes to access the appropriateness and suitability of products and services we provide to clients and customers to mitigate the risk of disputes.

Geopolitical events

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

We actively monitor the political situation in all our principal markets, such as the development of events in the Middle East and territorial disputes in North East Asia. We conduct stress tests of the impact of extreme but plausible geopolitical events on our performance and the potential for such events to jeopardise our ability to operate within our stated risk appetite. Further details on stress testing are given detailed on page 20.

Risk of fraud

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

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

Exchange rate movements

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

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

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

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

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

Risk management

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

Risk management framework

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

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

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

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

Risk governance

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

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

The BRC receives regular reports on risk management, including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference. The BRC also conducts 'deep dive reviews' on a rolling basis of different sections of consolidated group risk information report.

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

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

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

The Court is the highest executive body of the Group and its terms of reference are approved by the Board of Standard Chartered PLC. The Court delegates authority for the management of risk to the GRC and the GALCO.

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

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

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

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

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

- First line of defence: All employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities. Business, function and geographic governance heads are accountable for risk management in their respective businesses and functions, and for countries where they have governance responsibilities.
- Second line of defence: This comprises the Risk Control Owners, supported by their respective control functions. Risk Control Owners are responsible for ensuring that the risks within the scope of their responsibilities remain within appetite. The scope of a Risk Control Owner's responsibilities is defined by a given Risk Type and the risk management processes that relate to that Risk Type. These responsibilities cut across the Group and are not constrained by functional, business and geographic boundaries. The major risk types are described individually in the following sections.
- Third line of defence: The independent assurance provided by the Group Internal Audit (GIA) function. Its role is defined and overseen by the Audit Committee.

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

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

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

The role of the Risk function is:

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

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

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

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

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

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

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

Our quantitative risk profile is assessed through a bottom-up analytical approach covering all of our major businesses, countries and products. It is also assessed against a range of exposure concentration thresholds.

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

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

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

Stress testing

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

Our stress testing framework is designed to:

- Contribute to the setting and monitoring of risk appetite
- Identify key risks to our strategy, financial position, and reputation
- Support the development of mitigating actions and contingency plans
- Ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing
- Ensure adherence to regulatory requirements.

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

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

Stress tests are also performed at country and business level.

Credit risk management

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

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework. The Group manages its credit exposures following the principle of diversification across products, geographies, client and customer segments.

Credit policies

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

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

Credit rating and measurement

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

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

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

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

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

IRB risk measurement models are approved by the responsible risk committee, on the recommendation of the Group Model Assessment Committee (MAC). The MAC supports risk committees in ensuring risk identification and measurement capabilities are objective and consistent, so that risk control and risk origination decisions are properly informed. Prior to review by the MAC, all IRB models are validated in detail by a model validation team, which is separate from the teams that develop and maintain the models. Models undergo annual periodic review. Reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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. The requirement for collateral is however not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

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

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

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

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

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

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

For derivative contracts, we limit our exposure to credit losses in the event of default by entering into master netting agreements with certain counterparties. As required by IAS 32, exposures are only presented net in the financial statement if there is a legal right to offset and the assets/liabilities will be settled simultaneously.

In addition, we enter into Credit Support Annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Further details on CSAs are set out on page 23.

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.

Credit portfolio

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

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

The Group's maximum exposure to credit risk has increased by $29.2 billion when compared to 2011. Exposure to loans and advances to banks and customers has increased by $19.7 billion since 2011 due to growth in the consumer unsecured lending portfolio in Consumer Banking and broad based growth across several industry sectors in Wholesale Banking. Further details of the loan portfolio are set out on page 24. The Group's credit risk exposure arising from derivatives has decreased by $9.0 billion when compared to 2011.

	Group		Company	
	2012	2011	**2012**	2011
	$million	$million	**$million**	$million
Derivative financial instruments	**49,496**	58,567	**47,443**	56,929
Loans and advances to customers	**288,863**	271,778	**142,822**	128,051
Loans and advances to banks	**69,154**	66,548	**38,024**	37,538
Investment securities[1]	**114,313**	100,419	**52,504**	45,113
Contingent liabilities	**44,449**	42,880	**34,248**	32,087
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	**56,697**	52,700	**33,360**	27,368
Documentary credits and short term trade-related transactions	**7,752**	8,612	**4,808**	5,759
Forward asset purchases and forward deposits placed	**711**	733	**-**	-
	631,435	602,237	**353,209**	332,845

[1] Excludes equity shares.

Credit risk mitigation
Loans and advances
The Group holds collateral against loans and advances to customer and banks of $140 billion (2011: $142 billion). Further details of collateral held by businesses and held for past due and individually impaired loans are set on pages 29.

The Group has transferred to third parties by way of securitisation the rights to any collection of principal and interest on customer loan assets with a face value of $1,321 million (2011: $2,212 million). The Group continues to recognise these assets in addition to the proceeds and related liability of $1,093 million (2011: $1,843 million) arising from the securitisations. The Group considers the above customer loan assets to be encumbered. Further details of encumbered assets are provided on page 73.

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $22.1 billion (2011: $20.3 billion). These credit default swaps are accounted for as guarantees. The Group continues to hold the underlying assets referenced in the credit default swaps as it continues to be exposed to related credit and foreign exchange risk on these assets. Further details of the transactions as set out in the special purposes entity note 43 of the financial statement on page 190.

The Company holds collateral against loans and advances to customer and banks of $65 billion (2011: $65 billion). Further details of collateral held by businesses and held for past due and individually impaired loans are set on pages 29.

The Company has transferred to third parties by way of securitisation the rights to any collection of principal and interest on customer loan assets with a face value of $54 million (2011: $248 million). The Company continues to recognise these assets in addition to the proceeds and related liability of $52 million (2011: $71 million) arising from the securitisations. The Company considers the above customer loan assets to be encumbered. Further details of encumbered assets are provided on page 74.

The Company has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $22.1 billion (2011: $20.3 billion). The Company continues to hold the underlying assets referenced in the credit default swaps as it continues to be exposed to related credit and foreign exchange risk on these assets. Further details of the transactions as set out in the special purposes entity note 43 of the financial statement on page 190.

Derivatives financial instruments
With respect to derivatives the Group enters into master netting arrangements which result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions. At 31 December 2012 $35,073 million (2011: $40,605 million) is available for offset as a result of master netting agreements.

The Group holds cash collateral against derivative and other financial instruments of $3,245 million (2011: $3,145 million) as disclosed in note 31 on page 168.

Cash collateral includes collateral called under a variation margin process from counterparties if total uncollateralised mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is reciprocal and requires us to post collateral if the overall mark-to-market values of positions is in the counterparty's favour and exceeds an agreed threshold. The Group holds $2,700 million (2011: $2,452 million) under CSAs.

With respect to derivatives the Company enters into master netting arrangements which result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions. At 31 December 2012 $34,633 million (2011: $37,907 million) is available for offset as a result of master netting agreements.

The Company holds cash collateral against derivative and other financial instruments of $2,881 million (2011: $2,920 million) as disclosed in note 31 on page 168.

Included within the above is additional collateral called under a variation margin process. 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 Company holds $2,361 million (2011: $2,135 million) under CSAs.

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 as well as the case of letters of credit holding legal title to the underlying assets should a default take place.

Loan portfolio - Group

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

A more detailed analysis is set out for Consumer Banking on pages 34 to 44 and Wholesale Banking on pages 44 to 56.

Geographic analysis

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

Geographic analysis - Group

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Consumer Banking	31,324	27,567	28,587	29,161	5,190	5,418	1,710	3,919	132,876
Wholesale Banking	21,515	28,321	7,710	24,336	6,827	14,672	6,327	47,023	156,731
Portfolio impairment provision	(74)	(47)	(132)	(188)	(39)	(138)	(63)	(63)	(744)
Total loans and advances to customers[1,2]	52,765	55,841	36,165	53,309	11,978	19,952	7,974	50,879	288,863
Total loans and advances to banks[1,2]	19,356	6,205	4,633	8,720	571	3,172	378	26,119	69,154

	2011								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[3] $million	India $million	Middle East & Other S Asia $million	Africa[3] $million	Americas UK & Europe $million	Total $million
Consumer Banking	27,554	24,014	31,546	27,913	4,830	4,615	1,341	3,437	125,250
Wholesale Banking	23,432	24,815	6,646	23,890	6,407	13,957	6,002	42,139	147,288
Portfolio impairment provision	(72)	(41)	(126)	(184)	(84)	(138)	(49)	(66)	(760)
Total loans and advances to customers[1,2,3]	50,914	48,788	38,066	51,619	11,153	18,434	7,294	45,510	271,778
Total loans and advances to banks[1,2,3]	19,097	7,301	3,777	8,305	362	2,426	638	24,642	66,548

1 Amounts are net of impairment provision and include financial instruments held at fair value through profit or loss (see note 15 on page 122)

2 Loans and advances to customers in the above table are presented on the basis of the booking location of the loan. The analysis of loans and advances by geography presented on page 108 in note 2 of the financial statements present loans based on the location of the customers.

3 Amounts have been restated as explained in note 46.

Geographic analysis - Company

Loans and advances to customers have grown by $14.8 billion since 2011 to $142.8 billion. Compared to 2011, the Consumer Banking Portfolio has grown by $5.0 billion or 13.5 per cent, mainly due to increased unsecured loan lending. Growth in the Wholesale Banking customer portfolio was $9.7 billion or 10.6 per cent, since 2011. Exposure to bank counterparties has grown by $0.5 billion since 2011 to $38.0 billion. We remain highly liquid and a net lender to the interbank money market.

	2012						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Consumer Banking	27,567	1,579	5,062	4,955	15	2,857	42,035
Wholesale Banking	28,321	4,793	6,590	13,648	1,641	46,100	101,093
Portfolio impairment provision	(47)	(31)	(37)	(125)	(3)	(63)	(306)
Total loans and advances to customers[1]	55,841	6,341	11,615	18,478	1,653	48,894	142,822
Total loans and advances to banks[1]	6,205	2,246	560	3,131	115	25,767	38,024

	2011						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Consumer Banking	24,014	1,513	4,706	4,126	19	2,656	37,034
Wholesale Banking	24,815	3,979	6,226	12,862	1,498	41,984	91,364
Portfolio impairment provision	(41)	(32)	(82)	(124)	(2)	(66)	(347)
Total loans and advances to customers[1,2]	48,788	5,460	10,850	16,864	1,515	44,574	128,051
Total loans and advances to banks[1,2]	7,224	3,320	343	2,286	136	24,229	37,538

1 Amounts include financial instruments held at fair value through profit or loss (see Note 15 on page 122).
2 Amounts have been restated as explained in note 46.

Maturity analysis - Group

Approximately half of our loans and advances to customers are short-term having a contractual maturity of one year or less. The Wholesale Banking portfolio remains predominantly short-term, with 62 per cent (2011: 64 per cent) of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 55 per cent (2011: 58 per cent) of the portfolio is in the mortgage book, which is traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer terms in the normal course of business.

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

	2011			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Consumer Banking[1]	33,679	25,844	65,727	125,250
Wholesale Banking	94,827	42,588	9,873	147,288
Portfolio impairment provision				(760)
				271,778

1 Amounts have been restated as explained in note 46.

Maturity Analysis – Company

Approximately 53 per cent of the Company's loans and advances to customers are short-term having a contractual maturity of one year or less. The Wholesale Banking portfolio remains predominantly short-term, with 59 per cent (2011: 61 per cent) of loans and advances having a contractual maturity of one year or less. In Consumer Banking 45 per cent (2011: 43 per cent) of the portfolio is in the mortgage book, which is traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer term in the normal course of business.

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

	2012			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Consumer Banking	16,662	5,318	20,055	42,035
Wholesale Banking	59,254	31,426	10,413	101,093
Portfolio impairment provision				(306)
				142,822

	2011			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Consumer Banking[1]	14,061	6,709	16,264	37,034
Wholesale Banking	55,980	27,143	8,241	91,364
Portfolio impairment provision				(347)
				128,051

[1] Amounts have been restated as explained in note 46.

Credit quality analysis – Group

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

Most of the Group's loans to banks are in the credit grade 1-5 category as we lend in the interbank market to highly rated counterparties. Exposure in the credit grade 6-8 category predominantly relates to trade finance business with financial institutions in our core markets.

As at 31 December 2012 5.9 per cent of the Wholesale Banking loans to customers are either past due or individually impaired up from 2.8 per cent in 31 December 2011. Loans past due less than 30 days are $1.6 billion and increased by $1.0 billion mainly in Hong Kong and UAE. The majority of these exposures were repaid or renegotiated shortly after the year-end.

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

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

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

	2012				2011			
	Loans to banks	**Loans to customers – Wholesale Banking**	**Loans to customers – Consumer Banking**	**Total loans to customers**	Loans to banks	Loans to customers – Wholesale Banking	Loans to customers – Consumer Banking	Total loans to customers
	$million	**$million**	**$million**	**$million**	$million	$million	$million	$million
Neither past due nor individually impaired loans								
- Grades 1-5	**59,696**	**63,274**	**59,280**	**122,554**	54,837	59,755	55,965	115,720
- Grades 6-8	**7,762**	**62,368**	**41,833**	**104,201**	10,432	60,162	40,238	100,400
- Grades 9-11	**1,457**	**22,272**	**23,597**	**45,869**	980	22,925	22,579	45,504
- Grade 12	**32**	**1,400**	**2,689**	**4,089**	76	1,674	1,835	3,509
	68,947	**149,314**	**127,399**	**276,713**	66,325	144,516	120,617	265,133
Past due but not individually impaired loans								
- Up to 30 days past due	**3**	**1,602**	**3,832**	**5,434**	75	577	3,187	3,764
- 31 - 60 days past due	**-**	**115**	**515**	**630**	-	129	477	606
- 61 - 90 days past due	**-**	**3,058**	**238**	**3,296**	-	203	217	420
- 91 - 150 days past due	**-**	**-**	**216**	**216**	-	-	154	154
	3	**4,775**	**4,801**	**9,576**	75	909	4,035	4,944
Individually impaired loans	**309**	**4,437**	**1,249**	**5,686**	232	3,262	1,089	4,351
Individual impairment provisions	**(103)**	**(1,795)**	**(573)**	**(2,368)**	(82)	(1,399)	(491)	(1,890)
Net individually impaired loans	**206**	**2,642**	**676**	**3,318**	150	1,863	598	2,461
Total loans and advances	**69,156**	**156,731**	**132,876**	**289,607**	66,550	147,288	125,250	272,538
Portfolio impairment provision	**(2)**	**(309)**	**(435)**	**(744)**	(2)	(326)	(434)	(760)
	69,154	**156,422**	**132,441**	**288,863**	66,548	146,962	124,816	271,778
Of which, held at fair value through profit or loss:								
Neither past due nor individually impaired								
- Grades 1-5	**555**	**1,237**	**-**	**1,237**	217	1,599	-	1,599
- Grades 6-8	**219**	**3,048**	**-**	**3,048**	351	2,651	-	2,651
- Grades 9-11	**-**	**692**	**-**	**692**	-	563	-	563
- Grade 12	**-**	**1**	**-**	**1**	-	175	-	175
	774	**4,978**	**-**	**4,978**	568	4,988	-	4,988

Credit quality analysis - Company

	2012				2011			
	Loans to banks $million	Loans to customers – Wholesale Banking $million	Loans to customers – Consumer Banking $million	Total loans to customers $million	Loans to banks $million	Loans to customers – Wholesale Banking $million	Loans to customers – Consumer Banking $million	Total loans to customers $million
Neither past due nor individually impaired loans								
- Grades 1-5	29,383	40,693	17,665	58,358	27,440	36,567	13,635	50,202
- Grades 6-8	7,332	40,360	16,185	56,545	9,157	37,770	15,849	53,619
- Grades 9-11	1,162	13,270	4,896	18,166	800	13,859	5,358	19,217
- Grade 12	32	949	1,697	2,646	75	1,367	747	2,114
	37,909	95,272	40,443	135,715	37,472	89,563	35,589	125,152
Past due but not individually impaired loans								
- Up to 30 days past due	1	606	1,227	1,833	13	224	1,034	1,258
- 31 - 60 days past due	-	52	161	213	-	69	182	251
- 61 - 90 days past due	-	2,921	64	2,985	-	4	80	84
- 91 - 150 days past due	-	-	67	67	-	-	66	66
	1	3,579	1,519	5,098	13	297	1,362	1,659
Individually impaired loans	139	3,383	233	3,616	58	2,359	241	2,600
Individual impairment provisions	(24)	(1,141)	(160)	(1,301)	(4)	(855)	(158)	(1,013)
Net individually impaired loans	115	2,242	73	2,315	54	1,504	83	1,587
Total loans and advances	38,025	101,093	42,035	143,128	37,539	91,364	37,034	128,398
Portfolio impairment provision	(1)	(192)	(114)	(306)	(1)	(216)	(131)	(347)
	38,024	100,901	41,921	142,822	37,538	91,148	36,903	128,051
Of which, held at fair value through profit or loss:								
Neither past due nor individually impaired								
- Grades 1-5	555	1,166	-	1,166	215	1,527	-	1,527
- Grades 6-8	219	3,037	-	3,037	351	2,526	-	2,526
- Grades 9-11	-	637	-	637	-	562	-	562
- Grade 12	-	-	-	-	-	163	-	163
	774	4,840	-	4,840	566	4,778	-	4,778

Collateral – Group

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. In determining the financial effect of collateral held against loans neither past due or impaired, we have assessed the significance of the collateral held in relation to the type of lending.

For loans and advances to banks and customer (including those held at fair value through profit or loss), the table below sets out the fair value of collateral held by the Group adjusted where appropriate in accordance with the risk mitigation policy as outlined on page 23 and for the effect of over-collateralisation.

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

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

Further details on collateral are explained in Consumer Banking and Wholesale Banking sections on page 38 and 53 respectively.

	Consumer Banking			Wholesale Banking			Total		
	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans
	$million	$million	$million	$million	$million	$million	$million	$million	$million
As at 31 December 2012									
Collateral	**88,119**	**2,802**	**570**	**51,594**	**1,823**	**591**	**139,713**	**4,625**	**1,161**
Amount outstanding[1]	**132,876**	**4,801**	**1,249**	**225,887**	**4,778**	**4,746**	**358,763**	**9,579**	**5,995**
As at 31 December 2011									
Collateral	88,471	2,481	568	53,790	328	459	142,261	2,809	1,027
Amount outstanding[1]	125,250	4,035	1,089	213,838	984	3,494	339,088	5,019	4,583

[1] Includes loans at fair value through profit or loss amounts.

Collateral – Company

	Consumer Banking			Wholesale Banking			Total		
	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans
	$million	$million	$million	$million	$million	$million	$million	$million	$million
As at 31 December 2012									
Collateral	**28,208**	**947**	**149**	**36,941**	**1,174**	**476**	**65,149**	**2,121**	**625**
Amount outstanding[1]	**42,035**	**1,519**	**233**	**139,118**	**3,580**	**3,522**	**181,153**	**5,099**	**3,755**
As at 31 December 2011									
Collateral	27,943	669	163	36,693	71	291	64,636	740	454
Amount outstanding[1]	37,034	1,362	241	128,903	310	2,417	165,937	1,672	2,658

[1] Includes loans at fair value through profit or loss amounts.

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 2012 and 31 December 2011:

Group

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

Company

	2012			2011		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Property	2	-	2	6	-	6
Other	3	-	3	2	-	2
	5	-	5	8	-	8

Problem credit management and provisioning

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and advances. Individually impaired loans are those loans against which individual impairment provisions have been raised. The Group's accounting policy on loan loss provisioning is discussed in note 1 on page 98.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the balance sheet date are determined on a portfolio basis, which takes into account past loss experience as a result of uncertainties arising from the economic environment, and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

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

Non-performing loans

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

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

The gross non-performing loans in Consumer Banking have increased by 18 per cent since 31 December 2011 mainly reflecting the shift in mix towards unsecured lending, the impact of the Personal Debt Rehabilitation Scheme (PDRS) regulation in Korea and seasoning of the loan portfolio. In Wholesale Banking, non-performing loans have increased by $1.2 billion mainly due to a small number of large exposures in India and UAE. The table below presents a summary of the non-performing loans and cover ratio for Consumer Banking and Wholesale Banking. Further details by geography are set out in pages 41 and 53 for Consumer Banking and Wholesale Banking respectively.

Group

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

Company

	2012		2011	
	Consumer Banking	Wholesale Banking	Consumer Banking	Wholesale Banking
	$million	$million	$million	$million
Gross non-performing loans	301	3,101	320	2,034
Individual impairment provisions	(159)	(1,164)	(158)	(861)
Portfolio impairment provision	(114)	(193)	(131)	(216)
Cover ratio (%)	91%	44%	90%	53%

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

Individual and portfolio impairment provisions

Individual impairment provision increased by $499 million as compared to 31 December 2011. This was primarily in India ($158 million increase), UAE ($201 million increase) as a result of a small number of Wholesale banking exposures and in Korea ($110 million increase) due to higher levels of filings under the Personal Debt Rehabilitation Scheme (PDRS). Portfolio impairment provision fell $16 million primarily due to the release of an additional Portfolio impairment provision in India which was created in 2011 in respect of market uncertainty.

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

Group

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

Company

	2012			2011		
	Individual impairment provisions	Portfolio impairment provision	Total	Individual impairment provisions	Portfolio impairment provision	Total
	$million	$million	$million	$million	$million	$million
At 1 January	1,017	348	1,365	865	362	1,227
Exchange translation differences	(9)	(1)	(10)	(25)	(9)	(34)
Amounts written off	(324)	-	(324)	(377)	-	(377)
Recoveries of amounts previously written off	100	-	100	75	-	75
Discount unwind	(42)	-	(42)	(36)	-	(36)
New provisions	724	39	763	607	49	656
Recoveries/provisions no longer required	(141)	(79)	(220)	(92)	(54)	(146)
Net charge/(release) against profit	583	(40)	543	515	(5)	510
Provisions held at 31 December	1,325	307	1,632	1,017	348	1,365

Group

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

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

Forbearance and other renegotiated loans

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

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

The Group's impairment policy requires higher impairment charges for loans subject to forbearance than for fully performing assets. A discount provision is raised if there is a shortfall when comparing the present value of future cash flows under the revised terms and the carrying value of the loan before restructuring.

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

At 31 December 2012, $769 million (2011: $708 million) of Consumer Banking loans were subject to forbearance programmes, which required impairment provisions to be recognised. This represents 0.6 per cent of total loans and advances to Consumer Banking customers. These loans were largely concentrated in countries that have active government sponsored forbearance programmes. Provision coverage against these loans was 12 per cent (2011: 17 per cent), reflecting collateral held and expected recovery rates.

At 31 December 2012 the Company had $181 million (2011: $180 million) of Consumer Banking loans being subject to forbearance programmes, which represents 0.4 per cent of total loans and advances to Consumer Banking customers. These loans were largely concentrated in countries that have active Government sponsored forbearance programmes. Provision coverage against these loans was 12 per cent (2011: 17 per cent), reflecting collateral held and expected recovery rates.

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

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

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

If the terms of the restructure are such that an independent party in the same geographic area would not be prepared to provide financing on substantially the same terms and conditions, or where the present value of the new cash flows is lower than the present value of the original cash flows, the loan would be considered to be impaired and at a minimum a discount provision would be raised. These accounts are monitored as described on page 21.

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

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

Consumer Banking loan portfolio

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

Geographic analysis – Group

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

2011	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans to individuals									
Mortgages[1]	19,245	12,076	20,835	15,905	2,062	1,486	216	749	72,574
Other	5,558	8,909	6,098	6,218	626	2,388	962	2,686	33,445
Small and medium enterprises	2,751	3,029	4,613	5,790	2,142	741	163	2	19,231
	27,554	24,014	31,546	27,913	4,830	4,615	1,341	3,437	125,250
Portfolio impairment provision	(45)	(22)	(101)	(159)	(21)	(63)	(19)	(4)	(434)
Total loans and advances to customers	27,509	23,992	31,445	27,754	4,809	4,552	1,322	3,433	124,816

[1] Amounts have been restated as explained in note 46.

Geographic analysis – Company

Compared to 2011, the Consumer Banking Portfolio has grown by $5.0 billion or 14 per cent. The proportion of mortgages in the Company Banking Portfolio is lower than the Group proportion at 45 per cent. SME Lending has grown by $0.3 billion or 5 per cent.

2012	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans to individuals							
Mortgages	14,278	203	2,228	1,585	15	547	18,856
Other	10,038	1,006	761	2,728	-	2,308	16,841
Small and medium enterprises	3,251	370	2,073	642	-	2	6,338
	27,567	1,579	5,062	4,955	15	2,857	42,035
Portfolio impairment provision	(26)	(24)	(20)	(41)	-	(3)	(114)
Total loans and advances to customers	27,541	1,555	5,042	4,914	15	2,854	41,921

Geographic analysis - Company continued

	2011						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans to individuals							
Mortgages[1]	12,076	145	2,006	1,433	19	242	15,921
Other	8,909	950	573	2,221	-	2,412	15,065
Small and medium enterprises	3,029	418	2,127	472	-	2	6,048
	24,014	1,513	4,706	4,126	19	2,656	37,034
Portfolio impairment provision	(22)	(26)	(20)	(60)	-	(3)	(131)
Total loans and advances to customers	23,992	1,487	4,686	4,066	19	2,653	36,903

[1] Amounts have been restated as explained in note 46.

Maturity analysis - Group

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

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

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

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

[1] Amounts have been restated as explained in note 46.

Maturity Analysis - Company

	2012			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	611	1,772	16,473	18,856
Other	13,418	2,593	830	16,841
Small and medium enterprises	2,633	953	2,752	6,338
	16,662	5,318	20,055	42,035
Portfolio impairment provision				(114)
				41,921

	2011			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages[1]	319	2,871	12,731	15,921
Other	11,073	2,919	1,073	15,065
Small and medium enterprises	2,669	919	2,460	6,048
	14,061	6,709	16,264	37,034
Portfolio impairment provision				(131)
				36,903

[1] Amounts have been restated as explained in note 46.

Credit quality analysis - Group

The tables below set out the loan portfolio for Consumer Banking by product and by geography between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired for Consumer Banking. The overall credit quality of the portfolio remains good with over 95 per cent of the portfolio neither past due nor impaired. The mortgage portfolio is well collateralised and has an average loan to value ratio of 47.8 per cent.

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

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

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

Credit quality analysis - Group continued

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

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

Credit quality analysis - Company

	2012				2011			
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired loans $million	Total $million	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired loans $million	Total $million
Loans to individuals								
Mortgages	18,407	418	98	18,923	15,567	316	103	15,986
Other	16,062	759	42	16,863	14,306	751	27	15,084
Small and medium enterprises	5,974	342	93	6,409	5,716	295	111	6,122
	40,443	1,519	233	42,195	35,589	1,362	241	37,192
Individual impairment provisions				(160)				(158)
Portfolio impairment provision				(114)				(131)
Total loans and advances				41,921				36,903

	2012						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Neither past due nor individually impaired	26,955	1,544	4,710	4,428	13	2,793	40,443
Past due but not individually impaired loans	569	34	331	519	1	65	1,519
Individually impaired loans	58	6	50	117	2	-	233
Individual impairment provisions	(15)	(5)	(29)	(109)	(2)	-	(160)
Portfolio impairment provision	(26)	(24)	(20)	(41)	1	(4)	(114)
Total loans and advances	27,541	1,555	5,042	4,914	15	2,854	41,921

Credit quality analysis - Company continued

	2011						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Neither past due nor individually impaired	23,478	1,456	4,383	3,601	15	2,656	35,589
Past due but not individually impaired loans	515	50	296	498	3	-	1,362
Individually impaired loans	35	13	59	130	4	-	241
Individual impairment provisions	(14)	(5)	(32)	(104)	(3)	-	(158)
Portfolio impairment provision	(22)	(27)	(20)	(59)	-	(3)	(131)
Total loans and advances	23,992	1,487	4,686	4,066	19	2,653	36,903

Credit mitigation

A secured loan is one where borrower pledges an asset as collateral which the Group is able to take possession of in the event that the borrower defaults. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. Other secured loans are considered to be partially secured. Within Consumer Banking, 72 per cent of lending is fully secured and 10 per cent was partially secured. The following tables present an analysis of Consumer Banking loans by product split between fully secured, partially secured and unsecured.

Secured and unsecured loans

Group

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

Company

	2012				2011			
	Fully Secured	Partially secured	Unsecured	Total	Fully Secured	Partially secured	Unsecured	Total
	$million	$million	$million	$million	$million	$million	$million	$million
Loans to individuals								
Mortgages	18,856	-	-	18,856	15,921	-	-	15,921
Other	11,529	-	5,312	16,841	11,385	-	3,680	15,065
Small and medium enterprises	2,219	3,283	836	6,338	1,028	3,207	1,813	6,048
	32,604	3,283	6,148	42,035	28,334	3,207	5,493	37,034
Per centage of total loans	78%	8%	14%		77%	8%	15%	

Mortgage loans to value ratios by geography

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

Group

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

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

Company

	2012						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Less than 50 per cent	**52.5**	**37.9**	**55.8**	**24.1**	**30.0**	**1.1**	**54.4**
50 per cent to 59 per cent	**18.4**	**19.1**	**15.4**	**15.9**	**13.6**	**98.9**	**17.9**
60 per cent to 69 per cent	**13.8**	**21.0**	**12.7**	**17.3**	**20.0**	**-**	**14.4**
70 per cent to 79 per cent	**12.7**	**14.5**	**10.5**	**13.3**	**17.7**	**-**	**8.4**
80 per cent to 89 per cent	**2.6**	**5.9**	**4.7**	**8.0**	**16.7**	**-**	**3.6**
90 per cent to 99 per cent	**-**	**1.3**	**0.9**	**5.2**	**1.2**	**-**	**0.8**
100 per cent and greater	**-**	**0.3**	**-**	**16.2**	**0.8**	**-**	**0.5**
Average Portfolio loan to value	**46.1**	**54.1**	**45.6**	**72.1**	**50.1**	**53.9**	**47.8**
Loans to individuals - Mortgages ($ million)	**14,278**	**203**	**2,228**	**1,585**	**15**	**547**	**18,856**

	2011						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Less than 50 per cent	54.7	31.6	53.8	19.2	27.5	1.8	49.0
50 per cent to 59 per cent	17.9	18.0	17.3	11.5	13.1	91.4	22.2
60 per cent to 69 per cent	15.8	19.6	13.9	14.9	17.7	6.8	15.0
70 per cent to 79 per cent	9.2	20.2	10.2	16.0	18.1	-	8.8
80 per cent to 89 per cent	2.4	8.9	3.4	7.4	17.9	-	3.4
90 per cent to 99 per cent	-	1.3	1.4	6.0	4.1	-	0.8
100 per cent and greater	-	0.4	-	25.0	1.6	-	0.8
Average Portfolio loan to value	45.0	57.3	45.8	82.1	71.7	57.8	49.0
Loans to individuals - Mortgages ($ million)	12,076	145	2,006	1,433	19	242	15,921

Problem credit management and provisioning

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

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

For the main unsecured products and loans secured by automobiles, the entire outstanding amount is generally written off at 150 days past due. Unsecured consumer finance loans are similarly written off at 90 days past due. For secured loans (other than those secured by automobiles) individual impairment provisions (IIPs) are generally raised at either 150 days (Mortgages) or 90 days (Wealth Management) past due.

The provisions are based on the estimated present values of future cashflows, in particular those resulting from the realisation of security. Following such realisation any remaining loan will be written off. The days past due used to trigger write offs and IIPs are broadly driven by past experience, which shows that once an account reaches the relevant number of days past due, the probability of recovery (other than by realising security where appropriate) is low. For all products there are certain situations where the individual impairment provisioning or write off process is accelerated, such as in cases involving bankruptcy, customer fraud and death. Write off and IIPs are accelerated for all restructured accounts to 90 days past due (unsecured and automobile finance) and 120 days past due (secured) respectively. Individually impaired loans for Consumer Banking will therefore not equate to those reported as non-performing on page 42, 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 53).

Loan Impairment

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

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

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

Non-performing loans

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

The cover ratio is a common metric used in considering trends in provisioning and non-performing loans. It should be noted, as explained above, a significant proportion of the PIP is intended to reflect losses inherent in the loan portfolio that is less than 90 days delinquent and hence recorded as performing. This metric should be considered in conjunction with other credit risk information including that contained in page 30.

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

Group

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances									
Gross non-performing	67	70	376	369	65	253	26	65	1,291
Individual impairment provisions[1]	(24)	(14)	(141)	(107)	(29)	(165)	(12)	(40)	(532)
Non-performing loans net of individual impairment provisions	43	56	235	262	36	88	14	25	759
Portfolio impairment provision									(435)
Net non-performing loans and advances									324
Cover ratio									75%

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

	2011								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances									
Gross non-performing	48	52	194	345	72	291	28	66	1,096
Individual impairment provisions[1]	(17)	(14)	(68)	(113)	(32)	(159)	(16)	(39)	(458)
Non-performing loans net of individual impairment provisions	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 2012 reflect provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days.

Company

	2012						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances							
Gross non-performing	70	24	63	142	2	-	301
Individual impairment provisions	(14)	(4)	(29)	(110)	(2)	-	(159)
Non-performing loans net of individual impairment provisions	56	20	34	32	-	-	142
Portfolio impairment provision							(114)
Net non-performing loans and advances							28
Cover ratio							91%

	2011						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances							
Gross non-performing	52	25	70	168	5	-	320
Individual impairment provisions	(14)	(5)	(32)	(104)	(3)	-	(158)
Non-performing loans net of individual impairment provisions	38	20	38	64	2	-	162
Portfolio impairment provision							(131)
Net non-performing loans and advances							31
Cover ratio							90%

Movement in non-performing loans

The following table sets out the movement in individually impaired loans renegotiated loans and the total non-performing loans. Renegotiated loans can be excluded from the definition of non-performing loans if certain specific criteria are met as explained on page 30.

Group

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

Company

	2012			2011		
	Individually impaired loans $million	Renegotiated loans $million	Total non-performing loans $million	Individually impaired loans $million	Renegotiated loans $million	Total non-performing loans $million
At 1 January	307	13	320	384	-	384
Exchange translation difference	(2)	-	(2)	(36)	-	(36)
Additions	102	(10)	92	117	13	130
Maturities and disposals	(107)	(2)	(109)	(158)	-	(158)
At 31 December	300	1	301	307	13	320

The tables below sets out the net impairment charge by geography for Consumer Banking:

Group

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	135	109	289	379	43	122	29	13	1,119
Recoveries/provisions no longer required	(44)	(49)	(72)	(166)	(19)	(52)	(12)	(3)	(417)
Net individual impairment charge	91	60	217	213	24	70	17	10	702
Portfolio impairment provision release									(5)
Net impairment charge									697

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

Impairment provisions on loans and advances

The following table sets out the impairment provision on loans and advances as at 31 December by each principal category of borrower:

	Impairment provision held as at 01 January 2012 $million	Net impairment charge 2012 $million	Amounts written off/ other movements 2012 $million	Impairment provision held as at 31 December 2012 $million
Loans to individuals				
Mortgages	137	14	(13)	138
Other	152	579	(500)	231
Small and medium enterprises	202	109	(107)	204
	491	702	(620)	573
Portfolio impairment provision	434	(5)	6	435
	925	697	(614)	1,008

	Impairment provision held as at 01 January 2011 $million	Net impairment charge 2011 $million	Amounts written off/ other movements 2011 $million	Impairment provision held as at 31 December 2011 $million
Loans to individuals				
Mortgages	128	21	(12)	137
Other	180	412	(440)	152
Small and medium enterprises	198	101	(97)	202
	506	534	(549)	491
Portfolio impairment provision	451	(10)	(7)	434
	957	524	(556)	925

Wholesale Banking loan portfolio

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

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

Single borrower concentration risk has been mitigated by active distribution of assets to banks and institutional investors, some of which is achieved through credit-default swaps and synthetic risk transfer structures (see page 23).

The Wholesale Banking portfolio remains diversified across both geography and industry. There are no significant concentrations within the broad industry classifications of Manufacturing; Financing, insurance and business services; Commerce; or Transport, storage and communication. The largest sector exposure is to manufacturing which is spread across many sub-industries.

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

Geographic analysis - Group

The following tables show loans and advances to customers by industry and by geography split:

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Agriculture, forestry and fishing	54	806	4	469	13	261	785	2,079	4,471
Construction	374	484	487	570	629	1,183	259	659	4,645
Commerce	4,983	11,773	665	4,297	815	4,428	768	6,229	33,958
Electricity, gas and water	510	407	-	561	7	366	251	2,723	4,825
Financing, insurance and business services	2,702	2,184	52	4,514	378	2,295	455	10,149	22,729
Governments	50	790	651	765	2	319	47	630	3,254
Mining and quarrying	700	1,938	-	1,059	394	778	602	9,495	14,966
Manufacturing	6,018	3,845	4,182	9,348	2,864	2,893	2,208	8,941	40,299
Commercial real estate	3,524	2,296	1,354	1,445	1,270	1,082	64	540	11,575
Transport, storage and communication	2,400	3,330	194	1,074	447	965	809	5,411	14,630
Other	200	468	121	234	8	102	79	167	1,379
	21,515	28,321	7,710	24,336	6,827	14,672	6,327	47,023	156,731
Portfolio impairment provision	(24)	(21)	(16)	(35)	(19)	(94)	(41)	(59)	(309)
Total loans and advances to customers[1]	21,491	28,300	7,694	24,301	6,808	14,578	6,286	46,964	156,422
Total loans and advances to banks[1]	19,356	6,205	4,633	8,720	571	3,172	378	26,119	69,154

	2011								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa[1] $million	Americas UK & Europe $million	Total $million
Agriculture, forestry and fishing	356	472	16	473	13	248	823	781	3,182
Construction	345	639	371	668	463	790	237	291	3,804
Commerce	4,858	7,645	439	3,826	547	4,067	851	5,999	28,232
Electricity, gas and water	523	908	-	665	7	300	300	1,771	4,474
Financing, insurance and business services	3,824	4,107	167	4,536	645	3,247	595	8,837	25,958
Governments	-	1,312	11	1,949	2	230	9	2,160	5,673
Mining and quarrying	1,019	1,325	-	841	353	300	333	8,103	12,274
Manufacturing	7,248	2,602	3,818	8,413	2,461	2,604	1,825	7,904	36,875
Commercial real estate	3,136	1,952	1,416	1,332	1,131	681	64	543	10,255
Transport, storage and communication	1,905	3,223	228	929	776	1,257	771	5,607	14,696
Other	218	630	180	258	9	233	194	143	1,865
	23,432	24,815	6,646	23,890	6,407	13,957	6,002	42,139	147,288
Portfolio impairment provision	(27)	(19)	(25)	(25)	(63)	(75)	(30)	(62)	(326)
Total loans and advances to customers[1]	23,405	24,796	6,621	23,865	6,344	13,882	5,972	42,077	146,962
Total loans and advances to banks[1]	19,097	7,301	3,777	8,305	362	2,426	638	24,642	66,548

[1] Amounts have been restated as explained in note 46.

Geographic analysis - Company

	2012						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Agriculture, forestry and fishing	**806**	**178**	**13**	**221**	**512**	**2,079**	**3,809**
Construction	**484**	**137**	**617**	**1,183**	**36**	**659**	**3,116**
Commerce	**11,773**	**304**	**788**	**4,459**	**182**	**6,304**	**23,810**
Electricity, gas and water	**407**	**284**	**7**	**144**	**-**	**2,723**	**3,565**
Financing, insurance and business services	**2,184**	**1,195**	**342**	**2,346**	**40**	**10,074**	**16,181**
Governments	**790**	**60**	**-**	**318**	**-**	**630**	**1,798**
Mining and quarrying	**1,938**	**641**	**394**	**759**	**319**	**9,495**	**13,546**
Manufacturing	**3,845**	**1,426**	**2,759**	**2,178**	**457**	**8,755**	**19,420**
Commercial real estate	**2,296**	**253**	**1,229**	**1,082**	**64**	**540**	**5,464**
Transport, storage and communication	**3,330**	**313**	**435**	**860**	**31**	**4,674**	**9,643**
Other	**468**	**2**	**6**	**98**	**-**	**167**	**741**
Wholesale Banking	**28,321**	**4,793**	**6,590**	**13,648**	**1,641**	**46,100**	**101,093**
Portfolio impairment provision	**(21)**	**(7)**	**(17)**	**(84)**	**(3)**	**(60)**	**(192)**
Total loans and advances to customers[1]	**28,300**	**4,786**	**6,573**	**13,564**	**1,638**	**46,040**	**100,901**
Total loans and advances to banks[1]	**6,205**	**2,246**	**560**	**3,131**	**115**	**25,767**	**38,024**

	2011						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Agriculture, forestry and fishing	472	218	13	208	586	781	2,278
Construction	639	300	442	790	93	291	2,555
Commerce	7,645	344	524	4,117	266	6,001	18,897
Electricity, gas and water	908	312	7	82	-	1,771	3,080
Financing, insurance and business services	4,107	731	625	3,214	59	8,837	17,573
Governments	1,312	120	-	230	-	2,160	3,822
Mining and quarrying	1,325	358	353	277	102	8,103	10,518
Manufacturing	2,602	1,124	2,368	1,893	309	7,895	16,191
Commercial real estate	1,952	73	1,111	681	63	543	4,423
Transport, storage and communication	3,223	358	776	1,143	20	5,459	10,979
Other	630	41	7	227	-	143	1,048
Wholesale Banking	24,815	3,979	6,226	12,862	1,498	41,984	91,364
Portfolio impairment provision	(19)	(6)	(62)	(64)	(2)	(63)	(216)
Total loans and advances to customers	24,796	3,973	6,164	12,798	1,496	41,921	91,148
Total loans and advances to banks	7,224	3,320	343	2,286	136	24,229	37,538

Maturity analysis - Group

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

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

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

	2011			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Agriculture, forestry and fishing	2,607	468	107	3,182
Construction	2,300	1,366	138	3,804
Commerce	23,705	4,114	413	28,232
Electricity, gas and water	1,117	1,649	1,708	4,474
Financing, insurance and business services	16,797	8,818	343	25,958
Governments	4,301	1,372	-	5,673
Mining and quarrying	5,912	3,602	2,760	12,274
Manufacturing	25,704	9,380	1,791	36,875
Commercial real estate	4,146	5,785	324	10,255
Transport, storage and communication	7,267	5,160	2,269	14,696
Other	971	874	20	1,865
Wholesale Banking	94,827	42,588	9,873	147,288
Portfolio impairment provision				(326)
				146,962

Maturity Analysis – Company
The Wholesale Banking portfolio remains predominantly short-term, with 59 per cent (2011: 61 per cent) of loans and advances having a contractual maturity of one year or less.

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

	2012			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Agriculture, forestry and fishing	**2,751**	**903**	**155**	**3,809**
Construction	**2,161**	**790**	**165**	**3,116**
Commerce	**20,783**	**2,713**	**314**	**23,810**
Electricity, gas and water	**1,065**	**615**	**1,885**	**3,565**
Financing, insurance and business services	**9,010**	**6,127**	**1,044**	**16,181**
Governments	**1,538**	**182**	**78**	**1,798**
Mining and quarrying	**5,853**	**5,065**	**2,628**	**13,546**
Manufacturing	**11,874**	**6,431**	**1,115**	**19,420**
Commercial real estate	**1,831**	**3,402**	**231**	**5,464**
Transport, storage and communication	**2,094**	**4,761**	**2,788**	**9,643**
Other	**294**	**437**	**10**	**741**
Wholesale Banking	**59,254**	**31,426**	**10,413**	**101,093**
Portfolio impairment provision				**(192)**
				100,901

	2011			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Agriculture, forestry and fishing	1,878	296	104	2,278
Construction	1,409	1,011	135	2,555
Commerce	16,186	2,417	294	18,897
Electricity, gas and water	346	1,043	1,691	3,080
Financing, insurance and business services	10,320	6,999	254	17,573
Governments	2,688	1,134	-	3,822
Mining and quarrying	4,896	2,865	2,757	10,518
Manufacturing	10,472	4,554	1,165	16,191
Commercial real estate	1,660	2,714	49	4,423
Transport, storage and communication	5,647	3,542	1,790	10,979
Other	478	568	2	1,048
Wholesale Banking	55,980	27,143	8,241	91,364
Portfolio impairment provision				(216)
				91,148

Credit quality analysis - Group

The tables below sets out an analysis of the loans to customers and banks between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired by industry type and by geography.

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

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

Loans past due but not individually impaired increased by $3.9 billion compared to 2011. Of this increase $1.1 billion was in less than 30 days past due category and related to a small number of exposures in UAE (within Construction and Commerce), in Hong Kong (within Mining and Construction) and in Singapore (within Financing, insurance and business services). The remainder of the increase was in the 60 to 90 days past due category and related to the Financing, insurance and business services and Manufacturing sectors in the Americas, UK and Europe. As explained on page 27, a majority of these past due balances related to a small number of exposures and have since been either repaid or renegotiated shortly after the balance-sheet date.

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

Loans to banks remains predominantly high quality and more than 99 percent of the portfolio is neither past due nor impaired.

	2012				2011			
	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired loans $million	Total $million	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired loans $million	Total $million
Agriculture, forestry and fishing	4,364	54	92	4,510	3,089	29	104	3,222
Construction	4,175	309	237	4,721	3,703	40	129	3,872
Commerce	33,369	323	940	34,632	28,018	91	596	28,705
Electricity, gas and water	4,744	4	85	4,833	4,317	155	8	4,480
Financing, insurance and business services	19,115	2,640	1,139	22,894	25,168	74	883	26,125
Governments	3,254	-	-	3,254	5,673	-	-	5,673
Mining and quarrying	14,363	593	19	14,975	12,228	37	10	12,275
Manufacturing	38,932	748	1,191	40,871	36,075	274	1,077	37,426
Commercial real estate	11,403	38	158	11,599	9,991	107	181	10,279
Transport, storage and communication	14,241	43	543	14,827	14,410	77	249	14,736
Other	1,354	23	33	1,410	1,844	25	25	1,894
Wholesale Banking	149,314	4,775	4,437	158,526	144,516	909	3,262	148,687
Individual impairment provisions				(1,795)				(1,399)
Portfolio impairment provision				(309)				(326)
Total loans and advances to customers				156,422				146,962
Loans and advances to banks	68,947	3	309	69,259	66,325	75	232	66,632
Individual impairment provisions				(103)				(82)
Portfolio impairment provision				(2)				(2)
Total loans and advances to banks				69,154				66,548

Credit quality analysis - Company

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

	2012				2011			
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total
	$million	$million	$million	$million	$million	$million	$million	$million
Agriculture, forestry and fishing	3,723	53	52	3,828	2,235	5	51	2,291
Construction	2,840	147	176	3,163	2,470	38	92	2,600
Commerce	23,150	251	834	24,235	18,672	44	472	19,188
Electricity, gas and water	3,533	-	38	3,571	3,076	3	4	3,083
Financing, insurance and business services	12,814	2,469	1,058	16,341	16,885	7	842	17,734
Governments	1,798	-	-	1,798	3,822	-	-	3,822
Mining and quarrying	13,359	186	-	13,545	10,490	20	9	10,519
Manufacturing	18,602	471	640	19,713	15,835	80	576	16,491
Commercial real estate	5,363	-	107	5,470	4,221	97	115	4,433
Transport, storage and communication	9,344	2	476	9,822	10,807	1	196	11,004
Other	746	-	2	748	1,050	2	2	1,054
Wholesale Banking	95,272	3,579	3,383	102,234	89,563	297	2,359	92,219
Individual impairment provisions				(1,141)				(855)
Portfolio impairment provision				(192)				(216)
Total loans and advances to customers				100,901				91,148
Loans and advances to banks	37,909	1	139	38,049	37,472	13	58	37,543
Individual impairment provisions				(24)				(4)
Portfolio impairment provision				(1)				(1)
Total loans and advances to banks				38,024				37,538

Loans to banks

The table below sets out an analysis of the loans and advances to banks between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired by geography.

Group

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Period End Total $million
Neither past due nor individually impaired	19,349	6,205	4,633	8,635	570	3,076	378	26,101	68,947
Past due but not individually impaired loans	2	-	-	-	1	-	-	-	3
Individually impaired loans	5	-	-	164	-	97	-	43	309
Individual impairment provisions	-	-	-	(78)	-	-	-	(25)	(103)
Portfolio Impairment provisions	-	-	-	(1)	-	(1)	-	-	(2)
Total loans and advances	19,356	6,205	4,633	8,720	571	3,172	378	26,119	69,154

	2011								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Period End Total $million
Neither past due nor individually impaired	19,027	7,288	3,777	8,217	362	2,427	637	24,590	66,325
Past due but not individually impaired loans	62	13	-	-	-	-	-	-	75
Individually impaired loans	8	-	-	165	-	-	1	58	232
Individual impairment provisions	-	-	-	(76)	-	-	-	(6)	(82)
Portfolio Impairment provisions	-	-	-	(1)	-	(1)	-	-	(2)
Total loans and advances	19,097	7,301	3,777	8,305	362	2,426	638	24,642	66,548

Company

	2012						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Period End Total $million
Neither past due nor individually impaired	6,205	2,246	559	3,035	115	25,749	37,909
Past due but not individually impaired loans	-	-	1	-	-	-	1
Individually impaired loans	-	-	-	97	-	42	139
Individual impairment provisions	-	-	-	-	-	(24)	(24)
Portfolio Impairment provision	-	-	-	(1)	-	-	(1)
Total loans and advances	6,205	2,246	560	3,131	115	25,767	38,024

	2011						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Period End Total $million
Neither past due nor individually impaired	7,211	3,320	343	2,287	136	24,175	37,472
Past due but not individually impaired loans	13	-	-	-	-	-	13
Individually impaired loans	-	-	-	-	-	58	58
Individual impairment provisions	-	-	-	-	-	(4)	(4)
Portfolio impairment provision	-	-	-	(1)	-	-	(1)
Total loans and advances	7,224	3,320	343	2,286	136	24,229	37,538

The tables below set out an analysis of the loan to customers between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired by geography.

Group

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

	2011								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Neither past due nor individually impaired	23,244	24,752	6,511	23,654	6,130	12,439	5,818	41,968	144,516
Past due but not individually impaired loans	174	10	1	22	104	522	76	-	909
Individually impaired loans	75	114	202	462	249	1,775	154	231	3,262
Individual impairment provisions	(61)	(61)	(68)	(248)	(76)	(779)	(46)	(60)	(1,399)
Portfolio impairment provision	(27)	(19)	(25)	(25)	(63)	(75)	(30)	(62)	(326)
Total loans and advances	23,405	24,796	6,621	23,865	6,344	13,882	5,972	42,077	146,962

Company

	2012						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Period End Total $million
Neither past due nor individually impaired	28,036	4,705	5,950	11,722	1,632	43,227	95,272
Past due but not individually impaired loans	160	3	134	503	-	2,779	3,579
Individually impaired loans	199	197	747	2,103	12	125	3,383
Individual impairment provisions	(74)	(112)	(241)	(680)	(3)	(31)	(1,141)
Portfolio impairment provision	(21)	(7)	(17)	(84)	(3)	(60)	(192)
Total loans and advances	28,300	4,786	6,573	13,564	1,638	46,040	100,901

	2011						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Period End Total $million
Neither past due nor individually impaired	24,752	3,900	5,949	11,660	1,491	41,811	89,563
Past due but not individually impaired loans	10	2	104	180	1	-	297
Individually impaired loans	114	191	249	1,564	10	231	2,359
Individual impairment provisions	(61)	(114)	(76)	(542)	(4)	(58)	(855)
Portfolio impairment provision	(19)	(6)	(62)	(64)	(2)	(63)	(216)
Total loans and advances	24,796	3,973	6,164	12,798	1,496	41,921	91,148

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

Non-tangible collateral – such as guarantees and letters of credit – may also be held against corporate exposures although the financial effect of this type of collateral is less significant in terms of recoveries. However this type of collateral is considered when determining probability of default and other credit related factors.

Problem credit management and provisioning
Loans are classified as impaired and considered non-performing in line with definition on page 30 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.

Loan Impairment
The individual impairment charge increased by $212 million or 64 percent compared to 2011 which is in line with the increase in non-performing loans mentioned below in India and the UAE. Those arose primarily in the Commerce and transport, storage and communication sectors. Portfolio provisions were reduced in some markets in 2012 with a release of sector specific provisions in India. Consequently there was a net portfolio impairment release in 2012 of $22 million compared to a $24 million charge in 2011.

Non-performing loans
Gross non-performing loans in Wholesale Banking have increased by $1.2 billion, or 40 per cent, since December 2011. These increases were primarily driven by a very small number of exposures in India and the UAE. The balance of non-performing loans not covered by individual impairment provisions represents the value of collateral held and the Group’s estimate of the net outcome of any workout strategy. The cover ratio after taking into account collateral is 65 per cent (2011 : 72 per cent).

The cover ratio reflects the extent to which gross non-performing loans are covered by individual and portfolio impairment provisions and was 51 per cent at 31 December 2012, down from 58 per cent at 31 December 2011 largely due to the factors noted above.

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

Group

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances									
Gross non-performing	128	21	261	744	754	2,089	147	165	4,309
Individual impairment provisions[1]	(50)	(14)	(105)	(335)	(240)	(1,061)	(37)	(55)	(1,897)
Non-performing loans net of individual impairment provisions	78	7	156	409	514	1,028	110	110	2,412
Portfolio impairment provision									(311)
Net non-performing loans and advances									2,101
Cover ratio									51%

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

	2011								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Loans and advances									
Gross non-performing	83	18	202	773	260	1,476	146	129	3,087
Individual impairment provisions[1]	(61)	(4)	(68)	(325)	(80)	(811)	(45)	(65)	(1,459)
Non-performing loans net of individual impairment provisions	22	14	134	448	180	665	101	64	1,628
Portfolio impairment provision									(328)
Net non-performing loans and advances									1,300
Cover ratio									58%

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

Company

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Loans and advances							
Gross non-performing	**199**	**115**	**743**	**1,865**	**13**	**166**	**3,101**
Individual impairment provisions	**(74)**	**(79)**	**(240)**	**(713)**	**(3)**	**(55)**	**(1,164)**
Non-performing loans net of individual impairment provisions	**125**	**36**	**503**	**1,152**	**10**	**111**	**1,937**
Portfolio impairment provision							**(193)**
Net non-performing loans and advances							**1,744**
Cover ratio							**44%**

	2011						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Loans and advances							
Gross non-performing	18	192	255	1,265	11	293	2,034
Individual impairment provisions	(4)	(114)	(76)	(595)	(2)	(70)	(861)
Non-performing loans net of individual impairment provisions	14	78	179	670	9	223	1,173
Portfolio impairment provision							(216)
Net non-performing loans and advances							957
Cover ratio							53%

The table below sets out the net impairment charge by geography for Wholesale Banking:

Group

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Gross impairment charge	**23**	**2**	**45**	**49**	**192**	**265**	**2**	**19**	**597**
Recoveries/provisions no longer required	**(5)**	**-**	**(9)**	**(20)**	**(7)**	**(1)**	**(2)**	**(8)**	**(52)**
Net individual impairment charge/(credit)	**18**	**2**	**36**	**29**	**185**	**264**	**-**	**11**	**545**
Portfolio impairment provision charge									**(22)**
Net impairment charge									**523**
Other credit risk provisions									**1**
Total impairment									**524**

	2011								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
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 (credit)/charge	9	21	32	21	34	220	1	(5)	333
Portfolio impairment provision release									24
Net loan impairment charge									357
Other credit risk provisions									27
Total impairment									384

Impairment provisions on loans and advances

The following table sets out the impairment provision on loans and advances by each principal category of borrowers business or industry:

	Impairment provision held as at 01 January 2012	Net impairment charge 2012	Amounts written off/ other movements 2012	Impairment provision held as at 31 December 2012
	$million	$million	$million	$million
Agriculture, forestry and fishing	40	-	(1)	39
Construction	68	19	(11)	76
Commerce	473	136	65	674
Electricity, gas and water	6	-	2	8
Financing, insurance and business services	167	118	(120)	165
Mining and quarrying	1	-	8	9
Manufacturing	551	100	(79)	572
Commercial real estate	24	-	-	24
Transport, storage and communication	40	162	(5)	197
Other	29	4	(2)	31
Individual impairment provision against loans and advances to customers	1,399	539	(143)	1,795
Portfolio impairment provision against loans and advances to customers	326	(22)	5	309
Total impairment provisions on loans and advances to customers	1,725	517	(138)	2,104
Individual impairment provision against loans and advances to banks	82	6	15	103
Portfolio impairment provision against loans and advances to banks	2	-	-	2
Total impairment provisions on loans and advances to banks	84	6	15	105

	Impairment provision held as at 01 January 2011	Net impairment charge 2011	Amounts written off/ other movements 2011	Impairment provision held as at 31 December 2011
	$million	$million	$million	$million
Agriculture, forestry and fishing	42	-	(2)	40
Construction	57	5	6	68
Commerce	467	47	(41)	473
Electricity, gas and water	7	-	(1)	6
Financing, insurance and business services	120	81	(34)	167
Mining and quarrying	1	-	-	1
Manufacturing	558	181	(188)	551
Commercial real estate	23	-	1	24
Transport, storage and communication	23	7	10	40
Other	20	-	9	29
Individual impairment provision against loans and advances to customers	1,318	321	(240)	1,399
Portfolio impairment provision against loans and advances to customers	309	24	(7)	326
Total impairment provisions on loans and advances to customers	1,627	345	(247)	1,725
Individual impairment provision against loans and advances to banks	93	12	(23)	82
Portfolio impairment provision against loans and advances to banks	2	-	-	2
Total impairment provisions on loans and advances to banks	95	12	(23)	84

The following table set out the movement in individually impaired loans, those renegotiated loans excluded from non performing and the total non-performing loans:

Group

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

Company

	2012			2011		
	Individually impaired loans	Renegotiated loans	Total non-performing loans	Individually impaired loans	Renegotiated loans	Total non-performing loans
	$million	$million	$million	$million	$million	$million
At 1 January	**2,417**	**(383)**	**2,034**	2,348	-	2,348
Exchange translation difference	**(36)**	**-**	**(36)**	(53)	-	(53)
Additions	**1,371**	**(38)**	**1,333**	267	(383)	(116)
Maturities and disposals	**(230)**	**-**	**(230)**	(145)	-	(145)
At 31 December	**3,522**	**(421)**	**3,101**	2,417	(383)	2,034

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

Group

	2012			2011		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
Net impaired securities						
Impaired securities	404	-	404	432	-	432
Impairment	(159)	-	(159)	(187)	-	(187)
	245	-	245	245	-	245
Securities neither past due nor impaired						
AAA	20,698	6,516	27,214	15,164	3,285	18,449
AA- to AA+	20,232	6,594	26,826	18,806	7,959	26,765
A- to A+	23,570	10,694	34,264	23,850	8,712	32,562
BBB- to BBB+	10,244	3,949	14,193	7,090	4,396	11,486
Lower than BBB-	3,027	502	3,529	2,435	1,347	3,782
Unrated	6,471	1,571	8,042	6,540	590	7,130
	84,242	29,826	114,068	73,885	26,289	100,174
	84,487	29,826	114,313	74,130	26,289	100,419
Of which:						
Assets at fair value[1]						
Trading	14,890	2,955	17,845	13,025	4,609	17,634
Designated at fair value	333	-	333	45	-	45
Available-for-sale	65,413	26,871	92,284	55,567	21,680	77,247
	80,636	29,826	110,462	68,637	26,289	94,926
Assets at amortised cost[1]						
Loans and receivables	3,851	-	3,851	5,475	-	5,475
Held-to-maturity	-	-	-	18	-	18
	3,851	-	3,851	5,493	-	5,493
	84,487	29,826	114,313	74,130	26,289	100,419

[1] See note 15, 16 and 21 of the financial statements for further details.

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

The 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 credit rating and measurement on page 20.

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

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

Company

	2012			2011		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
Net impaired securities						
Impaired securities	137	-	137	144	-	144
Impairment provisions	(128)	-	(128)	(132)	-	(132)
	9	-	9	12	-	12
Securities neither past due nor impaired						
AAA	17,800	6,289	24,089	12,809	3,285	16,094
AA- to AA+	7,619	107	7,726	7,505	324	7,829
A- to A+	3,423	-	3,423	5,325	165	5,490
BBB- to BBB+	7,389	2,690	10,079	4,687	3,375	8,062
Lower than BBB-	1,792	92	1,884	1,755	147	1,902
Unrated	4,946	348	5,294	5,318	406	5,724
	42,969	9,526	52,495	37,399	7,702	45,101
	42,978	9,526	52,504	37,411	7,702	45,113
Of which:						
Assets at fair value[1]						
Trading	8,925	721	9,646	6,476	894	7,370
Available-for-sale	31,782	8,805	40,587	27,095	6,808	33,903
	40,707	9,526	50,233	33,571	7,702	41,273
Assets at amortised cost[1]						
Loans and receivables	2,271	-	2,271	3,840	-	3,840
	2,271	-	2,271	3,840	-	3,840
	42,978	9,526	52,504	37,411	7,702	45,113

[1] See note 15, 16 and 21 of the financial statements for further details.

Using internal credit ratings, $4,627 million (2011: $5,724 million) of these securities are considered to be investment grade.

Asset backed securities
Total exposures to asset backed securities

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

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

The carrying value of Asset Backed Securities (ABS) represents 0.7 per cent (2011: 0.3 per cent) of our total assets.

The Group has an existing portfolio of ABS which it reclassified from trading and available for sale to loans and receivables with effect from 1 July 2008. No assets have been reclassified since 2008.This portfolio has been gradually managed down since 2010. The carrying value and fair value for this part of the portfolio were $0.97 billion and $1.0 billion respectively as at the end of 2012. Note 15 to the financial statements provides details of the remaining balance of those assets reclassified in 2008.

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

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

Financial statement impact of asset backed securities

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

Selected European country exposures – Group

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

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

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

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

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

1 This represents a single exposure, which is fully guaranteed by its US parent company.

2 This represents a single exposure which is part of a wider structured finance transaction and is unaffected by Irish economic risk.

Selected European country exposures – Group continued

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

[1] This represents a single exposure, which is fully guaranteed by its US parent company.

[2] This represents a single exposure which is part of a wider structured finance transaction and is unaffected by Irish economic risk.

Selected European country exposures – Company

The Company has no direct sovereign exposure to GIIPS and only $0.2 billion direct sovereign exposure to other eurozone countries.

The Company's direct non-sovereign exposures to GIIPS is $3.2 billion ($2 billion after collateral and netting). Non-sovereign exposure to other eurozone countries is $29.1 billion after collateral and netting, and primarily relates to France, Germany and the Netherlands.

Country	2012					
	Greece $million	**Ireland** $million	**Italy** $million	**Portugal** $million	**Spain** $million	**Total** $million
Direct sovereign exposure	**-**	**-**	**-**	**-**	**-**	**-**
Banks	**2**	**918**	**408**	**-**	**273**	**1,601**
Other financial institutions	**-**	**1,331**	**9**	**-**	**-**	**1,340**
Other corporate	**27**	**84**	**65**	**20**	**39**	**235**
Total gross exposure	**29**	**2,333**	**482**	**20**	**312**	**3,176**
Direct sovereign exposure	**-**	**-**	**-**	**-**	**-**	**-**
Banks	**-**	**(914)[1]**	**(55)**	**-**	**(130)**	**(1,099)**
Other financial institutions	**-**	**(78)[2]**	**(9)**	**-**	**-**	**(87)**
Other corporate	**-**	**(2)**	**-**	**-**	**(3)**	**(5)**
Total collateral/netting	**-**	**(994)**	**(64)**	**-**	**(133)**	**(1,191)**
Direct sovereign exposure	**-**	**-**	**-**	**-**	**-**	**-**
Banks	**2**	**4 [1]**	**353**	**-**	**143**	**502**
Other financial institutions	**-**	**1,253 [2]**	**-**	**-**	**-**	**1,253**
Other corporate	**27**	**82**	**65**	**20**	**36**	**230**
Total net exposure	**29**	**1,339**	**418**	**20**	**179**	**1,985**

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

Country	2011					
	Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
Direct sovereign exposure	-	-	-	-	-	-
Banks	5	1,143	243	119	392	1,902
Other financial institutions	-	752	4	-	13	769
Other corporate	42	47	208	23	25	345
Total gross exposure	47	1,942	455	142	430	3,016
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]	214	119	196	541
Other financial institutions	-	752 [2]	-	-	16	768
Other corporate	37	4	206	23	25	295
Total net exposure	42	763	420	142	237	1,604

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

Selected European country exposures – Company continued

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

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

[1] Based on ISDA netting

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

	2012					
	Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
Loans and advances						
Loans and receivables	18	1	284	20	23	346
Held at fair value through profit or loss	-	-	17	-	-	17
Total gross loans and advances	18	1	301	20	23	363
Collateral held against loans and advances	-	-	(25)	-	(4)	(29)
Total net loans and advances	18	1	276	20	19	334
Debt securities						
Trading						
Designated at Fair value	-	-	-	-	6	6
Available-for-sale	-	51	-	-	78	129
Loans and receivables	-	-	-	-	-	-
Total gross debt securities	-	51	-	-	84	135
Collateral held against debt securities	-	-	-	-	-	-
Total net debt securities	-	51	-	-	84	135
Derivatives						
Gross exposure	2	1,025	4	-	136	1,167
Collateral/netting[1]	-	(992)	-	-	(130)	(1,122)
Total derivatives	2	33	4	-	6	45
Contingent liabilities and commitments	9	1,254	138	-	70	1,471
Total net exposure (on and off balance sheet)[1]	29	1,339	418	20	179	1,985
Total balance sheet net exposure	20	1,077	305	20	243	1,665

[1] Based on ISDA netting

Other selected eurozone countries - Group

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

	France $million	Germany $million	Netherlands $million	Luxembourg $million	Total $million
Direct sovereign exposure	236	443	86	-	765
Banks	2,712	11,765	4,712	1,097	20,286
Other financial institutions	147	-	333	893	1,373
Other corporate	643	601	7,069	604	8,917
Total net exposure at 31 December 2012	**3,738**	**12,809**	**12,200**	**2,594**	**31,341**
Total net exposure at 31 December 2011	4,900	7,665	7,831	1,445	21,841

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

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

Other selected eurozone countries - Company

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

	France $million	Germany $million	Netherlands $million	Luxembourg $million	Total $million
Direct sovereign exposure	236	12	-	-	248
Banks	1,659	11,638	3,985	1,084	18,366
Other financial institutions	88	-	204	893	1,185
Other corporate	395	601	5,989	525	7,510
Total net exposure at 31 December 2012	**2,378**	**12,251**	**10,178**	**2,502**	**27,309**
Total net exposure at 31 December 2011	4,900	7,665	7,831	1,445	21,841

The Company's lending to these selected eurozone countries primarily takes the form of repurchase agreements, inter-bank loans and bonds. The substantial majority of the Group's total gross exposures to these selected countries have a tenor of less than three years, with over 67 per cent having a tenor of less than one year.

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

Country cross-border risk

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

The GRC is responsible for our country cross-border risk limits and delegates the setting and management of country limits to the Group Country Risk function.

The business and country chief executive officers manage exposures within these limits and policies. Countries designated as higher risk are subject to increased central monitoring.

Cross-border assets comprise loans and advances, interest-bearing deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, derivatives, certificates of deposit and other negotiable paper, investment securities and formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross-border assets also include exposures to local residents denominated in currencies other than the local currency. Cross-border exposure also includes the value of commodity, aircraft and shipping assets owned by the Group that are held in a given country.

Our cross-border exposure to China, Hong Kong, India, Singapore, Indonesia and South Korea has risen further in 2012, reflecting our business focus and continued expansion in our core countries. Changes in the pace of economic activity is reflected in the growth of cross-border exposure for certain territories.

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

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

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

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

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

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

Market risk

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

The primary categories of market risk for Standard Chartered are:

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

Market risk governance

The GRC approves our market risk appetite taking account of market volatility, the range of products and asset classes, business volumes and transaction sizes.

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

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

Value at Risk

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

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

We apply two VaR methodologies:

- historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors and from the fourth quarter of 2012 has been extended to cover also the majority of specific (credit spread) risk VaR.
- Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is now applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets.

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

VaR is calculated as our exposure as at the close of business, generally 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 2012 there have been no exceptions in the regulatory back testing, compared with four in 2011. This is within the 'green zone' applied internationally to internal models by bank supervisors, and implies that model reliability is statistically greater than 95 per cent.

Stress testing

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

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

Market risk continued

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

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

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

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

Market risk changes

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

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

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

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

Group

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

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

1 Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale.

2 The total VaR shown in the tables above is not a sum of the component risks due to offsets between them.

3 Highest and lowest VaR for each risk factor are independent and usually occur on different days.

4 Actual one day VaR as at period end date.

Market risk continued

Average daily income earned from market risk related activities

Trading	2012 $million	2011 $million
Interest rate risk	6.7	4.6
Foreign exchange risk	5.1	5.7
Commodity risk	1.6	2.0
Equity risk	0.4	0.3
Total	13.8	12.6

Non-Trading		
Interest rate risk	3.8	3.6
Equity risk	0.1	(0.4)
Total	3.9	3.2

Company

Daily Value at Risk (VaR at 97.5%, 1 Day)

Trading and Non-trading	2012 $million	2011 $million
Interest rate risk[1]	19.3	16.3
Foreign exchange risk	3.3	3.2
Commodity risk	1.9	1.2
Equity risk	16.4	12.7
Total[2]	25.5	20.9

Average daily income earned from market risk related activities

Trading	2012 $million	2011 $million
Interest rate risk[1]	7.9	7.9
Foreign exchange risk	3.3	3.2
Commodity risk	1.0	1.2
Equity risk	1.8	1.1
Total[2]	7.9	8.8

Non-trading	2012 $million	2011 $million
Interest rate risk[1]	16.3	13.9
Equity risk	16.9	12.7
Total[2]	25.7	18.6

1 Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale.
2 The total VaR shown in the tables above is not a sum of the component risks due to offsets between them.

Market risk continued

Market risk VaR coverage

Interest rate risk from non-trading book portfolios is transferred to Financial Markets where it is managed by local ALM desks under the supervision of local Asset and Liability Committees (ALCO). ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

VaR and stress tests are therefore applied to these non-trading book exposures (except Group Treasury, see below) in the same way as for the trading book, including available-for-sale securities. Securities classed as Loans and receivables or Held to maturity are not reflected in VaR or stress tests since they are accounted on an amortised cost basis and are match funded, so market price movements have no effect on either profit and loss or reserves.

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

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

Group Treasury market risk

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

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

Group Treasury NII sensitivity to parallel shifts in yield curves

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

Group Treasury also manages the structural foreign exchange risk that arises from non-US dollar currency net investments in branches and subsidiaries. The impact of foreign exchange movements is taken to reserves which form part of the capital base. The effect of exchange rate movements on the capital ratio is partially mitigated by the fact that both the value of these investments and the risk weighted assets in those currencies follow broadly the same exchange rate movements. With the approval of CMC, Group Treasury may hedge the net investments if it is anticipated that the capital ratio will be materially affected by exchange rate movements. At 31 December 2012, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial investments) of $971 million (2011: $1,115 million) to partly cover its exposure to Korean won.

The table below sets out the principal structural foreign exchange exposures (net of investment hedges) of the Group and Company at 31 December 2012 and 2011:

	Group		Company	
	2012 $million	2011 $million	**2012 $million**	2011 $million
Hong Kong dollar	**6,619**	5,712	**-**	-
Korean won	**6,301**	5,316	**200**	181
Indian rupee	**4,025**	3,305	**3,461**	2,735
Taiwanese dollar	**2,946**	2,847	**47**	50
Chinese yuan	**2,245**	1,993		-
Singapore dollar	**1,195**	1,791	**842**	758
Thai baht	**1,662**	1,514		-
UAE dirham	**1,598**	1,490	**1,597**	1,488
Malaysian ringgit	**1,360**	1,213		-
Indonesian rupiah	**1,164**	892	**413**	261
Pakistani rupee	**586**	639		-
Other	**3,648**	3,152	**1,730**	1,650
	33,349	29,864	**8,290**	7,123

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 $255 million (2011: $221 million). Changes in the valuation of these positions are taken to reserves.

Market risk continued

Derivatives

Derivatives are contracts with characteristics and value derived from underlying financial instruments, interest and exchange rates or indices. They include futures, forwards, swaps and options transactions. Derivatives are an important risk management tool for banks and their customers because they can be used to manage market price risk. The market risk of derivatives is managed in essentially the same way as other traded products.

Our derivative transactions are principally in instruments where the mark-to-market values are readily determinable by reference to independent prices and valuation quotes.

We enter into derivative contracts in the normal course of business to meet customer requirements and to manage our exposure to fluctuations in market price movements.

Derivatives are carried at fair value and shown in the balance sheet as separate totals of assets and liabilities. Recognition of fair value gains and losses depends on whether the derivatives are classified as trading or held for hedging purposes.

The credit risk arising from all financial derivatives is managed as part of the overall lending limits to financial institutions and corporate customers. This is covered in more detail in the Credit risk section.

Hedging

Countries within the Group use futures, forwards, swaps and options transactions primarily to mitigate interest and foreign exchange risk arising from their in-country exposures. The Group also uses futures, forwards and options to hedge foreign exchange and interest rate risk.

In accounting terms under IAS 39, hedges are classified into three types: fair value hedges, predominantly where fixed rates of interest or foreign exchange are exchanged for floating rates; cash flow hedges, predominantly where variable rates of interest or foreign exchange are exchanged for fixed rates; and hedges of net investments in overseas operations translated to the parent company's functional currency, US dollars.

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

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

Liquidity risk

Liquidity risk is the risk that we either do not have sufficient financial resources available to meet our obligations as they fall due, or can only access these financial resources at excessive cost.

It is our policy to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet obligations as they fall due. We manage liquidity risk both on a short-term and medium-term basis. In the short-term, our focus is on ensuring that the cash flow demands can be met where required. In the medium-term, the focus is on ensuring the balance sheet remains structurally sound and aligned to our strategy.

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

We seek to manage our liquidity prudently in all geographical locations and for all currencies. Exceptional market events can impact us adversely, thereby affecting our ability to fulfill our obligations as they fall due. The principal uncertainties for liquidity risk are that customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the expected maturity date. To mitigate these uncertainties, our customer deposit base is diversified by type and maturity. In addition we have contingency funding plans including a portfolio of liquid assets that can be realised if a liquidity stress occurs, as well as ready access to wholesale funds under normal market conditions.

Policies and procedures

Our policy is to manage liquidity, in each country without presumption of Group support. Each Country ALCO is responsible for ensuring that the country is able to meet all its obligations to make payments as they fall due, and operates within the local regulations and liquidity limits set for the country.

Our liquidity risk management framework requires limits to be set for prudent liquidity management. There are limits on:

- The local and foreign currency cash flow gaps
- The level of external wholesale borrowing to ensure that the size of this funding is proportionate to the local market and our local operations
- The level of borrowing from other countries within the Group to contain the risk of contagion from one country to another
- Commitments, both on and off balance sheet, to ensure there are sufficient funds available in the event of drawdown on these commitments
- The advances to deposits ratio to ensure that commercial advances are funded by stable sources and that customer lending is funded by customer deposits
- The amount of assets that may be funded from other currencies

In addition, we prescribe a liquidity stress scenario that includes accelerated withdrawal of deposits over a period of time. Each country has to ensure that cash inflows exceed outflows under such a scenario.

All limits are reviewed at least annually, and more frequently if required, to ensure that they remain relevant given market conditions and business strategy. Compliance with limits is monitored independently on a regular basis by GMR and Finance. Limit excesses are escalated and approved under a delegated authority structure and reviewed by ALCO. Excesses are also reported monthly to the LMC and GALCO which provide further oversight.

We have significant levels of marketable securities, including government securities which can be realised, repo'd or used as collateral in the event of liquidity stress. In addition, a funding crisis response and recovery plan (FCRRP) is maintained by Group treasury which is reviewed and approved annually. The FCRRP lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by senior management. A similar plan is maintained within each country.

Impact of Basel III

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

Primary sources of funding

A substantial portion of our assets is funded by customer deposits made up of current and savings accounts and other deposits. Of total customer deposits, 41 per cent is retail deposits, 51 per cent corporate deposits, 8 per cent other (2011: retail 40 per cent, corporate 52 per cent, other 8 per cent). These customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. The ALCO in each country monitors trends in the balance sheet and ensures that any concerns that might impact the stability of these deposits are addressed effectively. The ALCO also reviews balance sheet plans to ensure that projected asset growth is matched by growth in the stable funding base.

We maintain access to wholesale funding markets in all major financial centres and countries in which we operate as well as to commercial paper issuance. This seeks to ensure that we have flexibility around maturity transformation, have market intelligence, maintain stable funding lines and can obtain optimal pricing when we perform our interest rate risk management activities. In the next 12 months approximately $7.0 billion of the Group's senior and subordinated debt is falling due for repayment either contractually or callable by the Group. Further details of the Group's senior and subordinated debt by geography are provided in note 2 on page 112.

Liquidity risk continued

Encumbered assets - Group

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

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

	2012			2011		
	Unencumbered assets $million	Encumbered assets $million	Total assets $million	Unencumbered assets $million	Encumbered assets $million	Total assets $million
Cash and balances at central banks	51,480	227	51,707	37,403	-	37,403
Restricted balances at central banks	-	9,336	9,336	-	9,961	9,961
Derivative financial instruments	49,496	-	49,496	58,567	-	58,567
Loans and advances to banks [1]	68,431	723	69,154	66,548	-	66,548
Loans and advances to customers [1]	286,485	2,378	288,863	269,551	2,227	271,778
Investment securities [1]	119,147	1,598	120,745	101,776	2,779	104,555
Other assets	19,486	9,259	28,745	18,250	8,899	27,149
Current tax assets	215	-	215	232	-	232
Prepayments and accrued income	2,581	-	2,581	2,521	-	2,521
Interests in associates	953	-	953	903	-	903
Goodwill and intangible assets	6,954	-	6,954	6,721	-	6,721
Property, plant and equipment	6,646	-	6,646	5,078	-	5,078
Deferred tax assets	691	-	691	835	-	835
Total	612,565	23,521	636,086	568,385	23,866	592,251

[1] Includes assets held at fair value through profit or loss.

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

Liquidity risk continued

Encumbered assets - Company

Encumbered assets include those assets pleaded or used as collateral and primarily relate to assets pledged as collateral in respect of repo transactions. 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 3.3 per cent (2011: 3.0 per cent) of total assets. The following table provides a reconciliation of the Group's total assets to unencumbered assets readily available to secure funding.

	2012			2011		
	Unencumbered assets $million	**Encumbered assets $million**	**Total assets $million**	Unencumbered assets $million	Encumbered assets $million	Total assets $ million
Cash and balances at central banks	**44,799**	**227**	**45,026**	31,368	227	31,595
Restricted balances at central banks	**-**	**4,629**	**4,629**	-	4,673	4,673
Derivative financial instruments	**47,443**	**-**	**47,443**	56,929	-	56,929
Loans and advances to banks	**37,301**	**723**	**38,024**	37,538	-	37,538
Loans and advances to customers	**141,711**	**1,111**	**142,822**	127,967	84	128,051
Investment securities	**54,081**	**947**	**55,028**	45,699	959	46,658
Other assets	**13,724**	**5,055**	**18,779**	11,215	4,843	16,058
Due from subsidiary undertakings and other related parties	**18,029**	**-**	**18,029**	16,490	-	16,490
Current tax assets	**37**	**-**	**37**	47	-	47
Prepayments and accrued income	**1,170**	**-**	**1,170**	1,203	-	1,203
Investment in subsidiary undertakings	**13,571**	**-**	**13,571**	14,270	-	14,270
Interests in joint ventures	**489**	**-**	**489**	396	-	396
Interests in associates	**45**	**-**	**45**	53	-	53
Goodwill and intangible assets	**1,031**	**-**	**1,031**	933	-	933
Property, plant and equipment	**626**	**-**	**626**	685	-	685
Deferred tax assets	**571**	**-**	**571**	519	-	519
Total	**374,628**	**12,692**	**387,320**	345,312	10,786	356,098

In addition to the above the Group received $7,963 million (2011: $4,602 million) as collateral under reverse repurchase agreements that was eligible for repledging. Of this the Group repledged $1,146 million (2011: $1,005 million) under repurchase agreements.

Liquidity risk continued

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

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

Group

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

[1] see note 19 to the financial statements on page 151.
[2] see note 29 to the financial statements on page 167.

Company

	2012 $million	2011 $million
Loans and advances to customers[1]	**142,822**	128,051
Customer accounts[2]	**174,850**	152,618
	%	%
Advances to deposits ratio	**81.7**	83.9

[1] see note 19 to the financial statements on page 151.
[2] see note 29 to the financial statements on page 167.

Liquid asset ratio
This is the ratio of liquid assets to total assets. The significant level of holdings of liquid assets in the balance sheet reflects the application of our liquidity policies and practices and the holding of these assets are spread across our geographies. The following table details the component of liquid assets together with the ratio of liquid assets to total assets. The ratio improved in 2012 compared to 2011 reflecting the increased levels of liquid assets held to meet regulatory requirements, especially in the UK.

	Group		Company	
	2012 $ million	2011 $million	**2012 $ million**	2011 $million
Cash and balances at central banks	**61,043**	47,364	**49,655**	36,268
Restricted balances	**(9,336)**	(9,961)	**(4,629)**	(4,673)
Loans and advances to banks	**69,154**	66,548	**38,024**	37,538
Deposits by banks	**(37,445)**	(36,388)	**(29,343)**	(28,946)
Treasury bills	**29,826**	26,289	**9,526**	7,702
Debt securities	**84,487**	74,130	**42,978**	37,411
of which :				
Issued by governments	**33,688**	28,635	**14,301**	11,689
Issued by banks	**32,261**	27,198	**17,271**	13,517
Issued by corprates and other entities	**18,538**	18,297	**11,406**	12,205
Illiquid securities	**(1,706)**	(1,415)	**-**	(1,090)
Others	**(2,398)**	(1,850)	**(2,387)**	(1,771)
Liquid assets	**193,625**	164,717	**103,824**	82,439
Total assets	**636,086**	592,251	**387,320**	356,098
Liquid assets to total asset ratio (%)	**30.4%**	27.8%	**26.8%**	23.2%

Liquidity risk continued

Geographic spread of liquid assets

Group

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	%	%	%	%	%	%	%	%	%
Liquid assets	17%	11%	8%	16%	4%	5%	3%	36%	100%

	2011								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	%	%	%	%	%	%	%	%	%
Liquid assets	17%	10%	8%	21%	4%	5%	4%	31%	100%

Company

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	%	%	%	%	%	%	%
Liquid assets	18%	6%	6%	7%	1%	62%	100%

	2011						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	%	%	%	%	%	%	%
Liquid assets	19%	10%	7%	7%	1%	56%	100%

Liquidity management – stress scenarios

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

Internally, three stress tests are run routinely: an acute 8-day name specific stress, a 30-day market wide stress and a more chronic 90-day combined name specific and market wide stress.

The 8-day stress is specifically designed to determine a minimum quantity of marketable securities that must be held at all times in all countries. This stress is computed daily, and the minimum marketable securities requirement is observed daily. This is intended to ensure that, in the unlikely event of an acute loss of confidence in the Group or any individual entity within it, there is sufficient time to take corrective action. Every country must pass, on stand-alone basis, with no presumption of Group support.

As at 31 December 2012 all countries passed the stress.

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

Finally, a 90-day test is run. These stress tests consider more prolonged stresses which affect markets across a number of the Group's main footprint countries and in which the Group itself may come under some sustained pressure. This pressure may be unwarranted or may be because the Group is inextricably linked with those markets/countries. The stress tests the adequacy of contingency funding arrangements beyond the marketable securities held to cover the 8-day stress, including the portability of funding from one country to support another. These stresses are managed at a Group rather than individual country level.

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

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

Liquidity risk continued

Contractual maturity of assets and liabilities - Group

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.

	2012				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Assets					
Cash and balances at central banks	51,707	-	-	9,336	61,043
Derivative financial instruments	10,492	9,523	19,034	10,447	49,496
Loans and advances to banks[1]	47,308	18,916	2,760	170	69,154
Loans and advances to customers[1]	90,800	45,695	71,240	81,128	288,863
Investment securities[1]	24,917	34,128	47,282	14,418	120,745
Other assets	22,404	2,840	289	21,252	46,785
Total assets	247,628	111,102	140,605	136,751	636,086
Liabilities					
Deposits by banks[1]	35,482	1,294	597	72	37,445
Customer accounts[1]	318,871	53,086	10,873	7,052	389,882
Derivative financial instruments	10,077	10,150	18,307	9,660	48,194
Senior debt	1,618	2,713	2,385	405	7,121
Other debt securities in issue[1]	23,823	9,890	3,148	2,724	39,585
Due to parent companies	15,096	-	-	-	15,096
Subordinated liabilities and other borrowed funds	617	955	3,496	18,016	23,084
Other liabilities	17,114	5,434	1,606	11,645	35,799
Total liabilities	422,698	83,522	40,412	49,574	596,206
Net liquidity gap	(175,070)	27,580	100,193	87,177	39,880

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

	2011				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Assets					
Cash and balances at central banks	37,402	-	-	9,962	47,364
Derivative financial instruments	12,952	18,283	15,270	12,062	58,567
Loans and advances to banks[1]	46,369	16,381	3,269	529	66,548
Loans and advances to customers[1]	85,480	42,266	68,430	75,602	271,778
Investment securities[1]	20,695	32,456	41,208	10,196	104,555
Other assets	14,898	5,966	310	22,265	43,439
Total assets	217,796	115,352	128,487	130,616	592,251
Liabilities					
Deposits by banks[1]	34,092	1,488	524	284	36,388
Customer accounts[1]	297,054	40,242	10,309	7,239	354,844
Derivative financial instruments	11,621	19,232	13,842	12,423	57,118
Senior debt	1,768	2,725	1,671	383	6,547
Other debt securities in issue[1]	22,781	5,268	3,473	2,130	33,652
Due to parent companies	13,627	-	-	-	13,627
Subordinated liabilities and other borrowed funds	26	-	8	19,428	19,462
Other liabilities	19,070	2,316	882	12,895	35,163
Total liabilities	400,039	71,271	30,709	54,782	556,801
Net liquidity gap	(182,243)	44,081	97,778	75,834	35,450

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

Liquidity risk continued

Contractual maturity of assets and liabilities - Company

2012	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Assets					
Cash and balances at central banks	49,655	-	-	-	49,655
Derivative financial instruments	9,869	9,249	17,917	10,408	47,443
Loans and advances to banks[1]	26,655	8,662	2,535	172	38,024
Loans and advances to customers[1]	53,725	21,885	36,744	30,468	142,822
Investment securities[1]	6,569	12,959	25,747	9,753	55,028
Investment in subsidiary undertakings	-	-	-	13,571	13,571
Other assets	18,073	1,637	29	3,009	22,748
Due from subsidiary undertakings	18,029	-	-	-	18,029
Total assets	182,575	54,392	82,972	67,381	387,320
Liabilities					
Deposits by banks[1]	28,512	464	344	23	29,343
Customer accounts[1]	142,620	24,732	7,249	249	174,850
Derivative financial instruments	9,662	9,676	17,153	9,506	45,997
Senior debt	-	-	-	232	232
Other debt securities in issue[1]	22,221	9,120	2,970	1,285	35,596
Other liabilities	10,256	3,375	561	3,127	17,319
Due to subsidiary undertakings	39,244	-	-	-	39,244
Subordinated liabilities and other borrowed funds	685	599	337	18,486	20,107
Total liabilities	253,200	47,966	28,614	32,908	362,688
Net liquidity gap	(70,625)	6,426	54,358	34,473	24,632

2011	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Assets					
Cash and balances at central banks	31,595	-	-	4,673	36,268
Derivative financial instruments	12,157	17,888	14,809	12,075	56,929
Loans and advances to banks[1]	26,408	7,887	2,714	529	37,538
Loans and advances to customers[1]	49,194	20,501	33,852	24,504	128,051
Investment securities[1]	7,693	12,254	19,347	7,364	46,658
Investment in subsidiary undertakings	-	-	-	16,845	16,845
Other assets	9,232	4,670	5	5,987	19,894
Due from subsidiary undertakings	13,915	-	-	-	13,915
Total assets	150,194	63,200	70,727	71,977	356,098
Liabilities					
Deposits by banks[1]	27,536	981	203	226	28,946
Customer accounts[1]	131,311	16,793	4,411	103	152,618
Derivative financial instruments	11,116	18,829	13,990	11,768	55,703
Senior debt	-	-	-	267	267
Other debt securities in issue[1]	19,666	4,216	3,034	106	27,022
Other liabilities	8,984	1,041	415	5,746	16,186
Due to subsidiary undertakings	36,014	-	-	-	36,014
Subordinated liabilities and other borrowed funds	-	-	-	16,288	16,288
Total liabilities	234,627	41,860	22,053	34,504	333,044
Net liquidity gap	(84,433)	21,340	48,674	37,473	23,054

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

Liquidity risk continued

Within the tables above cash and balances with central banks, loans and advances to banks, treasury bills and investment securities that are available-for-sale are used by the Group principally for liquidity management purposes.

Behavioural maturity of financial assets and liabilities

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 95 reflect the cash flows which will be contractually payable over the residual maturity of the instruments. In practice, however, certain liability instruments behave differently from their contractual terms and typically, for short term customer accounts, extend to a longer period than their contractual maturity. The Group's expectation of when such liabilities are likely to become payable is provided in the table below:

Group

	2012				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Total $million
Loans and advances to customers	82,464	51,309	89,714	65,376	288,863
Loans and advances to banks	49,975	15,903	3,106	170	69,154
Total loans and advances	132,439	67,212	92,820	65,546	358,017
Deposits by banks	35,315	1,451	607	72	37,445
Customer accounts	166,223	65,206	149,956	8,497	389,882
Total deposits	201,538	66,657	150,563	8,569	427,327
Net gap	(69,099)	555	(57,743)	56,977	(69,310)

	2011				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Loans and advances to customers	66,706	40,826	102,686	61,560	271,778
Loans and advances to banks	45,480	16,536	3,980	552	66,548
Total loans and advances	112,186	57,362	106,666	62,112	338,326
Deposits by banks	33,717	1,745	628	298	36,388
Customer accounts	142,394	57,673	125,291	29,486	354,844
Total deposits	176,111	59,418	125,919	29,784	391,232
Net gap	(63,925)	(2,056)	(19,253)	32,328	(52,906)

Company

	2012				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Total $million
Loans and advances to customers	49,394	25,828	37,253	30,347	142,822
Loans and advances to banks	29,478	5,870	2,509	167	38,024
Total loans and advances	78,872	31,698	39,762	30,514	180,846
Deposits by banks	28,345	622	352	24	29,343
Customer accounts	80,772	36,797	57,262	19	174,850
Total deposits	109,117	37,419	57,614	43	204,193
Net liquidity gap	(30,245)	(5,721)	(17,852)	30,471	(23,347)

Liquidity risk continued

	2011				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Loans and advances to customers	45,347	22,087	35,861	24,756	128,051
Loans and advances to banks	25,831	8,092	3,062	553	37,538
Total loans and advances	71,178	30,179	38,923	25,309	165,589
Deposits by banks	27,403	1,034	278	231	28,946
Customer Accounts	70,331	25,797	33,100	23,390	152,618
Total deposits	97,734	26,831	33,378	23,621	181,564
Net liquidity gap	(26,556)	3,348	5,545	1,688	(15,975)

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 $11,185 million (2011: $6,517 million), all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five years.

	2012				2011			
Group	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million
Deposits by banks [1]	35,526	1,397	698	75	34,184	1,549	635	330
Customer accounts [1]	316,367	55,026	12,799	8,021	298,211	41,538	8,151	5,954
Debt securities in issue [1]	27,531	14,743	15,837	12,744	24,965	8,367	5,863	3,393
Due to parent companies	15,119	-	-	-	13,627	-	-	-
Subordinated liabilities and other borrowed funds	391	1,228	7,814	34,769	166	498	2,921	17,884
Other liabilities	15,335	4,143	1,460	10,824	23,151	2,321	708	9,279
Total liabilities	410,269	76,537	38,608	66,433	394,304	54,273	18,278	36,840
Gross loan commitments	122,986	9,544	21,727	10,185	70,558	22,349	3,968	1,120

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15).

	2012				2011			
Company	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million
Deposits by banks [1]	28,444	537	474	23	27,584	1,023	259	262
Customer accounts [1]	141,315	25,819	7,954	19	130,361	17,576	2,708	93
Debt securities in issue [1]	24,099	11,061	8,931	1,554	19,995	4,432	3,201	496
Subordinated liabilities and other borrowed funds	343	1,078	6,752	31,068	156	552	3,020	27,043
Due to parent companies	39,244	-	-	-	36,014	-	-	-
Other liabilities[1]	11,201	2,228	489	3,380	9,961	1,134	488	4,087
Total liabilities	244,646	40,723	24,600	36,044	224,071	24,717	9,676	31,981
Gross loan commitments	69,307	1,554	14,816	6,491	33,287	18,933	1,659	1,120

[1] Amounts include instruments held at fair value through profit or loss (see note 15)

Liquidity risk continued

Derivatives financial instruments on an undiscounted basis

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

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

	2012				2011			
Company	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million
Derivative financial instruments	594,130	264,268	53,346	92	449,252	263,430	41,542	390

Operational risk

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

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

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

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

Operational risk continued

Identified operational risk exposures are rated ‘Low’, ‘Medium’, ‘High’ or ‘Very High’ in accordance with defined risk assessment criteria. Risks which are outside of set materiality thresholds receive a differential level of management attention and are reported to senior management and risk committees up to Board level. Significant external events or internal failures which have occurred are analysed to identify the root cause of any failure for remediation and future mitigation. Actual operational losses are systematically recorded. Those operational losses incurred during 2012 are summarised in section 33 of the notes.

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

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

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

Reputational risk

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

Reputational risk could arise from the failure 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. Damage to the Group’s reputation could cause existing clients to reduce or cease to do business with the Group and prospective clients to be reluctant to do business with the Group. All employees are responsible for day to day identification and management of reputational risk. These responsibilities form part of the Group Code of Conduct and are embedded through values-based performance assessments.

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

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

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

At 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 management

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

Strategic, business and capital plans are drawn up annually covering a five year horizon and are approved by the Board. The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained to support our strategy. Group Treasury is responsible for the ongoing assessment of the demand for capital and the updating of the Group's capital plan.

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

The Group formulates a capital plan with the help of internal models and other quantitative techniques. The models help to estimate potential future losses arising from credit, market and other risks, and using regulatory formulae the amount of capital required to support them. In addition, the models enable the Group to gain an enhanced understanding of its risk profile, e.g. by identifying potential concentrations and assessing the impact of portfolio management actions. Stress testing and scenario analysis are used to ensure that the Group's internal capital assessment considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events and how these could be mitigated.

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

A strong governance and process framework is embedded in our capital planning and assessment methodology. The key capital management committees are the Capital Management Committee (CMC) and the Group Asset and Liability Committee (GALCO). GALCO approves the capital governance framework and delegates to CMC the approval of capital management policies.

At a country level, capital is monitored by the local Asset and Liability Committee (ALCO). Appropriate policies are in place governing the transfer of capital within the Group. These ensure that capital is remitted, as appropriate, subject to complying with local regulatory requirements and statutory and contractual restrictions. There are no current material practical or legal impediments to the prompt transfer of capital resources in excess of those required for regulatory purposes or repayment of liabilities between the parent company, Standard Chartered Bank and its subsidiaries when due.

Current compliance with Capital Adequacy Regulations

Our lead supervisor is the UK's Financial Services Authority (FSA). On 1 April 2013, the UK FSA will cease to exist and from this date Standard Chartered Bank will be authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority and PRA.

The capital that we are required to hold by the FSA is determined by our balance sheet, off-balance sheet, counterparty and other risk exposures. Further detail on counterparty and risk exposures is included in the Risk review on pages 14 to 82.

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 84 summarises the consolidated capital position of the Group.

Basel II

The Group complies with the Basel II framework, which has been implemented in the UK through the FSA's general prudential sourcebook and its prudential sourcebook for Banks, Building Societies and Investment Firms.

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

We use Value at Risk (VaR) models for the 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, and updated in June 2011 by the Basel Committee on Banking Supervision (BCBS) serves to bring together the details of global regulatory standards on bank capital adequacy and liquidity. While these give us greater clarity on the global regulatory standards and the various timelines for transition, significant uncertainty remains around the specific application in particular via the implementation of European Union legislation (the package of reforms commonly referred to as the Capital Requirements Directive IV (CRD IV)) comprising the current proposals for a Capital Requirements Regulation and a Capital Requirements Directive.

Standard Chartered Bank

Capital continued

Capital Base	2012 $million	2011 $million
Shareholders' equity		
Parent company shareholders' equity per balance sheet	36,299	32,305
Preference share classified as equity included in Tier 1	(1,495)	(1,500)
	34,804	30,805
Non-controlling interests		
Non-controlling interests per balance sheet	3,581	3,145
Non-controlling Tier 1 capital included in other Tier 1 Capital	(320)	(320)
	3,261	2,825
Regulatory adjustments		
Unrealised losses on available-for-sale debt securities	(97)	282
Unrealised gains on available-for-sale equity securities included in Tier 2	(495)	(308)
Cash flow hedge reserve	(77)	13
Other adjustments	(35)	(46)
	(704)	(59)
Deductions		
Goodwill and other intangible assets	(6,954)	(6,721)
50 per cent excess of expected losses [1]	(966)	(703)
50 per cent of tax on expected losses	238	187
50 per cent of securitisation positions	(118)	(106)
Other regulatory adjustments	(42)	(52)
	(7,842)	(7,395)
Core Tier 1 capital	29,519	26,176
Other Tier 1 Capital		
Preference shares included within shareholder's equity	1,495	1,500
Included within 'Subordinated debt and other borrowings[1]	925	929
Innovative Tier 1 securities (excluding non-controlling Tier 1 Capital)	2,553	2,507
Non-controlling Tier 1 Capital	320	320
	5,293	5,256
Deductions		
50 per cent of tax on expected losses[1]	238	187
50 per cent of material holdings	(552)	(521)
	(314)	(334)
Total Tier 1 capital	34,498	31,098
Tier 2 capital:		
Qualifying subordinated liabilities: [2]		
Subordinated liabilities as per balance sheet	23,084	19,462
Preference shares eligible for Tier 1 capital	(925)	(929)
Innovative Tier 1 securities eligible for Tier 1 capital	(2,553)	(2,507)
Adjustments relating to fair value hedging and non-eligible securities	(1,890)	(1,578)
	17,716	14,448
Regulatory adjustments		
Reserves arising on revaluation of available-for-sale equities	495	308
Portfolio impairment provision	248	239
	743	547
Deductions		
50 per cent excess of expected losses[1]	(966)	(703)
50 per cent of material holdings	(552)	(521)
50 per cent of securitisation positions	(118)	(106)
	(1,636)	(1,330)
Total Tier 2 capital	16,823	13,665
Deductions from Tier 1 and Tier 2 capital	(3)	(4)
Total Capital Base	51,318	44,759

1 Excess of expected losses in respect of advanced IRB portfolios are shown gross of tax benefits

2 Consists of perpetual subordinated debt $3,147 million (2011: $3,289 million) and other eligible subordinated debt $14,569 million (2011: $11,159 million).

Movement in Total capital

	2012 $million	2011 $million
Opening Core Tier 1 capital:	**26,176**	23,713
Ordinary shares issued in the year and share premium	-	367
Profit for the year	**4,275**	4,271
Dividends, net of scrip	**(1,473)**	(1,212)
Increase in goodwill and other intangible assets	**(233)**	(44)
Foreign currency translation differences	**499**	(1,002)
Increase in unrealised gains on available for sale assets	**(379)**	107
Movement in eligible other comprehensive income	**878**	(11)
Increase in excess expected loss, net of tax	**(212)**	(39)
Increase/(decrease) in securitisation positions	**(12)**	26
Closing Core Tier 1 capital	**29,519**	26,176
Opening Other Tier 1 capital	**4,922**	5,099
Increase in tax benefit of excess expected loss	**51**	4
Increase in material holdings deducted from capital	**(31)**	(195)
Other	**37**	14
Closing Other Tier 1 capital	**4,979**	4,922
Opening Tier 2 capital	**13,665**	12,583
Issuance of subordinated loan capital, net of redemptions and foreign currency translation differences	**3,268**	1,553
Increase in revaluation reserve eligible for inclusion in Tier 2 capital	**187**	(236)
Portfolio impairment provision	**9**	(27)
Increase in excess expected loss	**(263)**	(39)
Increase in material holdings deducted from capital	**(31)**	(195)
Increase in securitisation positions	**(12)**	26
Closing Tier 2 capital	**16,823**	13,665
Deductions from total capital	**(3)**	(4)
Closing Total capital	**51,318**	44,759

Standard Chartered Bank

Report of the Directors

Directors' Report

The directors present their report and the audited financial statements of Standard Chartered Bank ('the Company') and its subsidiaries (the 'Group') and Standard Chartered Bank (the 'Company') for the year ended 31 December 2012.

Activities

The activities of the Group are banking and providing other financial services. The Financial Review on pages 3 to 13 contains a review of the business during 2012.

Post balance sheet events

There are no post balance sheet events, other than disclosed in note 44 to the accounts.

Financial instruments

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

Results and dividends

The results for the year are given in the income statement on page 91.

Interim dividends totalling $1,372 million were paid to ordinary shareholders during the year (2011: $1,111 million). The directors do not recommend the payment of a final dividend (2011: $nil).

Share capital

Details of the Company's share capital are given in note 35 to the accounts.

Loan capital

Details of the loan capital are given in note 32 to the accounts.

Property, plant and equipment

Details of the property, plant and equipment of the Company are given in note 26 to the accounts.

Directors and their interests

The directors of the Company at the date of this report are:

Mr P A Sands, Chairman
Mr S P Bertamini
Mr J S Bindra
Mr R H Meddings
Dr T J Miller
Mr A M G Rees
Mr V Shankar
Mrs T J Clarke (appointed 14 January 2013)
Mr J P Verplancke (appointed 14 January 2013)
Mr R F Goulding (appointed 14 January 2013)

None of the directors have a beneficial or non-beneficial interest in the shares of the Company or in any of its subsidiary undertakings.

Details of directors' pay and benefits are disclosed in note 14 to the accounts.

All of the directors as at 31 December 2012, except for Dr T Miller are directors of the Company's ultimate holding company, Standard Chartered PLC, and their interests in the share capital of that company are shown in its report and accounts.

Mrs T J Clarke, Mr J P Verplancke and Mr R F Goulding are not directors of the Company's ultimate holding company, Standard Chartered PLC.

Directors' Interests in Standard Chartered PLC Ordinary Shares

Directors	At 1 January 2012 Total interests	At 31 December 2012 Total interests
T J Miller	193,010	193,010

Share Awards

Directors	Scheme	At 1 January 2012	Granted	Exercised	Lapsed	At 31 December 2012
T J Miller	PSP	140,959	-	99,855	41,104	-
	PSP	89,480	-	-	-	89,480
	PSA	95,033	-	-	-	95,033
	PSA	-	103,072	-	-	103,072
	Deferred RSS	17,722	-	17,722	-	-
	Deferred RSS	26,029	-	13,014	-	13,015
	Deferred RSS	29,792	900	10,229	-	20,463
	Deferred RSA	-	33,395	-	-	33,395
	Sharesave	1,040	-	-	-	1,040

Definitions:

2011 Standard Chartered Share Plan (the 2011 Plan)

Approved by shareholders in May 2011 this is the Group's main share plan, applicable to all employees including executive directors with the flexibility to provide a variety of award types. The 2011 Plan is designed to deliver performance shares, deferred awards and restricted shares, giving us sufficient flexibility to meet the challenges of the changing regulatory and competitive environment. Discretionary share awards are a key part of both executive directors' and senior management's variable compensation and their significance as a proportion of potential total remuneration is one of the strongest indicators of our commitment to pay for sustainable performance and aligning reward with our risk horizon.

Performance share awards

Awards vest after a three year period and are subject to three equally weighted performance measures; Total Shareholder Return (TSR), Earnings per Share (EPS) and Return on Risk Weighted Assets (RoRWA).

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 2012 performance year, elements of the annual performance award plan which 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. Levels of deferral are not subject to an annual limit so as to ensure that regulatory requirements relating to deferral levels can be met and also reflect emerging market practices. Deferred awards are not be subject to any further performance criteria, although the claw-back policy will apply.

Restricted shares

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

2000 Executive Share Option Scheme (2000 ESOS) – now closed to new grants

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

2001 Performance Share Plan (PSP) – now closed to new grants

The Group's previous plan for delivering performance shares was the PSP.. Under the PSP half the award is dependent upon TSR performance and the balance is subject to a target of defined EPS growth. Both measures use the same three-year period and are assessed independently.

1997/2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS) – closed to new grants

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There are still unvested and vested awards outstanding under these plans Awards were generally 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.

2004 Deferred Bonus Plan (DBP)

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

All Employee Sharesave Plans (Sharesave)

Under the Sharesave plans, 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 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 sharesave.

Community Investment

The Group recognises its responsibility to invest in the communities where it operates and to act as a good corporate citizen. In 2012, the Group made a total investment of $54.4 million (2011: $47.4 million) in the communities in which it operates. This included direct financial support of $17.8 million (2011: $19.4 million), and indirect contributions, which comprise employee time; the donation of non-monetary goods and funds raised by our employees of $37.8 million (2011: $23.4 million).

Employees

The employment policies of the Company are designed to meet relevant social, statutory and market conditions and practices in each country where it operates. The Company communicates systematically with its employees on a wide range of issues, through briefings to managers, who are encouraged to hold subsequent meetings with staff and through circulars, publications and videos.

The Company recognises its social and statutory duty to employ disabled people and has followed a policy in the United Kingdom of providing the same employment opportunities for disabled people as for others wherever possible. If employees become disabled, every effort is made to ensure their continued employment with appropriate training where necessary.

Risk management
The risk management objectives of the Group and Company including the policy for hedging risk is set out in note 17. The Group and Company's exposure to market risk, credit risk, liquidity risk and currency risk are set out in Risk review.

Significant contracts
There were no contracts of significance during the year in which any of the directors were materially interested.

Areas of operation
The Company operates through branches and subsidiaries in Asia Pacific, the Middle East, South Asia, Africa, Europe, the United Kingdom and the Americas.

Creditor payment policy
Operating businesses are responsible for agreeing the terms and conditions with their suppliers in the economies where they conduct business. It is the Company's policy to pay creditors when the amounts fall due for payment. For Standard Chartered Bank in the United Kingdom at 31 December 2012 there were 34 days purchases outstanding.

Environmental policy
The Company recognises that it should minimise any adverse impact of the conduct of its business on the environment. It therefore aims to manage its businesses according to best practice with regard to the use of energy and other resources and by disposing of waste responsibly, by encouraging its customers to ensure that their products, processes and businesses do not damage the environment unnecessarily and by taking environmental considerations into account in business decisions.

Qualifying Third Party Indemnities
Standard Chartered PLC, the Company's ultimate holding company has granted qualifying third party indemnities to the directors of the Company. These indemnities remain in force at the time of this report. The Company itself has not granted any qualifying third party indemnities to the directors.

Social, Ethical and Environmental Responsibilities
The Group complies with the guidelines issued by the Association of British Insurers on responsible investment disclosure and is committed to the communities and environments in which it operates. The Court is the equivalent of the Board of Directors for Standard Chartered Bank. The Court is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. The Group has established and maintains policies and procedures in relation to SEE related risks. Through the Group's risk management structure and control framework, the Court receives regular and adequate information to identify and assess significant risks and opportunities arising from SEE matters.

Designated policy owners monitor risks in their area. They also work with line management to assist them in designing procedures to ensure compliance with these requirements. In every country, the Country Management Committee ('MANCO') supported by the Country Operational Risk Group ('CORG') is responsible for ensuring there are risk management frameworks in place to monitor, manage and report SEE risk. The Country Chief Executives chair both the MANCOs and CORGs.

Compliance with these policies and procedures is the responsibility of all managers. In assessing, incentivising and rewarding performance, guidance to managers was published during 2002. This explicitly states that account should be taken of adherence to all relevant Group policies, including those associated with SEE risk. Significant exceptions and emerging risks are escalated to senior management through clearly documented internal reporting procedures such as MANCO.

Key areas of risk are those associated with customers' activities and potential impacts on the natural environment. The Court recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on the Group's business. These risks are recognised in reaching lending decisions explicitly identified in the Group's lending policies. The Group has adopted the revised Equator Principles 2 that set procedures, based on the International Finance Corporation guidelines, for recognising the environmental and social impacts and risks associated with project finance. The Principles have been embedded in the Group's project finance lending policy and procedures.

The Group continues to review and, where appropriate, strengthen its money laundering prevention policies, procedures and training. The Court is not aware of any material exceptions to its policies.

Auditor
KPMG Audit Plc have agreed to continue as the Company's auditor and a resolution for its re-appointment will be proposed at this year's annual general meeting.

The directors have taken all necessary steps to make themselves and KPMG Audit Plc aware of any information needed in performing the audit of the 2012 Annual Report and Accounts and as far as each of the directors is aware, there is no relevant audit information of which KPMG Audit Plc is unaware.

By order of the Court

Annemarie Durbin
Secretary
5 March 2013
Company Reference Number:ZC18

Standard Chartered Bank

Statement of Directors' Responsibilities in respect of the Financial Statements

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

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group and Company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Bank financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Directors' responsibility statement

The directors confirm to the best of their knowledge:

1. the financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation as a whole; and
2. the management reports, which are incorporated into the report of the directors, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with the principal risks and uncertainties they face.

By order of the Court

Richard Meddings

R H Meddings
Director
5 March 2013

Standard Chartered Bank

Independent Auditor's Report to the members of Standard Chartered Bank

We have audited the financial statements of the Group (Standard Chartered Bank and its subsidiaries) and Bank (Standard Chartered Bank) (together referred to as the 'financial statements') for the year ended 31 December 2012 set out on pages 91 to 196. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Bank's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 89, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website www.frc.org.uk/auditscopeukprivate .

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Bank's financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report which include information presented in the Financial Review that are cross referenced from the Report of Directors, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

John Hughes (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
5 March 2013

Standard Chartered Bank
Consolidated income statement

For the year ended 31 December 2012

	Notes	2012 $million	2011 $million
Interest income	3	**18,258**	16,584
Interest expense	4	**(7,253)**	(6,418)
Net interest income		**11,005**	10,166
Fees and commission income	5	**4,621**	4,469
Fees and commission expense	5	**(504)**	(426)
Net trading income	6	**2,769**	2,679
Other operating income	7	**1,102**	793
Non-interest income		**7,988**	7,515
Operating income		**18,993**	17,681
Staff costs	8	**(6,577)**	(6,662)
Premises costs	8	**(886)**	(862)
General administrative expenses	8	**(2,758)**	(1,804)
Depreciation and amortisation	9	**(687)**	(639)
Operating expenses		**(10,908)**	(9,967)
Operating profit before impairment losses and taxation		**8,085**	7,714
Impairment losses on loans and advances and other credit risk provisions	10	**(1,221)**	(908)
Other impairment	11	**(194)**	(111)
Profit from associates		**116**	74
Profit before taxation		**6,786**	6,769
Taxation	12	**(1,856)**	(1,848)
Profit for the year		**4,930**	4,921
Profit attributable to:			
Non-controlling interests	36	**655**	650
Parent company shareholders		**4,275**	4,271
Profit for the year		**4,930**	4,921

The notes on pages 98 to 196 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Notes	2012 $million	2011 $million
Profit for the year		**4,930**	4,921
Other comprehensive income:			
Item that will not be reclassified to Income statement:			
Actuarial losses on retirement benefit obligations	34	**(76)**	(189)
Items that may be reclassified subsequently to Income statement:			
Exchange differences on translation of foreign operations:			
Net gains/(losses) taken to equity		**575**	(1,012)
Net (losses)/gains on net investment hedges		**(73)**	5
Share of comprehensive income from associates		**(2)**	1
Available-for-sale investments:			
Net valuation gains/(losses) taken to equity		**1,056**	(212)
Reclassified to income statement		**(339)**	(267)
Cash flow hedges:			
Net gains taken to equity		**133**	4
Reclassified to income statement		**(20)**	(94)
Taxation relating to components of other comprehensive income	12	**(132)**	98
Other comprehensive income for the year, net of taxation		**1,122**	(1,666)
Total comprehensive income for the year		**6,052**	3,255
Attributable to:			
Non-controlling interests	36	**684**	508
Parent company shareholders		**5,368**	2,747
		6,052	3,255

The notes on pages 98 to 196 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated balance sheet

As at 31 December 2012

	Notes	2012 $million	2011[1] $million
Assets			
Cash and balances at central banks	15, 39	**61,043**	47,364
Financial assets held at fair value through profit or loss	15, 16	**27,084**	24,828
Derivative financial instruments	15, 17	**49,496**	58,567
Loans and advances to banks	15, 18	**68,380**	65,980
Loans and advances to customers	15, 19	**283,885**	266,790
Investment securities	15, 21	**99,413**	85,283
Other assets	15, 22	**28,745**	27,149
Current tax assets		**215**	232
Prepayments and accrued income		**2,581**	2,521
Interests in associates	23	**953**	903
Goodwill and intangible assets	25	**6,954**	6,721
Property, plant and equipment	26	**6,646**	5,078
Deferred tax assets	27	**691**	835
Total assets		**636,086**	592,251
Liabilities			
Deposits by banks	15, 28	**36,477**	35,296
Customer accounts	15, 29	**377,639**	345,726
Financial liabilities held at fair value through profit or loss	15, 16	**23,064**	19,599
Derivative financial instruments	15, 17	**48,194**	57,118
Debt securities in issue	15, 30	**41,445**	35,766
Other liabilities	15, 31	**24,508**	23,769
Due to parent companies		**15,096**	13,627
Current tax liabilities		**1,208**	1,088
Accruals and deferred income		**4,611**	4,332
Subordinated liabilities and other borrowed funds	15, 32	**23,084**	19,462
Deferred tax liabilities	27	**161**	130
Provisions for liabilities and charges	33	**215**	369
Retirement benefit obligations	34	**504**	519
Total liabilities		**596,206**	556,801
Equity			
Share capital	35	**12,054**	12,054
Reserves		**24,245**	20,251
Total parent company shareholders' equity		**36,299**	32,305
Non-controlling interests	36	**3,581**	3,145
Total equity		**39,880**	35,450
Total equity and liabilities		**636,086**	592,251

[1] Amounts have been restated as explained in note 46.

The notes on pages 98 to 196 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 5 March 2013 and signed on its behalf by:

Richard Meddings

P A Sands
Director

R H Meddings
Director

Standard Chartered Bank

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Share capital $million	Share premium account $million	Capital and Capital redemption reserve[1] $million	Available-for-sale reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company shareholders equity $million	Non-controlling interests $million	Total $million
At 1 January 2011	11,687	1,796	40	326	64	(428)	16,821	30,306	3,054	33,360
Profit for the year	-	-	-	-	-	-	4,271	4,271	650	4,921
Other comprehensive income	-	-	-	(365)	(77)	(1,001)	(81)[2]	(1,524)	(142)	(1,666)
Distributions	-	-	-	-	-	-	-	-	(437)	(437)
Shares issued, net of expenses	367	-	-	-	-	-	-	367	-	367
Deemed capital contribution[4]	-	-	-	-	-	-	430	430	-	430
Taxation on share option expense	-	-	-	-	-	-	59	59	-	59
Dividends	-	-	-	-	-	-	(1,212)	(1,212)	-	(1,212)
Deemed distribution to parent	-	-	-	-	-	-	(392)	(392)	-	(392)
Other increases	-	-	-	-	-	-	-	-	20	20
At 31 December 2011	**12,054**	**1,796**	**40**	**(39)**	**(13)**	**(1,429)**	**19,896**	**32,305**	**3,145**	**35,450**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**4,275**	**4,275**	**655**	**4,930**
Other comprehensive income	**-**	**-**	**-**	**527**	**90**	**499**	**(23)[3]**	**1,093**	**29**	**1,122**
Distributions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(256)**	**(256)**
Shares issued, net of expenses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deemed capital contribution[4]	**-**	**-**	**-**	**-**	**-**	**-**	**451**	**451**	**-**	**451**
Taxation on share option expense	**-**	**-**	**-**	**-**	**-**	**-**	**22**	**22**	**-**	**22**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(1,473)**	**(1,473)**	**-**	**(1,473)**
Deemed distribution to parent	**-**	**-**	**-**	**-**	**-**	**-**	**(374)**	**(374)**	**-**	**(374)**
Other increases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**8**
At 31 December 2012	**12,054**	**1,796**	**40**	**488**	**77**	**(930)**	**22,774**	**36,299**	**3,581**	**39,880**

1 Includes capital reserve of $5 million, capital redemption reserve of $35 million at 1 January 2011, 31 December 2011 and 2012.

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

3 Includes actuarial losses, net of taxation and non-controlling interest share, of $23 million.

4 Comprises deemed capital contribution from parent arising from share based payment of $374 million (2011: $430 million) and debt waiver of $77 million (2011: nil).

Note 35 includes a description of each reserve.

The notes on pages 98 to 196 form an integral part of these financial statements.

Standard Chartered Bank

Cash flow statement

For the year ended 31 December 2012

		Group		Company	
		2012	2011	2012	2011
	Notes	$million	$million	$million	$million
Cash flows from operating activities					
Profit before taxation		**6,786**	6,769	**3,564**	4,014
Adjustments for:					
Non-cash items included within income statement	38	**2,395**	2,667	**33**	446
Change in operating assets	38	**(15,846)**	(79,912)	**(13,526)**	(53,449)
Change in operating liabilities	38	**26, 735**	93,734	**25,585**	68,197
Contributions to defined benefit schemes		**(204)**	(77)	**(83)**	(36)
UK and overseas taxes paid		**(1,700)**	(1,618)	**(811)**	(1,029)
Net cash from operating activities		**18,166**	21,563	**14,762**	18,143
Net cash flows from investing activities					
Purchase of property, plant and equipment		**(168)**	(286)	**(61)**	(143)
Disposal of property, plant and equipment		**195**	139	**30**	54
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired		**(63)**	(906)	**(131)**	(1,642)
Disposal and redemption of investment in subsidiaries		**-**	-	**830**	3,911
Purchase of investment securities	21	**(157,325)**	(131,260)	**(40,006)**	(45,121)
Disposal and maturity of investment securities	21	**145,905**	119,831	**35,714**	35,143
Dividends received from investment in subsidiaries and associates		**14**	10	**1,237**	940
Net cash used in investing activities		**(11,442)**	(12,472)	**(2,387)**	(6,858)
Net cash flows from financing activities					
Issue of ordinary and preference share capital, net of expenses		**-**	367	**-**	367
Interest paid on subordinated liabilities		**(739)**	(738)	**(651)**	(651)
Gross proceeds from issue of subordinated liabilities		**4,978**	2,229	**4,810**	1,300
Repayment of subordinated liabilities		**(1,667)**	(540)	**(1,173)**	(500)
Interest paid on senior debts		**(61)**	(539)	**4**	371
Gross proceeds from issue of senior debts		**8,542**	11,741	**-**	5,046
Repayment of senior debts		**(5,938)**	(9,155)	**-**	(5,254)
Dividends paid to non-controlling interests and preference shareholders		**(356)**	(538)	**(101)**	(101)
Dividends paid to ordinary shareholders		**(1,373)**	(1,111)	**(1,372)**	(1,111)
Net cash from/(used in) financing activities		**3,386**	1,716	**1,517**	(533)
Net increase in cash and cash equivalents		**10,110**	10,807	**13,892**	10,752
Cash and cash equivalents at beginning of year		**70,450**	59,734	**46,866**	36,272
Effect of exchange rate movements on cash and cash equivalents		**40**	(91)	**(93)**	(158)
Cash and cash equivalents at end of year	39	**80,600**	70,450	**60,665**	46,866

The notes on pages 98 to 196 form an integral part of these financial statements.

Standard Chartered Bank
Company balance sheet

As at 31 December 2012

	Notes	2012 $million	Singapore subsidiarisation $million	2012 Revised $million	2011 [1] $million
Assets					
Cash and balances at central banks	15, 39	**49,655**	**(600)**	**49,055**	36,268
Financial assets held at fair value through profit or loss	15, 16	**17,027**	**-**	**17,027**	13,586
Derivative financial instruments	15, 17	**47,443**	**-**	**47,443**	56,929
Loans and advances to banks	15, 18	**37,250**	**-**	**37,250**	36,972
Loans and advances to customers	15, 19	**137,982**	**(21,300)**	**116,682**	123,273
Investment securities	15, 21	**43,615**	**(3,700)**	**39,915**	38,416
Other assets	15, 22	**18,779**	**-**	**18,779**	16,058
Due from subsidiary undertakings and other related parties		**18,029**	**-**	**18,029**	16,490
Current tax assets		**37**	**-**	**37**	47
Prepayments and accrued income		**1,170**	**-**	**1,170**	1,203
Investment in subsidiary undertakings	23	**13,571**	**-**	**13,571**	14,270
Investment in joint ventures	23	**489**	**-**	**489**	396
Investment in associates	23	**45**	**-**	**45**	53
Goodwill and intangible assets	25	**1,031**	**-**	**1,031**	933
Property, plant and equipment	26	**626**	**-**	**626**	685
Deferred tax assets	27	**571**	**-**	**571**	519
Assets classified as held for sale	45	**-**	**25,600**	**25,600**	-
Total assets		**387,320**	**-**	**387,320**	356,098
Liabilities					
Deposits by banks	15, 28	**28,375**	**-**	**28,375**	27,933
Customer accounts	15, 29	**169,882**	**(24,900)**	**144,982**	150,772
Financial liabilities held at fair value through profit or loss	15, 16	**11,501**	**-**	**11,501**	6,855
Derivative financial instruments	15, 17	**45,997**	**-**	**45,997**	55,703
Debt securities in issue	15, 30	**31,959**	**-**	**31,959**	24,923
Other liabilities	15, 31	**11,738**	**(500)**	**11,238**	11,019
Due to subsidiary undertakings and other related parties		**39,244**	**-**	**39,244**	36,014
Current tax liabilities		**812**	**-**	**812**	697
Accruals and deferred income		**2,501**	**-**	**2,501**	2,339
Subordinated liabilities and other borrowed funds	15, 32	**20,107**	**-**	**20,107**	16,288
Deferred tax liabilities	27	**74**	**-**	**74**	52
Provisions for liabilities and charges	33	**133**	**-**	**133**	125
Retirement benefit obligations	34	**365**	**-**	**365**	324
Liabilities classified as held for sale	45	**-**	**25,400**	**25,400**	-
Total liabilities		**362,688**	**-**	**362,688**	333,044
Equity					
Share capital	35	**12,054**	**-**	**12,054**	12,054
Reserves		**12,578**	**-**	**12,578**	11,000
Total parent company shareholders' equity		**24,632**	**-**	**24,632**	23,054
Total equity and liabilities		**387,320**	**-**	**387,320**	356,098

[1] Amounts have been restated as explained in note 46.

The notes on pages 98 to 196 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 5 March 2013 and signed on its behalf by:

P A Sands
Director

R H Meddings
Director

Standard Chartered Bank

Company statement of changes in equity

For the year ended 31 December 2012

	Share capital	Share premium account	Capital and Capital redemption reserve[1]	Available-for-sale reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Total
	$million	$million	$million	$million	$million	$million	$million	$million
At 1 January 2011	11,687	1,796	40	(50)	70	416	7,840	21,799
Profit for the year	-	-	-	-	-	-	2,849	2,849
Other comprehensive income	-	-	-	(18)	(87)	(623)	(90)	(818)
Shares issued, net of expenses	367	-	-	-	-	-	-	367
Taxation on share option expense	-	-	-	-	-	-	59	59
Deemed capital contribution[2]	-	-	-	-	-	-	317	317
Deemed distribution to parent	-	-	-	-	-	-	(307)	(307)
Dividends	-	-	-	-	-	-	(1,212)	(1,212)
At 31 December 2011	**12,054**	**1,796**	**40**	**(68)**	**(17)**	**(207)**	**9,456**	**23,054**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**2,754**	**2,754**
Other comprehensive income	**-**	**-**	**-**	**237**	**90**	**(80)**	**(58)**	**189**
Taxation on share option expense	**-**	**-**	**-**	**-**	**-**	**-**	**22**	**22**
Deemed capital contribution[2]	**-**	**-**	**-**	**-**	**-**	**-**	**353**	**353**
Deemed distribution to parent	**-**	**-**	**-**	**-**	**-**	**-**	**(275)**	**(275)**
Capitalised on scrip dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(1,473)**	**(1,473)**
Other movement	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**8**
At 31 December 2012	**12,054**	**1,796**	**40**	**169**	**73**	**(287)**	**10,787**	**24,632**

1 Includes capital reserve of $5 million, capital redemption reserve of $35 million at 1 January 2011, 31 December 2011 and 2012.

2 Comprises deemed capital distribution from parent arising from share based payments of $276 million (2011: $317 million) and debt waiver of $77 million (2011: nil).

Note 35 includes a description of each reserve.

The notes on pages 98 to 196 form an integral part of these financial statements.

1. Accounting policies

(a) Statement of compliance

The Group financial statements consolidate those of Standard Chartered Bank (the Company) and its subsidiaries (together referred to as the Group), equity account the Group's interest in associates and proportionately consolidate interests in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU). EU endorsed IFRS may differ from IFRS published by the International Accounting Standards Board (IASB) if a standard has not been endorsed by the EU.

In publishing the parent company financial statements together with the Group financial statements, the Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

The following parts of the Financial risk management section form part of these financial statements: from the start of "Financial risk management" on page 14 to the end of "Operational risk" on page 82, with the exception of the "Asset backed securities" and "The impact of Basel III" sections on pages 59 and 72 respectively.

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of cash-settled share based payments, available-for-sale assets, and financial assets and liabilities (including derivatives) at fair value through profit or loss. The Company financial statements have been prepared on a historical cost basis, as modified by cash settled share based payments and the revaluation of financial assets and liabilities (including derivatives) at fair value through profit or loss.

(c) Significant accounting estimates and judgements

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
- 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

The Group adopted the following amendments to existing accounting standards from 1 January 2012. These amendments have been endorsed by the EU and do not have a material impact on the Group.

Amendments to *IFRS 7 Financial Instruments: Disclosure* requires additional disclosures when an asset is transferred but is not derecognised. These amendments also require disclosure of assets that are derecognised but where the entity continues to have a continuing exposure to the asset after sale. Refer to note 15 for the Group's disclosure with respect to transferred assets.

Amendments to *IAS 12 Income Taxes* provides a practical approach for measuring deferred tax liabilities and deferred tax assets when it would be difficult and subjective to determine the expected manner of recovery.

The Group has early adopted amendments to IAS 1 *Presentation of Financial Statements* before their mandatory application date of 1 January 2013. These amendments change the grouping of items presented within Other Comprehensive Income (OCI) such that the potential impact that OCI items may have on future profit or loss can be more easily identified. Items that are eligible for reclassification to the income statement at a future point in time (for example, upon derecognition or settlement) are presented separately from items which will never be reclassified. These amendments are required to be applied retrospectively.

(f) Forthcoming accounting standards and interpretations – issued but not effective

At 31 December 2012, a number of accounting standards, interpretations and amendments had been issued by the International Accounting Standards Board, which are not yet effective for the Group or Company financial statements. Those which are expected to have a significant effect on the Group and Company financial statements in future years are discussed below.

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

Accounting standards effective 1 January 2013

The EU has endorsed IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures*, for application from 1 January 2014. Though this is one year later than the mandatory adoption date required by the IASB of 1 January 2013, the EU has permitted early adoption and the Group intends to early apply these five standards from 1 January 2013 IFRS 10 and 11, IAS 27 and 28 require retrospective application while IFRS 12 is applied prospectively.

IFRS 10 replaces the current guidance on consolidation in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Special Purpose Entities*. It introduces a single model of assessing control whereby an investor controls an investee when it has the power, exposure to variable returns and the ability to use its power to influence the returns of the investee. IFRS 10 also includes specific guidance on de facto control, protective rights and the determination of whether a decision maker is acting as principal or agent, all of which influence the assessment of control. The application of IFRS 10 is not expected to have a material impact on the Group.

1. Accounting policies continued

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. It requires all joint ventures to be equity accounted thereby removing the option in IAS 31 for proportionate consolidation. It also removes the IAS 31 concept of jointly controlled assets. As a result, the Group's joint venture investment in PT Bank Permata Tbk (Permata) which is currently proportionately consolidated, will be accounted for using the equity method under IFRS 11. This change is not expected to have a material impact on the Group and further details on the Group's interest in Permata are provided in note 23.

IFRS 12 prescribes additional disclosures around significant judgements and assumptions made in determining whether an entity controls another entity and has joint control or significant influence over another entity. The standard also requires disclosures on the nature and risks associated with interests in unconsolidated structured entities. These disclosures will be provided in the financial statements for the year ending 31 December 2013.

IFRS 13 *Fair Value Measurement* consolidates the guidance on how to measure fair value, which is presently spread across various IFRSs, into one comprehensive standard. It introduces the use of an exit price, as well as extensive disclosure requirements, particularly the inclusion of non-financial instruments into the fair value hierarchy. IFRS 13 is required to be applied prospectively. The most significant impact of applying IFRS 13 is the mandatory requirement for the fair value of derivative liabilities and other liabilities held at fair value through profit or loss to take into account an adjustment for an entity's own credit risk. The precise impact of this adjustment depends on the market conditions and the Group's holdings of financial instruments at the reporting date. IFRS 13 has been endorsed by the EU.

IAS 19 *Employee Benefits (Revised)*, introduces significant changes in the recognition, presentation and disclosure of defined benefit plans. The most significant impact on the Group as a result of these revisions comes in the form of the rate used to discount the plan assets. Where this rate is presently based on the expected return on each class of pension assets, from 1 January 2013, assets will be measured based on a AA rated corporate bond yield, which aligns to the rate at which the liability is discounted. It also makes changes to termination benefits as well as enhancing disclosure requirements and is required to be applied retrospectively. The effect of these changes on total operating expenses and pre-tax profit is not expected to be material and will depend on market interest rates, rates of return and the actual mix of scheme assets at that time. These revisions to IAS 19 have been endorsed by the EU.

Amendments to IFRS 7 *Financial Instruments: Disclosure*, require disclosure of the effect or potential effect of netting financial assets and financial liabilities on an entity's financial position. This includes financial instruments transacted under enforceable master netting arrangements or other similar agreements. The amendments are required to be applied retrospectively and have been endorsed by the EU.

Accounting standards effective 1 January 2014
Amendment to IAS 32 *Financial Instruments: Presentation* clarifies the requirements for offsetting financial assets and liabilities and addresses inconsistencies noted in current practice when applying the offsetting criteria in IAS 32. These amendments require retrospective application, can be early adopted and have been endorsed by the EU.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27), requires entities meeting the definition of an investment entity to not consolidate its subsidiaries or apply IFRS 3 Business Combinations when it obtains control of another entity. An investment entity is defined as an entity that:

- obtains funds from one or more investor for the purpose of providing those investor(s) with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and;
- measures and evaluates the performance of substantially all of its investments on a fair value basis

Entities not meeting the definition of an investment entity, including the parent company of an eligible investment entity, will continue to consolidate all subsidiaries. The investment entity consolidation exemption is not expected to have a material impact on the Group. This exemption had not been endorsed by the EU as at 31 December 2012.

Accounting standards effective 1 January 2015
IFRS 9 *Financial instruments*
IFRS 9 will eventually replace IAS 39 Financial Instruments: Recognition and Measurement and introduce new requirements for the classification and measurement of financial assets and financial liabilities. When completed, IFRS 9 will introduce a new model for recognising loan loss provisions based on expected losses, to replace the current model in IAS 39 which measures loan loss provisions based on incurred losses and provide for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology in addition to now permitting risk components of non-financial items to be hedged. As at 31 December 2012, only the classification and measurement phase of IFRS 9 had been published. The EU has indicated that it would not endorse IFRS 9 for use until all components have been completed. Given the uncertainty which surrounds the final form of IFRS 9, the Group is not in a position to quantify the impact of this accounting standard.

Classification and measurement
IFRS 9 as published operates a binary classification model whereby financial assets and liabilities are classified either at amortised cost or at fair value. Amortised cost classification is only permitted where the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and where these contractual cash flows are solely payment of principal and interest. In all other cases the financial asset is classified and measured at fair value through profit or loss. Fair value movements on non-trading equity instruments may be presented in other comprehensive income, though these cannot be recycled to the income statement upon disposal of the equity instrument.

Financial liabilities are required to be measured at fair value or amortised cost as is the case under IAS 39, except that the change in fair value relating to own credit is reported within other comprehensive income and not the income statement.

In November 2012, the IASB issued an exposure draft of limited amendments to the classification and measurement requirements of IFRS 9 which proposed introducing a third classification category where, subject to qualifying criteria, fair value changes on debt instruments would be measured through reserves and will be eligible for recycling.

1. Accounting policies continued

Impairment
The IASB continues to debate proposals around recognising credit losses based on an expected loss approach. Based on its most recent deliberations, the Board has indicated that it will proceed with a methodology whereby either 12 months' expected losses or lifetime expected losses would be measured depending on whether certain criteria for recognising lifetime expected losses are met including whether or not the asset deteriorates below 'investment grade'. The IASB is expected to issue a new exposure draft on impairment for financial assets held at amortised cost in the first quarter of 2013.

Hedge accounting
The IASB has split the hedge accounting phase into two parts: general hedging and macro hedging. The Board issued a review draft of a general hedging standard in September 2012, which seeks to deliver a more principles based standard that aligns hedge accounting more closely with risk management. This includes, amongst others, assessing hedge effectiveness through qualitative, forward looking assessments rather than using bright lines and hedging risk components of non-financial items. This part is expected to be completed in the first quarter of 2013. A discussion paper on macro hedging is expected in the first half of 2013.

(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; or
- where the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Details on the Group's use of SPEs are set out in note 43.

Associates and jointly controlled entities
Associates are all entities over which the Group has the ability to significantly influence, but not control, the financial and operating policies and procedures generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Details of the Group's interest in associates are provided in note 23.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

At each balance sheet date the Group assesses whether there is any objective evidence of impairment in the investment in associates, evidence of objective evidence is a significant or prolonged decline in the fair value of the Group's investment in an associate below its cost is considered, amongst other factors in assessing objective evidence of impairment for associates.

Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Jointly controlled entities
Interests in jointly controlled entities are recognised using proportionate consolidation whereby the Group's share of the joint venture's assets, liabilities, income and expenses are combined line by line with similar items in the Group's financial statements. Further details on the Group's joint venture investment are provided in note 23.

Goodwill recognised on jointly controlled entities is assessed similar to goodwill arising on consolidation of subsidiaries.

Investment in subsidiaries, associates and joint ventures
In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received prior to 1 January 2009, if any.

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

1. Accounting policies continued

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Note 24 provides details on business combinations entered into by the Group during 2012.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill (see note 25 for details on goodwill recognised by the Group). If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the income statement if (i) they arise within 12 months of the acquisition date and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period adjustments). Such adjustments are applied as at the date of acquisition and if applicable, prior period amounts are restated. All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not remeasured.

Changes in ownership interest in a subsidiary which do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Where a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the income statement.

(j) Foreign currencies

Items included in the Group financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency of that entity). Both the Company and Group financial statements are presented in US dollars, which is the functional and presentation currency of the Company and the presentation currency of the Group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost, or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the income statement or shareholders' equity depending on the treatment of the gain or loss on the asset or liability.

Foreign currency translation

The results and financial position of all the entities included in the Group financial statements that have a functional currency different from the Group's presentation currency are accounted for as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly; and
- all resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or capital repatriated they are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(k) Income recognition

Income from financial instruments

Gains and losses arising from changes in the fair value of financial instruments held at fair value through profit or loss are included in the income statement in the period in which they arise. Contractual interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

If the financial asset has been reclassified, subsequent increases in the estimates of future cash receipts as a result of increased recoverability are recognised as an adjustment to the effective interest rate from the date of the change in estimate.

1. Accounting policies continued

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Dividends on equity instruments are recognised in the income statement within other income when the Group's right to receive payment is established.

Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided or significant act performed. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate as for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportionment basis.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central banks (unless restricted) and balances with less than three months maturity from the date of acquisition, including treasury bills and other eligible bills, loans and advances to banks, and short-term government securities.

(m) Financial assets and liabilities classification (excluding derivatives)

The Group classifies its financial assets into the following measurement categories: a) financial assets held at fair value through profit or loss; b) loans and receivables; c) held-to-maturity; and d) available-for-sale. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition or, where applicable, at the time of reclassification. Details of financial assets and liabilities held by the Group are provided in notes 15, 16 and 17

Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis; or
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; or
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

For certain loans and advances and debt securities with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these loans and advances and debt securities have been designated at fair value through profit or loss. Details of financial assets designated at fair value are disclosed in notes 15 and 16.

The Group has also designated certain financial liabilities at fair value through profit or loss where either the liabilities:

- have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered into with the intention of significantly reducing interest rate risk; or
- are exposed to foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes; or
- have been acquired to fund trading asset portfolios or assets, or where the assets and liabilities are managed, and performance evaluated, on a fair value basis for a documented risk management or investment strategy.

Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost expense recognition. Details of financial liabilities designated at fair value are disclosed in note 15.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substationally all of the initial investment will be recovered, other than because of credit deterioration.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

Available-for-sale

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

Further details on the application of these policies is set out in note 15.

Financial liabilities held at amortised cost

Financial liabilities, which include borrowings, not classified held at fair value through profit or loss are classified as amortised cost instruments.

Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

1. Accounting policies continued

The fair values of quoted financial assets and liabilities in active markets are based on current prices. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market date.

Equity investments that do not have an observable market price are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering, after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and financial assets classified as held-to-maturity and available-for-sale are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers.

All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income line in the income statement.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Financial liabilities are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group considers the following factors in assessing objective evidence of impairment:

- whether the counterparty is in default of principal or interest payments
- when a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation
- where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation
- where the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments
- where the Group sells a credit obligation at a material credit-related economic loss; or
- where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

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.

1. Accounting policies continued

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 section on pages 29 and 30. 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 Financial risk management section.

Available-for-sale assets

Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is reclassified from equity and recognised in the income statement. A significant or prolonged decline in the fair value of an equity security below its cost is considered, amongst other factors in assessing objective evidence of impairment for equity securities.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Renegotiated loans

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.

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.

1. Accounting policies continued

Details of repo and reverse-repo transactions entered into by the Group are provided in note 15.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income'.

(n) Derivative financial instruments and hedge accounting
Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs 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 valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a 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.

Details of derivative financial instruments held by the Group, including those held for hedge accounting are provided in note 17.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity or derecognition.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of.

Further details on the application of these policies are set out in note 17.

Derivatives that do not qualify for hedge accounting
Changes in the fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in the income statement.

1. Accounting policies continued

(o) Leases

Where a Group company is the lessee
The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Group is a lessee under finance leases, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

Where a Group company is the lessor
When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax cash flows.

Assets leased to customers under operating leases are included within Property, plant and equipment and depreciated over their useful lives. Rental income on these leased assets is recognised in the income statement on a straight-line basis unless another systematic basis is more representative.

(p) Intangible and tangible fixed assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint ventures is included in Intangible assets. Goodwill on acquisitions of associates is included in Investments in associates. Goodwill included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments (as set out in note 2) as the Group views its reportable segments on a global basis. Note 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.

1. Accounting policies continued

(q) Taxation

Income tax payable on profits is based on the applicable tax law in each jurisdiction and is recognised as an expense in the period in which profits arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted as at the balance sheet date, and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

(r) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where a liability arises based on participation in a market at a specified date (such as the UK bank levy), the obligation is recognised in the financial statements on that date and is not accrued over the period.

(s) Employee benefits

Pension obligations

The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight-line basis. Current service costs and any past service costs, together with the unwinding of the discount on plan liabilities, offset by the expected return on plan assets where applicable, are charged to operating expenses.

Details of the Group's retirement benefit obligations are provided in note 34.

Share-based compensation

The ultimate parent company of the Group and Company, Standard Chartered PLC, operates share based compensation schemes for employees of the Group and Company. All share options granted by the parent are accounted for on an equity settled basis regardless of how the parent ultimately settles with the employees of the Group and Company. The Group and Company receive the fair value of the employee services in exchange for grant of options by the parent. The services received from the employees are recognised as expenses with a corresponding credit to equity, which represents a deemed contribution from Standard Chartered PLC.

The amount to be expensed over the vesting period is determined by reference to the fair value of the options received by the employees, which excludes the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments received is based on market prices of the parent's shares, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the parent revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at the time of cancellation.

Details of the Group's share based compensation scheme are set out in note 37.

(t) Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares and preference shares classified as equity are recognised in equity in the period in which they are declared.

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

2. Segmental Information

The Group is organised on a worldwide basis for management and reporting purposes into two main business segments: Consumer Banking and Wholesale Banking. The products offered by these segments are summarised under 'Income by product' below. The businesses' focus is on broadening and deepening the relationship with clients and customers, rather than maximising a particular product line. Hence the Group evaluates segmental performance based on overall profit or loss before taxation (excluding corporate items not allocated) and not individual product profitability. Product revenue information is used as a way of assessing clients and customer needs and trends in the market place. The strategies adopted by Consumer Banking and Wholesale Banking need to be adapted to local market and regulatory requirements, which is the responsibility of country management teams. While not the primary driver of the business, country performance is an important part of the Group's matrix structure and is also used to evaluate performance and reward staff. Corporate items not allocated are not aggregated into the businesses because of the one-off nature of these items.

The Group's entity-wide disclosure which includes profit before tax, net interest margin and structure of the Group's deposits comprises geographic areas, classified by the location of the customer, except for Financial Market products which are classified by the location of the dealer.

Transactions between the business segments and geographic areas are carried out on an 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

	2012					2011				
	Consumer Banking	Wholesale Banking	Total reportable segments	Corporate items not allocated[2]	Total	Consumer Banking	Wholesale Banking	Total reportable segments	Corporate items not allocated[3]	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million
Internal income	(16)	16	-	-	-	(44)	44	-	-	-
Net interest income	4,922	6,083	11,005	-	11,005	4,630	5,536	10,166	-	10,166
Other income	2,296	5,692	7,988	-	7,988	2,216	5,299	7,515	-	7,515
Operating income	7,202	11,791	18,993	-	18,993	6,802	10,879	17,681	-	17,681
Operating expenses	(4,726)	(6,008)	(10,734)	(174)	(10,908)	(4,627)	(5,175)	(9,802)	(165)	(9,967)
Operating profit before impairment losses and taxation	2,476	5,783	8,259	(174)	8,085	2,175	5,704	7,879	(165)	7,714
Impairment losses on loans and advances and other credit risk provisions	(697)	(524)	(1,221)	-	(1,221)	(524)	(384)	(908)	-	(908)
Other impairment	(4)	(120)	(124)	(70)	(194)	(12)	(99)	(111)	-	(111)
Profit from associates	-	-	-	116	116	-	-	-	74	74
Profit before taxation	1,775	5,139	6,914	(128)	6,786	1,639	5,221	6,860	(91)	6,769
Total assets employed [4]	143,133	491,094	634,227	1,859	636,086	135,058	455,223	590,281	1,970	592,251
Total liabilities employed [4]	191,297	403,540	594,837	1,369	596,206	174,359	381,224	555,583	1,218	556,801
Other segment items:										
Capital expenditure[1]	210	2,042	2,252	-	2,252	178	1,397	1,575	-	1,575
Depreciation	148	263	411	-	411	169	199	368	-	368
Investment in associates	-	-	-	953	953	-	-	-	903	903
Amortisation of intangible assets	102	174	276	-	276	89	182	271	-	271

1 Includes capital expenditure in Wholesale Banking of $1,788 million in respect of operating lease assets (2011: $1,049 million).

2 Relates to profits realised from repurchase of subordinated liabilities, UK bank levy, impairment of investment in associates and the Group's share of profit from associates

3 Relates to UK bank levy and Group share of profit from associates

4 Amounts have been restated as explained in note 46

2. Segmental Information continued

The following table details entity-wide operating income by product:

	2012 $million	2011 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	2,707	2,426
Wealth Management	1,275	1,274
Deposits	1,566	1,412
Mortgage and Auto Finance	1,390	1,480
Other	264	210
	7,202	6,802
Wholesale Banking		
Lending and Portfolio Management	892	844
Transaction Banking		
Trade	1,942	1,600
Cash management and custody	1,733	1,657
	3,675	3,257
Global Markets		
Financial Markets	3,667	3,699
Asset and Liability Management (ALM)	850	924
Corporate Finance	2,224	1,879
Principal Finance	483	276
	7,224	6,778
	11,791	10,879

Entity-wide information

By geography

The Group manages its reportable business segments on a global basis. The operations are based in eight main geographic areas. The UK is the home country of the company.

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[1] $million	Total $million
Internal income	111	(107)	(85)	93	129	84	60	(285)	-
Net interest income	1,563	1,250	1,421	2,396	919	1,142	917	1,397	11,005
Fees and commissions income, net	830	551	210	719	304	467	416	620	4,117
Net trading income	656	379	149	588	160	451	158	228	2,769
Other operating income	190	132	159	166	75	88	43	249	1,102
Operating income	3,350	2,205	1,854	3,962	1,587	2,232	1,594	2,209	18,993
Operating expenses	(1,575)	(1,171)	(1,079)	(2,437)	(753)	(1,097)	(785)	(2,011)	(10,908)
Operating profit before impairment losses and taxation	1,775	1,034	775	1,525	834	1,135	809	198	8,085
Impairment losses on loans and advances and other credit risk provisions	(109)	(66)	(249)	(246)	(165)	(316)	(38)	(32)	(1,221)
Other impairment	(7)	(2)	(8)	(155)	9	(32)	-	1	(194)
Profit from associates	-	-	-	115	-	-	-	1	116
Profit before taxation	1,659	966	518	1,239	678	787	771	168	6,786
Capital expenditure[2]	1,828	247	23	63	27	19	37	8	2,252

1 Americas UK & Europe includes operating income of $1,113 million in respect of the UK, the Company's country of domicile.

2 Includes capital expenditure in Hong Kong of $1,788 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment (note 26) and software related intangibles (note 25) including any post-acquisition additions made by the acquired entities.

2. Segmental Information continued

	2011								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[3] $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[3] $million	Total $million
Internal income	70	(98)	(66)	19	96	51	85	(157)	-
Net interest income	1,532	1,077	1,433	2,174	892	1,142	761	1,155	10,166
Fees and commissions income, net	1,209	695	205	966	470	600	346	(448)	4,043
Net trading income	104	390	73	204	230	334	174	1,170	2,679
Other operating income	136	129	80	159	122	91	19	57	793
Operating income	3,051	2,193	1,725	3,522	1,810	2,218	1,385	1,777	17,681
Operating expenses	(1,397)	(1,107)	(1,352)	(2,077)	(832)	(1,086)	(719)	(1,397)	(9,967)
Operating profit before impairment losses and taxation	1,654	1,086	373	1,445	978	1,132	666	380	7,714
Impairment losses on loans and advances and other credit risk provisions	(103)	(48)	(198)	(135)	(112)	(286)	(24)	(2)	(908)
Other impairment	-	(31)	(13)	31	(60)	(14)	(16)	(8)	(111)
Profit from associates	-	-	-	73	-	-	-	1	74
Profit before taxation	1,551	1,007	162	1,414	806	832	626	371	6,769
Capital expenditure [2]	781	221	25	74	60	20	25	369	1,575

1 Americas UK & Europe includes operating income of $860 million in respect of the UK, the Company's country of domicile

2 Includes capital expenditure in Hong Kong of $724 million and in the UK $325 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment (note 26) and software related intangibles (note 25) including any post-acquisition additions made by the acquired entities

3 Amounts have been restated as explained in note 46

Net interest margin and yield

	2012 $million	2011 $million
Net interest margin (%)	2.3	2.3
Net interest yield (%)	2.1	2.2
Average interest earning assets	488,168	441,892
Average interest bearing liabilities	439,034	409,136

2. Segmental Information continued

Net interest margin by geography

	2012									
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[1] $million	Intra-group/ tax assets $million	Total $million
Total assets employed	130,543	107,925	62,863	117,710	36,879	46,155	20,856	179,457	(66,302)	636,086
Of which : Loans to customers [2]	53,330	51,318	36,165	58,977	23,994	25,200	11,304	28,575	-	288,863
Average interest-earning assets	106,574	76,288	54,069	105,083	29,747	36,928	18,260	113,617	(52,398)	488,168
Net interest income	1,716	1,144	1,335	2,461	1,050	1,230	976	1,093	-	11,005
Net interest margin (%)	1.6	1.5	2.5	2.3	3.5	3.3	5.3	1.0	-	2.3

1 Americas UK & Europe includes total assets employed of $108,352 million in respect of the UK, the Company's country of domicile.
2 The analysis of loans and advances to customers is based on the location of the customer rather than booking location of the loan

	2011									
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[1] $million	Intra-group/ tax assets $million	Total $million
Total assets employed[3]	118,845	103,954	63,089	113,396	42,577	56,186	20,391	149,576	(75,763)	592,251
Of which : Loans to customers[2,3]	50,996	43,827	38,072	53,979	23,686	23,299	11,231	26,688	-	271,778
Average interest-earning assets	91,923	67,952	57,031	93,333	31,299	33,851	14,569	96,396	(44,462)	441,892
Net interest income	1,631	1,011	1,348	2,185	985	1,202	836	968	-	10,166
Net interest margin (%)	1.8	1.5	2.4	2.3	3.1	3.6	5.7	1.0	-	2.3

1 Americas UK & Europe includes total assets employed of $93,891 million in respect of the UK, the Company's country of domicile.
2 The analysis of loans and advances to customers is based on the location of the customer rather than booking location of the loan.
3 Amounts have been restated as explained in note 46.

2. Segmental Information continued

Structure of deposits

The following tables set out the structure of the Group and Company's deposits by principal geographic areas:

Group

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Non-interest bearing current and demand accounts	**8,178**	**9,260**	**49**	**3,529**	**2,691**	**9,223**	**4,380**	**4,920**	**42,230**
Interest bearing current accounts and savings deposits	**56,261**	**28,978**	**21,368**	**32,519**	**1,888**	**4,159**	**2,392**	**27,576**	**175,141**
Time deposits	**35,224**	**37,968**	**16,989**	**41,370**	**7,380**	**12,367**	**3,318**	**49,281**	**203,897**
Other deposits	**199**	**242**	**595**	**918**	**1,636**	**455**	**163**	**1,851**	**6,059**
Total	**99,862**	**76,448**	**39,001**	**78,336**	**13,595**	**26,204**	**10,253**	**83,628**	**427,327**
Deposits by banks	**1,585**	**2,005**	**1,769**	**5,678**	**441**	**1,934**	**541**	**23,492**	**37,445**
Customer accounts	**98,277**	**74,443**	**37,232**	**72,658**	**13,154**	**24,270**	**9,712**	**60,136**	**389,882**
	99,862	**76,448**	**39,001**	**78,336**	**13,595**	**26,204**	**10,253**	**83,628**	**427,327**
Debt securities in issue:									
Senior debt	**1,291**	**-**	**4,038**	**1,485**	**-**	**69**	**6**	**232**	**7,121**
Other debt securities	**5**	**1,903**	**1,999**	**3,618**	**47**	**-**	**294**	**31,719**	**39,585**
Subordinated liabilities and other borrowed funds	**1,454**	**-**	**871**	**560**	**-**	**29**	**62**	**20,108**	**23,084**
Total	**102,612**	**78,351**	**45,909**	**83,999**	**13,642**	**26,302**	**10,615**	**135,687**	**497,117**

The table above includes financial instruments held at fair value (see note 15).

	2011								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa[1] $million	Americas UK & Europe $million	Total $million
Non-interest bearing current and demand accounts	6,956	9,013	66	4,181	2,557	8,813	3,886	3,038	38,510
Interest bearing current accounts and savings deposits[1]	48,543	24,567	19,381	29,172	2,285	3,874	2,985	22,378	153,185
Time deposits	33,951	32,730	19,337	41,806	6,706	10,964	3,094	44,447	193,035
Other deposits	283	295	748	1,682	1,691	352	109	1,342	6,502
Total	89,733	66,605	39,532	76,841	13,239	24,003	10,074	71,205	391,232
Deposits by banks	2,025	2,299	1,603	5,844	175	2,059	569	21,814	36,388
Customer accounts[1]	87,708	64,306	37,929	70,997	13,064	21,944	9,505	49,391	354,844
	89,733	66,605	39,532	76,841	13,239	24,003	10,074	71,205	391,232
Debt securities in issue:									
Senior debt	1,708	-	3,549	954	56	-	13	267	6,547
Other debt securities	112	770	4,449	4,547	307	56	216	23,195	33,652
Subordinated liabilities and other borrowed funds	1,687	-	837	601	-	8	41	16,288	19,462
Total	93,240	67,375	48,367	82,943	13,602	24,067	10,344	110,955	450,893

[1] Amount have been restated as explained in note 46

The table above includes financial instruments held at fair value (see note 15).

2. Segmental Information continued

Structure of deposits continued

Company

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Non-interest bearing current and demand accounts	**9,260**	**1,171**	**2,532**	**8,019**	**156**	**4,864**	**26,002**
Interest bearing current accounts and savings deposits	**28,978**	**3,937**	**1,665**	**2,835**	**694**	**25,360**	**63,469**
Time deposits	**37,968**	**7,391**	**7,341**	**11,811**	**486**	**45,523**	**110,520**
Other deposits	**242**	**94**	**1,629**	**385**	**-**	**1,852**	**4,202**
Total	**76,448**	**12,593**	**13,167**	**23,050**	**1,336**	**77,599**	**204,193**
Deposits by banks	**2,005**	**1,824**	**440**	**1,681**	**58**	**23,335**	**29,343**
Customer accounts	**74,443**	**10,769**	**12,727**	**21,369**	**1,278**	**54,264**	**174,850**
	76,448	**12,593**	**13,167**	**23,050**	**1,336**	**77,599**	**204,193**
Debt securities in issue:							
Senior debt	**-**	**-**	**-**	**-**	**-**	**232**	**232**
Other debt securities	**1,903**	**2,009**	**-**	**-**	**261**	**31,423**	**35,596**
Subordinated liabilities and other borrowed funds	**-**	**-**	**-**	**-**	**-**	**20,107**	**20,107**
Total	**78,351**	**14,602**	**13,167**	**23,050**	**1,597**	**129,361**	**260,128**

The table above includes financial instruments held at fair value (note 15).

	2011						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Non-interest bearing current and demand accounts	9,013	1,115	2,412	7,685	117	3,036	23,378
Interest bearing current accounts and savings deposits[1]	24,567	2,628	2,050	2,715	649	20,542	53,151
Time deposits	32,730	9,269	6,632	10,267	912	41,546	101,356
Other deposits	295	40	1,684	320	-	1,340	3,679
Total	66,605	13,052	12,778	20,987	1,678	66,464	181,564
Deposits by banks	2,299	2,760	173	1,832	250	21,632	28,946
Customer accounts[1]	64,306	10,292	12,605	19,155	1,428	44,832	152,618
	66,605	13,052	12,778	20,987	1,678	66,464	181,564
Debt securities in issue:							
Senior debt	-	-	-	-	-	267	267
Other debt securities	770	2,713	356	-	196	22,987	27,022
Subordinated liabilities and other borrowed funds	-	-	-	-	-	16,288	16,288
Total	67,375	15,765	13,134	20,987	1,874	106,006	225,141

[1] Amounts have been restated as explained in note 46

The table above includes financial instruments held at fair value (note 15).

3. Interest income

	2012 $million	2011 $million
Balances at central banks	161	159
Treasury bills	914	790
Loans and advances to banks	1,214	1,251
Loans and advances to customers	13,588	12,296
Listed debt securities	781	749
Unlisted debt securities	1,523	1,269
Accrued on impaired assets (discount unwind)	77	70
	18,258	16,584
Of which from financial instruments held at :		
Amortised cost	14,777	13,419
Available-for-sale	2,425	2,259
Held at fair value through profit or loss	1,056	906

4. Interest expense

	2012 $million	2011 $million
Deposits by banks	685	429
Customer accounts:		
Interest bearing current accounts and savings deposits	1,329	1,450
Time deposits	3,507	3,130
Debt securities in issue	818	720
Subordinated liabilities and other borrowed funds:		
Wholly repayable within five years	3	13
Other	911	676
	7,253	6,418
Of which interest expense on financial instruments held at :		
Amortised cost	6,538	5,940
Held at fair value through profit or loss	715	478

5. Fees and commissions

	2012 $million	2011 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	389	389
Wealth Management	880	868
Deposits	232	238
Mortgages and Auto Finance	93	92
Others	81	44
	1,675	1,631
Wholesale Banking		
Lending and Portfolio Management	91	72
Transaction Banking	1,449	1,409
Financial Markets	230	142
Corporate Finance	670	766
Others	2	23
	2,442	2,412
Net fee and commission income	4,117	4,043

Total fee income arising from financial instruments that are not fair valued through profit or loss $1,594 million (2011: $1,380 million) and arising from trust and other fiduciary activities $119 million (2011: $155 million)

Total fee expense arising from financial instruments that are not fair valued through profit or loss $83 million (2011: $74 million) and arising from trust and other fiduciary activities $21 million (2011: $22 million)

6. Net trading income

	2012 $million	2011 $million
Gains less losses on instruments held for trading:		
Foreign currency [1]	1,865	1,785
Trading securities	730	23
Interest rate derivatives	180	333
Credit and other derivatives	(153)	632
	2,622	2,773
Gains less losses from fair value hedging:		
Gains less losses from fair value hedged items	163	(435)
Gains less losses from fair value hedged instruments	(156)	460
	7	25
Gains less losses on instruments designated at fair value:		
Financial assets designated at fair value through profit or loss	229	52
Financial liabilities designated at fair value through profit or loss	(256)	(438)
Derivatives managed with financial instruments designated at fair value through profit or loss	167	267
	140	(119)
	2,769	2,679

[1] Includes foreign currency gains and losses arising on the translation of foreign currency monetary assets and liabilities.

7. Other operating income

	2012 $million	2011 $million
Other operating income includes:		
Gains less losses on disposal of financial assets:		
Available-for-sale	339	267
Loans and receivables	37	27
Dividend income	92	73
Gains arising on assets fair valued at acquisition	3	12
Rental income from operating lease assets	347	268
Gains on disposal of property, plant and equipment	100	52
Gain arising on sale of business	15	-

Gains arising on assets fair valued at acquisition relate to acquisitions completed prior to 1 January 2010 and primarily consist of recoveries of fair value adjustments on loans and advances.

8. Operating expenses

	2012 $million	2011 $million
Staff costs:		
Wages and salaries	**4,950**	4,970
Social security costs	**148**	155
Other pension costs (note 34)	**302**	282
Share based payment costs (note 37)	**373**	430
Other staff costs	**804**	825
	6,577	6,662

Variable compensation is included within wages and salaries. Other staff costs include training and travel costs.
The following tables summarise the number of employees as at 31 December 2012 and 31 December 2011 respectively.

Group

	2012			
	Consumer Banking	**Wholesale Banking**	**Support Services**	**Total**
At 31 December	**53,613**	**19,752**	**14,066**	**87,431**
Average for the year	**52,970**	**19,565**	**13,351**	**85,886**

	2011			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	52,957	19,517	12,740	85,214
Average for the year	51,711	19,236	12,754	83,701

Company

	2012			
	Consumer Banking	**Wholesale Banking**	**Support Services**	**Total**
At 31 December	**14,524**	**8,673**	**4,009**	**27,206**
Average for the year	**14,517**	**8,582**	**3,911**	**27,010**

	2011			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	14,678	8,568	3,878	27,124
Average for the year	14,317	8,553	3,857	26,727

Premises and equipment expenses:

	2012 $million	2011 $million
Rental of premises	**438**	420
Other premises and equipment costs	**417**	410
Rental of computers and equipment	**31**	32
	886	862

General administrative expenses:

	2012 $million	2011 $million
UK Bank Levy	**174**	165
Settlements with the US authorities	**667**	-
Other general administrative expenses	**1,917**	1,639
	2,758	1,804

The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting.

8. Operating expenses continued

The rate of the levy for 2012 is 0.088 per cent for chargeable short term liabilities, with a lower rate of 0.044 per cent generally applied to chargeable equity and long term liabilities (i.e. liabilities with a remaining maturity greater than one year). The rate for 2013 has been increased to 0.13 per cent for qualifying liabilities, with a long term rate of 0.065 per cent.

During 2012, the Group reached settlements with the US authorities regarding US sanctions compliance in the period from 2011 to 2007, involving a consent order by the New York Department of Financial Services (NYDFS), a Cease and Desist order by the Federal Reserve Bank of New York (FRBNY), Deferred Prosecution Agreements with each of the Department of Justice and with the District Attorney of New York and a Settlement Agreement with the office of Foreign Assets Control.

Auditor's remuneration

Auditor's remuneration in relation to the Group statutory audit amounts to $3.8 million (2011: $3.6 million) and is included within other general administration expenses. The following fees were payable by the Group to their principal auditor, KPMG Audit Plc and its associates (together 'KPMG'):

	2012 $million	2011 $million
Audit fees for the Group statutory audit:		
Fees relating to the current year	**3.8**	3.6
Fees payable to KPMG for other services provided to the Group:		
Audit of Standard Chartered PLC subsidiaries, pursuant to legislation		
Fees relating to the current year	**10.7**	10.5
Total audit and audit related fees	**14.5**	14.1
Other services pursuant to legislation	**2.6**	2.5
Tax services	**0.9**	0.6
Services relating to corporate finance transactions	**0.3**	0.1
All other services	**0.4**	1.7
Total fees payable	**18.7**	19.0

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG Audit Plc for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered Bank. It excludes amounts payable for the audit of Standard Chartered Bank's subsidiaries and amounts payable to KPMG Audit Plc's associates. These amounts have been included in 'Fees payable to KPMG for other services provided to the Group'.
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings, including comfort letters and interim reviews.
- Tax services include tax compliance services and tax advisory services.
- Services related to corporate finance transactions include fees payable to KPMG for transaction related work irrespective of whether the Group is vendor or purchaser, such as acquisition due diligence and long-form reports.
- All other services include other assurance and advisory services such as translation services, ad-hoc accounting advice, reporting accountants work on capital raising and review of financial models.

Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

In addition to the above, KPMG estimate they have been paid fees of less than $0.1 million (2011: $0.1 million) by parties other than the Group but where the Group is connected with the contracting party and therefore may be involved in appointing KPMG. These fees arise from services such as the audit of the Group's pension schemes.

Fees payable to KPMG for non-audit services for Standard Chartered Bank are not separately disclosed because such fees are disclosed on a consolidated basis for the Group.

9. Depreciation and amortisation

	2012 $million	2011 $million
Premises	**127**	123
Equipment:		
Operating lease assets	**148**	100
Other equipment	**136**	145
Intangibles:		
Software	**190**	184
Acquired on business combinations	**86**	87
	687	639

10. Impairment losses on loans and advances and other credit risk provisions

The following table reconciles the charge for impairment provisions on loans and advances to the total impairment charge and other credit commitments:

	2012 $million	2011 $million
Net charge/(release) against profit on loans and advances:		
Individual impairment	**1,247**	867
Portfolio impairment (release)/charge	**(27)**	14
	1,220	881
Provisions related to credit commitments	**5**	2
Impairment (release)/charge relating to debt securities classified as loans and receivables	**(4)**	25
Total impairment losses and other credit risk provisions	**1,221**	908

11. Other impairment

	2012 $million	2011 $million
Impairment losses on available-for-sale financial assets:		
Asset backed securities	**(3)**	7
Other debt securities	**(16)**	52
Equity shares	**134**	42
	115	101
Impairment of investment in associates	**70**	-
Other	**34**	40
	219	141
Recovery of impairment on disposal of equity instruments[1]	**(25)**	(30)
	194	111

[1] Relates to private equity instruments sold during the year which had impairment provisions raised against them in previous periods.

12. Taxation

Determining the Group's taxation charge for the year involves a degree of estimation and judgement.

Analysis of taxation charge in the year:

	2012 $million	2011 $million
The charge for taxation based upon the profits for the year comprises:		
Current tax:		
United Kingdom corporation tax at 24.5 per cent (2011: 26.5 per cent):		
Current tax on income for the year[1]	84	1,044
Adjustments in respect of prior periods (including double taxation relief)	1	(102)
Double taxation relief[1]	(9)	(912)
Foreign tax:		
Current tax on income for the year	1,711	1,645
Adjustments in respect of prior periods	(4)	8
	1,783	1,683
Deferred tax:		
Origination/reversal of temporary differences	65	207
Adjustments in respect of prior periods	8	(42)
	73	165
Tax on profits on ordinary activities	1,856	1,848
Effective tax rate	27.4%	27.3%

The UK Corporation tax rate has been changed from 26 per cent to 24 per cent with an effective date of 1 April 2012, giving a blended rate of 24.5 per cent for the year. This change has reduced the UK deferred tax asset by $24 million.

The taxation charge for the year is higher than the blended rate of corporation tax in the United Kingdom, 24.5 per cent.

The differences are explained below:

	2012 $million	2011 $million
Profit on ordinary activities before taxation	6,786	6,769
Tax at 24.5 per cent (2011: 26.5 per cent)	1,663	1,794
Effects of:		
Tax free income	(263)	(117)
Lower tax rates on overseas earnings	(338)	(200)
Higher tax rates on overseas earnings	386	322
Adjustments to tax charge in respect of previous periods	5	(136)
Branch profits exemption[1]	-	138
Non-deductible expenses	433	207
Other items	(30)	(160)
Tax on profits on ordinary activities	1,856	1,848

[1] The Group elected into the Branch Profits Exemption Regime which took effect from 1 January 2012. The election provides for the profits of foreign branches of a UK company to be exempt from UK corporation tax. Double taxation relief has also reduced as a result of the election. The prior year impact was to reduce the UK deferred tax asset by $138 million

	2012			2011		
	Current Tax $million	Deferred Tax $million	Total $million	Current Tax $million	Deferred Tax $million	Total $million
Tax recognised in other comprehensive income						
Available-for-sale assets	(40)	(87)	(127)	(33)	74	41
Cash flow hedges	-	(19)	(19)	-	20	20
Retirement benefit obligations	-	14	14	-	37	37
	(40)	(92)	(132)	(33)	131	98
Other tax recognised in equity						
Share based payments	14	8	22	80	(21)	59
	14	8	22	80	(21)	59
Total tax (charge)/credit recognised in equity	(26)	(84)	(110)	47	110	157

13. Dividends

Ordinary equity shares	2012	2011
Interim dividend per ordinary share (cents)	**11.38**	9.36
Interim dividends declared and paid during the period ($million)	**1,372**	1,111

Preference shares	2012 $million	2011 $million
Non-cumulative redeemable preference shares:		
- 8.125 per cent preference shares of $5 each[1]	**75**	75
- 7.014 per cent preference shares of $5 each	**53**	53
- 6.409 per cent preference shares of $5 each	**48**	48

1 Dividends on these preference shares are treated as interest expense and accrued accordingly.

14. Directors

Remuneration of Directors

Remuneration of directors is shown below:

	2012				2011			
	Salary $000	Annual performance award (a) $000	Benefits (b) $000	Total $000	Salary $000	Annual performance award (a) $000	Benefits (b) $000	Total $000
P A Sands	**1,703**	**3,150**	**385**	**5,238**	1,693	3,500	132	5,325
S P Bertamini (d)	**1,387**	**1,750**	**1,500**	**4,637**	1,316	1,900	1,389	4,605
J S Bindra(e)	**832**	**1,750**	**1,067**	**3,649**	831	1,800	747	3,378
R H Meddings	**1,268**	**2,160**	**96**	**3,524**	1,262	2,400	79	3,741
T J Miller	**832**	**1,500**	**72**	**2,404**	831	1,350	49	2,230
A M G Rees	**1,165**	**9,000**	**85**	**10,250**	1,124	10,000	67	11,191
V Shankar	**1,220**	**1,950**	**477**	**3,647**	817	3,200	524	4,541
	8,407	**21,260**	**3,682**	**33,349**	7,874	24,150	2,987	35,011

(a) The annual performance award shown here is inclusive of any upfront cash bonus, upfront shares, deferred shares and any deferred cash element, if appropriate.

(b) The benefits column includes amounts relating to car allowances and medical and life assurance benefits. Steve Bertamini and Jaspal Bindra carry out their executive duties in a host country location and are eligible for allowances that cover the cost of accommodation and education of dependent children. In addition, their contracts of employment provide for adjustments for cost of living and tax neutralisation such that their net pay is the same as if they were to remain in their respective home countries.

(c) Amounts shown in the benefits column will vary year on year where tax neutralisation is adopted dependent upon the timing of the taxation payments. Actual amounts paid each year can vary even though there is no change in the underlying level of remuneration. One consequence of this fact is that the benefits figure for Steve Bertamini increased by $110,689 and for Jaspal Bindra by $319,933 for 2012.

(d) In 2012, a contract settlement of $213,244 was made with HM Revenue and Customs in respect of the taxation and national insurance contributions for the company car benefit that Peter Sands received between 2006 and 2012.

(e) Steve Bertamini and V Shankar received cash pension allowances of $387,499 (2011: $341,246) and $348,489 (2011: $285,870) in lieu of their participation in any pension plan and this is reflected in the table above, as part of salary/fees.

(f) In 2011, Jaspal Bindra waived $249,231 of the cash element of his annual performance award in to his pension arrangement. In 2012, Jaspal waived $764,422 (2011: $711,912) of his base salary in to his pension arrangement.

(g) Any base salary/fee or benefit item in the table above has been converted using the average foreign exchange rates throughout the relevant financial year. The rates are $1: GBP0.6311 (2012) and $1:GBP0.6239 (2011). V Shankar's base salary has been converted using $1:AED3.6730 (2012) and $1: AED3.6730 (2011).

14. Directors continued

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 second vesting date was reached during the year and $2,653,000 (before tax) was paid to Steve Bertamini.

Retirement benefits

No changes have been made to the terms and conditions applying to the defined benefit promises and executive directors retain any existing opportunity to waive a proportion of the cash element of any potential annual performance award or their annual base salary to enhance their unapproved retirement benefits. Any amounts waived in respect of this year are shown in the directors' retirement benefits table; our consulting actuary has calculated the additional pension benefits using assumptions adopted for International Accounting Standard 19 reporting.

Defined benefit pension provision continues to be made through a combination of the Standard Chartered Pension Fund, an approved non-contributory plan, and an unapproved retirement benefit plan. The unapproved plan is unfunded but the benefits accrued prior to 1 April 2011 are secured by a charge, in the name of an independent trustee, over specific assets. The unapproved unfunded retirement benefit scheme provides the part of the executive's benefit that exceeds the UK Government's lifetime allowance. In other respects the terms of the unapproved scheme are designed to mirror the provisions of the Standard Chartered Pension Fund. Upon the death in service of an executive director, benefits are available to a spouse and dependent children in a lump sum form.

Base salary is the only element of remuneration that is pensionable.

Executive directors with defined benefit provisions

	Accrued pension $000 (a)			Transfer value of accrued pension $000				Increase in accrued pension (net of inflation and waiver) during 2012 $000 (b)	
	At 1 January 2012	Increase during the year	At 31 December 2012	At 1 January 2012	Increase/ (decrease) during the year net of waiver	At 31 December 2012	2012 waiver $000 (c)	Annual pension	Transfer value
P A Sands	**494**	**66**	**584**	**7,857**	**2,390**	**10,658**	**-**	**52**	**962**
J S Bindra [c]	**216**	**71**	**299**	**3,573**	**1,098**	**5,649**	**1,019**	**24**	**461**
R H Meddings	**466**	**52**	**540**	**8,021**	**2,012**	**10,441**	**-**	**39**	**763**
T J Miller	**270**	**38**	**322**	**4,681**	**1,156**	**6,218**	**111**	**24**	**480**
A M G Rees	**476**	**62**	**561**	**8,388**	**2,443**	**11,266**	**-**	**49**	**1,014**

Notes

(a) The accrued pension amounts include benefits arising from transfer payments received in respect of services with previous employers.
(b) 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 2012 increased by an allowance for inflation of 2.7 per cent (2011: 5.2 per cent) and the accrued pension at the end of 2012 excluding any waiver.
(c) Jaspal Bindra made no waiver from his 2012 annual performance award (2011: $249,231) and $764,422 of his 2012 base salary (2011: $711,912).
(d) The amounts included in the table above as at 1 January and 31 December 2012 are calculated using the exchange rates at the end of 2012 (0.6437) and 2011 (0.6161) respectively. The other entries are calculated using annual average exchange rates of 2012 (0.6311) and 2011 (0.6239).

15. Financial instruments

Classification

Financial assets are classified between four measurement categories: held at fair value through profit or loss (comprising trading and designated), available-for-sale, loans and receivables and held-to-maturity; and two measurement categories for financial liabilities: held at fair value through profit or loss (comprising trading and designated) and amortised cost. Instruments are classified in the balance sheet in accordance with their legal form, except for instruments that are held for trading purposes and those that the Group has designated to hold at fair value through the profit and loss account. The latter are combined on the face of the balance sheet and disclosed as financial assets or liabilities held at fair value through profit or loss.

The Group's classification of its principal financial assets and liabilities is summarised in the table below.

Group

		Assets at fair value				Assets at amortised cost			
Assets	Notes	Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Available-for-sale $million	Loans and receivables $million	Held-to-maturity $million	Non-financial assets $million	Total $million
Cash and balances at central banks		-	-	-	-	61,043	-	-	61,043
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		677	-	97	-	-	-	-	774
Loans and advances to customers[1]		4,793	-	185	-	-	-	-	4,978
Treasury bills and other eligible bills	16	2,955	-	-	-	-	-	-	2,955
Debt securities	16	14,890	-	333	-	-	-	-	15,223
Equity shares	16	2,140	-	1,014	-	-	-	-	3,154
		25,455	-	1,629	-	-	-	-	27,084
Derivative financial instruments	17	48,136	1,360	-	-	-	-	-	49,496
Loans and advances to banks[1]	18	-	-	-	-	68,380	-	-	68,380
Loans and advances to customers[1]	19	-	-	-	-	283,885	-	-	283,885
Investment securities									
Treasury bills and other eligible bills	21	-	-	-	26,871	-	-	-	26,871
Debt securities	21	-	-	-	65,413	3,851	-	-	69,264
Equity shares	21	-	-	-	3,278	-	-	-	3,278
		-	-	-	95,562	3,851	-	-	99,413
Other assets	22	-	-	-	-	21,659	-	7,086	28,745
Total at 31 December 2012		73,591	1,360	1,629	95,562	438,818	-	7,086	618,046
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[2]	17	57,128	1,439	-	-	-	-	-	58,567
Loans and advances to banks[1]	18	-	-	-	-	65,980	-	-	65,980
Loans and advances to customers[1,2]	19	-	-	-	-	266,790	-	-	266,790
Investment securities									
Treasury bills and other eligible bills	21	-	-	-	21,680	-	-	-	21,680
Debt securities	21	-	-	-	55,567	5,475	18	-	61,060
Equity shares	21	-	-	-	2,543	-	-	-	2,543
		-	-	-	79,790	5,475	18	-	85,283
Other assets	22	-	-	-	-	20,554	-	6,595	27,149
Total at 31 December 2011		80,929	1,439	1,027	79,790	406,163	18	6,595	575,961

[1] Further analysed in Risk review on pages 14 to 82.
[2] Amounts have been restated as explained in note 46

15. Financial instruments continued

Classification continued

Group

Liabilities	Notes	Liabilities at fair value: Trading $million	Liabilities at fair value: Derivatives held for hedging $million	Liabilities at fair value: Designated at fair value through profit or loss $million	Amortised cost $million	Non-financial liabilities $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		**933**	**-**	**35**	**-**	**-**	**968**
Customer accounts		**4,858**	**-**	**7,385**	**-**	**-**	**12,243**
Debt securities in issue		**3,902**	**-**	**1,359**	**-**	**-**	**5,261**
Short positions		**4,592**	**-**	**-**	**-**	**-**	**4,592**
		14,285	**-**	**8,779**	**-**	**-**	**23,064**
Derivative financial instruments	17	**47,461**	**733**	**-**	**-**	**-**	**48,194**
Deposits by banks	28	**-**	**-**	**-**	**36,477**	**-**	**36,477**
Customer accounts	29	**-**	**-**	**-**	**377,639**	**-**	**377,639**
Debt securities in issue	30	**-**	**-**	**-**	**41,445**	**-**	**41,445**
Other liabilities	31	**-**	**-**	**-**	**19,739**	**4,769**	**24,508**
Subordinated liabilities and other borrowed funds	32	**-**	**-**	**-**	**23,084**	**-**	**23,084**
Total at 31 December 2012		**61,746**	**733**	**8,779**	**498,384**	**4,769**	**574,411**
Financial liabilities held at fair value through profit or loss							
Deposits by banks		973	-	119	-	-	1,092
Customer accounts		1,518	-	7,600	-	-	9,118
Debt securities in issue		2,441	-	1,992	-	-	4,433
Short positions		4,956	-	-	-	-	4,956
		9,888	-	9,711	-	-	19,599
Derivative financial instruments[1]	17	56,085	1,033	-	-	-	57,118
Deposits by banks	28	-	-	-	35,296	-	35,296
Customer accounts[1]	29	-	-	-	345,726	-	345,726
Debt securities in issue	30	-	-	-	35,766	-	35,766
Other liabilities	31	-	-	-	19,169	4,600	23,769
Subordinated liabilities and other borrowed funds	32	-	-	-	19,462	-	19,462
Total at 31 December 2011		65,973	1,033	9,711	455,419	4,600	536,736

[1] Amounts have been restated as explained in note 46.

15. Financial instruments continued

Classification continued

Company

Assets	Notes	Assets at fair value: Trading $million	Assets at fair value: Derivatives held for hedging $million	Assets at fair value: Designated at fair value through profit or loss $million	Assets at fair value: Available-for-sale $million	Assets at amortised cost: Loans and receivables $million	Assets at amortised cost: Held-to-maturity $million	Non-financial assets $million	Total $million
Cash and balances at central banks		**-**	**-**	**-**	**-**	**49,655**	**-**	**-**	**49,655**
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		**677**	**-**	**97**	**-**	**-**	**-**	**-**	**774**
Loans and advances to customers[1]		**4,769**	**-**	**71**	**-**	**-**	**-**	**-**	**4,840**
Treasury bills and other eligible bills	16	**721**	**-**	**-**	**-**	**-**	**-**	**-**	**721**
Debt securities	16	**8,925**	**-**	**-**	**-**	**-**	**-**	**-**	**8,925**
Equity shares	16	**1,767**	**-**	**-**	**-**	**-**	**-**	**-**	**1,767**
		16,859	**-**	**168**	**-**	**-**	**-**	**-**	**17,027**
Derivative financial instruments	17	**46,121**	**1,322**	**-**	**-**	**-**	**-**	**-**	**47,443**
Loans and advances to banks[1]	18	**-**	**-**	**-**	**-**	**37,250**	**-**	**-**	**37,250**
Loans and advances to customers[1]	19	**-**	**-**	**-**	**-**	**137,982**	**-**	**-**	**137,982**
Investment securities									
Treasury bills and other eligible bills	21	**-**	**-**	**-**	**8,805**	**-**	**-**	**-**	**8,805**
Debt securities	21	**-**	**-**	**-**	**31,782**	**2,271**	**-**	**-**	**34,053**
Equity shares	21	**-**	**-**	**-**	**757**	**-**	**-**	**-**	**757**
		-	**-**	**-**	**41,344**	**2,271**	**-**	**-**	**43,615**
Other assets	22	**-**	**-**	**-**	**-**	**12,715**	**-**	**6,064**	**18,779**
Total at 31 December 2012		**62,980**	**1,322**	**168**	**41,344**	**239,873**	**-**	**6,064**	**351,751**
Cash and balances at central banks		-	-	-	-	36,268	-	-	36,268
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		461	-	105	-	-	-	-	566
Loans and advances to customers[1]		4,652	-	126	-	-	-	-	4,778
Treasury bills and other eligible bills	16	894	-	-	-	-	-	-	894
Debt securities	16	6,476	-	-	-	-	-	-	6,476
Equity shares	16	872	-	-	-	-	-	-	872
		13,355	-	231	-	-	-	-	13,586
Derivative financial instruments[2]	17	55,613	1,316	-	-	-	-	-	56,929
Loans and advances to banks[1]	18	-	-	-	-	36,972	-	-	36,972
Loans and advances to customers[1,2]	19	-	-	-	-	123,273	-	-	123,273
Investment securities									
Treasury bills and other eligible bills	21	-	-	-	6,808	-	-	-	6,808
Debt securities	21	-	-	-	27,095	3,840	-	-	30,935
Equity shares	21	-	-	-	673	-	-	-	673
		-	-	-	34,576	3,840	-	-	38,416
Other assets	22	-	-	-	-	11,411	-	4,647	16,058
Total at 31 December 2011		68,968	1,316	231	34,576	211,764	-	4,647	321,502

[1] Further analysed in Risk review on pages 14 to 82.

[2] Amounts have been restated as explained in note 46.

15. Financial instruments continued

Classification continued

Company

Liabilities	Notes	Liabilities at fair value: Trading $million	Liabilities at fair value: Derivatives held for hedging $million	Liabilities at fair value: Designated at fair value through profit or loss $million	Amortised cost $million	Non-financial liabilities $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		**933**	**-**	**35**	**-**	**-**	**968**
Customer accounts		**4,691**	**-**	**277**	**-**	**-**	**4,968**
Debt securities in issue		**3,869**	**-**	**-**	**-**	**-**	**3,869**
Short positions		**1,696**	**-**	**-**	**-**	**-**	**1,696**
		11,189	**-**	**312**	**-**	**-**	**11,501**
Derivative financial instruments	17	**45,315**	**682**	**-**	**-**	**-**	**45,997**
Deposits by banks	28	**-**	**-**	**-**	**28,375**	**-**	**28,375**
Customer accounts	29	**-**	**-**	**-**	**169,882**	**-**	**169,882**
Debt securities in issue	30	**-**	**-**	**-**	**31,959**	**-**	**31,959**
Other liabilities	31	**-**	**-**	**-**	**9,318**	**2,420**	**11,738**
Subordinated liabilities and other borrowed funds	32	**-**	**-**	**-**	**20,107**	**-**	**20,107**
Total at 31 December 2012		**56,504**	**682**	**312**	**259,641**	**2,420**	**319,559**
Financial liabilities held at fair value through profit or loss							
Deposits by banks		973	-	40	-	-	1,013
Customer accounts		1,465	-	381	-	-	1,846
Debt securities in issue		2,366	-	-	-	-	2,366
Short positions		1,630	-	-	-	-	1,630
		6,434	-	421	-	-	6,855
Derivative financial instruments[1]	17	54,917	786	-	-	-	55,703
Deposits by banks	28	-	-	-	27,933	-	27,933
Customer accounts[1]	29	-	-	-	150,772	-	150,772
Debt securities in issue	30	-	-	-	24,923	-	24,923
Other liabilities	31	-	-	-	8,361	2,658	11,019
Subordinated liabilities and other borrowed funds	32	-	-	-	16,288	-	16,288
Total at 31 December 2011		61,351	786	421	228,277	2,658	293,493

[1] Amounts have been restated as explained in note 46.

Valuation of financial instruments

Valuation of financial assets and liabilities held at fair value are subject to a review independent of the Business by Valuation Control. Valuation Control performs price testing by comparing external and independent market data (e.g. consensus data, trade prices and broker quotes) against internal data. Financial instruments held at fair value in the balance sheet have been classified into a three level valuation hierarchy (see below for how each level is defined and the types of instruments included within them) that reflects the significance of the observability of the inputs used in the fair value measurement.

The market data used for price testing may include those sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. The market data used should be most representative of the market as much as possible, which can evolve over time as markets and financial instruments develop. To determine the extent of how representative the market data is, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are considered.

For instruments classified as level 2 or level 3 fair value adjustments are also made to system valuations to arrive at fair value in accordance with accounting requirements. The main adjustments are described below:

Bid Offer Valuation Adjustments
Where market parameters are marked on a mid market basis in the revaluation systems, a bid offer valuation adjustment is required to quantify the expected cost of neutralising the Business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. Where long positions are marked to bid and short positions marked to offer in the systems, e.g. for cash securities, no bid offer valuation adjustments are required.

15. **Financial instruments** continued

Valuation of financial instruments continued

Credit Adjustments
The Group makes a credit adjustment (CA) against derivative products, which represents an estimate of the adjustment to fair value that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions. For CA, AIRB models are used to calculate the PD and LGD which, together with the results of the exposure simulation engine, generates a view of expected losses. The Group assesses actual losses and provisions incurred against expected losses on a portfolio basis, taking into account the fact that it takes a number of years for the workout/recovery process to complete upon a default.

In addition to periodic reassessment of the counterparties, credit exposures and external trends which may impact risk management outcomes are closely monitored. Accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is a decline in the customer's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management. As a result, the reserve represents a dynamic calculation based on the credit quality of the counterparties, collateral positions and exposure profiles.

The CA is not significant in the context of the overall fair value of these financial instruments.

Model Valuation Adjustments
Certain models may have pricing deficiencies or limitations that justify a valuation adjustment. These pricing deficiencies or limitations arise could be due to the choice, implementation and calibration of the pricing model, amongst other reasons.

Day One Profit and Loss
A financial instrument is initially recognised at fair value, which is generally its transaction price. In those cases where the value obtained from the relevant valuation model differs, we record the asset or liability based on our valuation model, but do not recognise that initial difference in profit and loss. This is unless the valuation model used is widely accepted and all inputs to the model are observable.

Funding Adjustments
Funding valuation adjustments account for the additional costs of funding in the valuation of funded derivative transactions. Examples of funded derivative transactions are prepaid swaps or funded loans in the form of a derivative.

In total, the Group has made $349 million (2011: $334 million) of valuation adjustments in determining fair value for financial assets and financial liabilities.

Valuation adjustments	2012	2011
Bid offer	**80**	92
Credit	**133**	127
Model	**10**	20
Funding	**73**	55
Others (including Day 1)	53	40
Total	**349**	334

Control framework
A Product Valuation Committee exists for each business where there is a material valuation risk. The Committees meet monthly and comprise representatives from Front Office, Group Market Risk, Product Control and Valuation Control. The Committees are responsible for reviewing the results of the valuation control process.

15. Financial instruments continued

Valuation of financial instruments continued

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	Direct or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable	One or more significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)
Types of financial assets:	Actively traded government and other securities Listed equities Listed derivative instruments Investments in publicly traded mutual funds with listed market prices	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives Asset backed securities	Asset backed securities Private equity investments Highly structured OTC derivatives with unobservable inputs Illiquid or highly structured corporate bonds with unobservable inputs Illiquid loans and advances
Types of financial liabilities:	Listed derivative instruments	OTC derivatives Structured deposits Credit structured debt securities in issue	Highly structured OTC derivatives with unobservable inputs Illiquid or highly structured debt securities in issue with unobservable inputs

Level 1 portfolio
Level 1 assets and liabilities are typically exchange traded positions and some government bonds traded in active markets. These positions are valued using unadjusted quoted prices in active markets.

Level 2 portfolio
Where instruments are not quoted in an active market the Group utilises a number of valuation techniques to determine fair value. These valuation techniques include discounted cash flow analysis models, option pricing models, simulation models and other standard models commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as Level 2.

In line with changes in market practice, certain interest rate swaps have been subject to overnight index swap (OIS) rate discounting in 2012. The factors to be considered for the selection of such interest rate swaps include the currency in which the swaps are traded, counterparties with credit support annex agreement and the form of the collateral posted by the counterparties.

Level 3 portfolio
Level 3 assets are valued using techniques similar to those outlined for Level 2, except that if the instrument has one or more inputs that are unobservable and significant to the fair value measurement of the instrument in its entirety, it will be classified as Level 3.

At 31 December 2012, the Group held level 3 assets with a fair value of $5,109 million (2011: $3,347 million) and level 3 liabilities with a fair value of $677 million (2011: $356 million) were held in respect of which there was no observable market data, the Company held level 3 assets with a fair value of $1,948 million (2011: $1,086 million) and level 3 liabilities with a fair value $534 million (2011: $349million) were held in respect of which there was no observable market data. For these instruments, a sensitivity analysis is presented on page 136 in respect of reasonably possible changes to the valuation assumptions.

The primary products classified as Level 3 are as follows:

Loan and advances
These include loans in the global syndications underwriting book which are not syndicated yet. These loans are generally bilateral in nature and their valuation is primarily based on recent trades or proxies, i.e. comparable loans with similar credit grade, sector etc. Where there are no recent transactions and reliable comparable loans to proxy from, the valuation of these loans is based on unobservable inputs resulting in them being classified as level 3.

Debt securities - Asset backed securities
Due to the severe lack of liquidity in the market and the prolonged period of time under which many securities have not traded, obtaining external prices is not a strong enough measure to determine whether an asset has an observable price or not. Therefore, once external pricing has been verified, an assessment is made whether each security is traded in a liquid manner based on its credit rating and sector. If a security is of low credit rating and/or is traded in a less liquid sector, it will be classified as Level 3. Where third party pricing is not available, the valuation of the security will be estimated from market standard cash flow models with input parameter assumptions 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.

15. Financial instruments continued

Valuation of financial instruments continued

Debt securities
These debt securities include certain convertible bonds, corporate bonds, credit and equity structured notes where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product. Debt securities are valued using available prices provided through pricing vendors, brokers or trading activities. Where such liquid external prices are not available, valuation of these cash securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

Equity shares - Private equity
Private equity investments are generally valued based on earning multiples - Price-to-Earnings (P/E) or Enterprise Value to Earning Before Income Tax, Depreciation and Amortisation (EV/EBITDA) ratios - of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. In circumstances where an investment doesn’t have direct comparables or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternate valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or level 3 inputs, may be applied. Even though earning multiples for the comparable listed companies can be sourced from third party sources (for example, Bloomberg), and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where observable inputs are available, for example, OTC prices) are classified as Level 3 on the grounds that the valuation methods involve judgments ranging from determining comparable companies to discount rates where the discounted cash flow method is applied.

Derivatives
These trading derivatives are classified as Level 3 if there are parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. These unobservable correlation parameters could only be implied from the market, through methods such as historical analysis and comparison to historical levels or benchmark data.

Debt securities in issue
These debt securities relate to credit structured notes issued by the Group where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product. Debt securities are valued using available prices provided through pricing vendors, brokers or trading activities. Where such liquid external prices are not available, valuation of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

15. Financial instruments continued

Valuation of financial instruments continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2012.

Group

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	97	677	-	774
Loans and advances to customers	-	4,068	910	4,978
Treasury bills and other eligible bills	2,812	143	-	2,955
Debt securities	8,531	6,516	176	15,223
Equity shares	2,029	-	1,125	3,154
	13,469	11,404	2,211	27,084
Derivative financial instruments	260	48,750	486	49,496
Investment securities				
Treasury bills and other eligible bills	22,912	3,901	58	26,871
Debt securities	20,828	44,189	396	65,413
Equity shares	1,307	13	1,958	3,278
	45,047	48,103	2,412	95,562
At 31 December 2012	58,776	108,257	5,109	172,142

Liabilities	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	968	-	968
Customer accounts	68	12,175	-	12,243
Debt securities in issues	-	5,147	114	5,261
Short positions	4,320	272	-	4,592
	4,388	18,562	114	23,064
Derivative financial instruments	383	47,248	563	48,194
At 31 December 2012	4,771	65,810	677	71,258

There were no significant transfers between level 1 and level 2 in 2012.

15. Financial instruments continued

Valuation of financial instruments continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2011.

Group

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	110	458	-	568
Loans and advances to customers	5	4,983	-	4,988
Treasury bills and other eligible bills	4,502	107	-	4,609
Debt securities	7,516	5,261	293	13,070
Equity shares	1,027	-	566	1,593
	13,160	10,809	859	24,828
Derivative financial instruments	396	57,895	276	58,567
Investment securities				
Treasury bills and other eligible bills	18,831	2,800	49	21,680
Debt securities	17,938	36,884	745	55,567
Equity shares	1,116	9	1,418	2,543
	37,885	39,693	2,212	79,790
At 31 December 2011	51,441	108,397	3,347	163,185

Liabilities	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Deposit by banks	104	988	-	1,092
Customer accounts	-	9,118	-	9,118
Debt securities in issues	-	4,261	172	4,433
Short positions	4,483	473	-	4,956
	4,587	14,840	172	19,599
Derivative financial instruments	549	56,385	184	57,118
At 31 December 2011	5,136	71,225	356	76,717

There were no significant transfers between Level 1 and Level 2 in 2011.

15. Financial instruments continued

Valuation of financial instruments continued

The tables below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2012

Company

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	97	677	-	774
Loans and advances to customers	-	3,930	910	4,840
Treasury bills and other eligible bills	686	35	-	721
Debt securities	4,336	4,417	172	8,925
Equity shares	1,767	-	-	1,767
	6,886	9,059	1,082	17,027
Derivative financial instruments	257	46,752	434	47,443
Investment securities				
Treasury bills and other eligible bills	7,522	1,283	-	8,805
Debt securities	10,889	20,538	355	31,782
Equity shares	675	5	77	757
	19,086	21,826	432	41,344
At 31 December 2012	26,229	77,637	1,948	105,814

Liabilities	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	968	-	968
Customer accounts	68	4,900	-	4,968
Debt securities in issues	-	3,755	114	3,869
Short positions	1,424	272	-	1,696
	1,492	9,895	114	11,501
Derivative financial instruments	380	45,197	420	45,997
At 31 December 2012	1,872	55,092	534	57,498

There were no significant transfers between level 1 and level 2 in 2012.

15. **Financial instruments** continued

Valuation of financial instruments continued

The tables below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2011

Company

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	110	456	-	566
Loans and advances to customers	5	4,773	-	4,778
Treasury bills and other eligible bills	891	3	-	894
Debt securities	3,207	3,028	241	6,476
Equity shares	871	-	1	872
	5,084	8,260	242	13,586
Derivative financial instruments	564	56,096	269	56,929
Investment securities				
Treasury bills and other eligible bills	5,512	1,296	-	6,808
Debt securities	10,185	16,401	509	27,095
Equity shares	602	5	66	673
	16,299	17,702	575	34,576
At 31 December 2011	21,947	82,058	1,086	105,091

Liabilities	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	1,013	-	1,013
Customer accounts	-	1,846	-	1,846
Debt securities in issues	-	2,194	172	2,366
Short positions	1,157	473	-	1,630
	1,157	5,526	172	6,855
Derivative financial instruments	653	54,873	177	55,703
At 31 December 2011	1,810	60,399	349	62,558

There were no significant transfers between Level 1 and Level 2 in 2011.

15. Financial instruments continued

Level 3 movement tables

Financial assets

Group

Assets	Held at fair value through profit or loss: Loans and advances to customers $million	Held at fair value through profit or loss: Debt securities $million	Held at fair value through profit or loss: Equity shares $million	Derivative financial instruments $million	Investment securities: Treasury bills $million	Investment securities: Debt securities $million	Investment securities: Equity shares $million	Total $million
At 1 January 2012	-	293	566	276	49	745	1,418	3,347
Total gains/(losses) recognised in income statement	-	9	313	(48)	-	48	(13)	309
Total (losses)/gains recognised in other comprehensive income	-	-	-	-	-	(56)	133	77
Purchases	-	22	310	336	42	134	525	1,369
Sales	-	(5)	(64)	(13)	-	(199)	(71)	(352)
Settlements	(27)	(97)	-	(60)	-	(17)	(23)	(224)
Transfers out	-	(96)	-	(5)	(33)	(261)	(16)	(411)
Transfers in	937	50	-	-	-	2	5	994
At 31 December 2012	910	176	1,125	486	58	396	1,958	5,109
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2012	-	(10)	195	(30)	-	-	-	155

Transfers in during the year primarily relate to loans held within the Group's global syndicates underwriting book where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain corporate desk securities where the valuation parameters became observable during the year and were transferred to level 2 financial assets.

Assets	Held at fair value through profit or loss: Debt securities $million	Held at fair value through profit or loss: Equity shares $million	Derivative financial instruments $million	Investment securities: Treasury bills $million	Investment securities: Debt securities $million	Investment securities: Equity shares $million	Total $million
At 1 January 2011	227	301	187	-	582	1,051	2,348
Total (losses)/gains recognised in income statement	(30)	73	136	-	(52)	69	196
Total (losses)/gains recognised in other comprehensive income	-	-	-	(4)	(52)	(199)	(255)
Purchases	223	210	68	-	226	416	1,143
Sales	(73)	(18)	(7)	-	(189)	(142)	(429)
Settlements	(89)	-	(88)	-	(33)	(41)	(251)
Transfers out	(94)	-	(33)	-	(246)	(74)	(447)
Transfers in	129	-	13	53	509	338	1,042
At 31 December 2011	293	566	276	49	745	1,418	3,347
Total gains recognised in the income statement relating to assets held at 31 December 2011	13	62	187	-	-	-	262

Transfers in during the year primarily relate to markets for certain debt securities and equity shares becoming illiquid or where the valuation parameters became unoberservable during the year

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to level 2 financial assets.

15. Financial instruments continued

Level 3 movement tables continued

Company

Assets	Held at fair value through profit or loss: Debt securities $million	Held at fair value through profit or loss: Equity shares $million	Derivative financial instruments $million	Investment securities: Treasury bills $million	Investment securities: Debt securities $million	Investment securities: Equity shares $million	Loans and advances to customers $million	Total $million
At 1 January 2012	241	1	269	-	509	66	-	1,086
Total gains/(losses) recognised in income statement	9	(1)	(31)	-	-	-	-	(23)
Total gains recognised in other comprehensive income	-	-	-	-	(89)	1	-	(88)
Purchases	22	-	334	-	133	18	-	507
Sales	(95)	-	(13)	-	(199)	-	-	(307)
Settlements	(7)	-	(120)	-	(1)	-	(27)	(155)
Transfers out	-	-	(5)	-	-	(8)	-	(13)
Transfers in	2	-	-	-	2	-	937	941
At 31 December 2012	172	-	434	-	355	77	910	1,948
Total losses recognised in the income statement relating to assets held at 31 December 2012	(10)	-	(8)	-	-	-	-	(18)

Transfers in during the year primarily relate to loans held within the Group's global syndicates underwriting book where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain corporate desk securities where the valuation parameters became observable during the year and were transferred to level 2 financial assets.

Assets	Held at fair value through profit or loss: Debt securities $million	Held at fair value through profit or loss: Equity shares $million	Derivative financial instruments $million	Investment securities: Treasury bills $million	Investment securities: Debt securities $million	Investment securities: Equity shares $million	Total $million
At 1 January 2011	205	-	254	-	650	55	1,164
Total(losses)/gains recognised in income statement	(34)	-	86	-	-	(1)	51
Total gains recognised in other comprehensive income	-	-	-	-	33	1	34
Purchases	195	1	71	-	149	13	429
Sales	(45)	-	(41)	-	(144)	-	(230)
Settlements	(73)	-	(69)	-	(2)	(2)	(146)
Transfers out	(30)	-	(35)	-	(246)	-	(311)
Transfers in	23	-	3	-	69	-	95
At 31 December 2011	241	1	269	-	509	66	1,086
Total gains recognised in the income statement relating to assets held at 31 December 2011	12	-	168	-	-	-	180

Transfers in during the year primarily relate to markets for certain debt securities and equity shares becoming illiquid or where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to level 2 financial assets.

15. Financial instruments continued

Level 3 movement tables continued

Financial liabilities

Group

	2012			2011		
Liabilities	Debt securities in issue $million	Derivative financial instruments $million	Total $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
At 1 January	**172**	**184**	**356**	311	282	593
Total (gains)/losses recognised in income statement	**(43)**	**80**	**37**	(8)	38	30
Issues	**50**	**324**	**374**	65	51	116
Settlements	**(28)**	**(25)**	**(53)**	(242)	(128)	(370)
Transfers out	**(37)**	**-**	**(37)**	(34)	(59)	(93)
Transfers in	**-**	**-**	**-**	80	-	80
At 31 December	**114**	**563**	**677**	172	184	356
Total losses/(gains) recognised in the income statement relating to liabilities held at 31 December	**3**	**44**	**47**	(38)	37	(1)

Transfers in during the periods primarily relate to certain financial instruments which parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to level 2 financial liabilities.

Company

	2012			2011		
Liabilities	Debt securities in issue $million	Derivative financial instruments $million	Total $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
At 1 January	**172**	**93**	**265**	270	157	427
Total gains recognised in income statement	**(42)**	**38**	**(4)**	(7)	(13)	(20)
Issues	**50**	**323**	**373**	65	56	121
Settlements	**(28)**	**(117)**	**(145)**	(210)	(90)	(300)
Transfers out	**(38)**	**(1)**	**(39)**	(26)	(58)	(84)
Transfers in	**-**	**84**	**84**	80	125	205
At 31 December	**114**	**420**	**534**	172	177	349
Total (gains)/losses recognised in the income statement relating to liabilities held at 31 December	**3**	**43**	**46**	(38)	76	38

Transfers in during the periods primarily relate to certain financial instruments where valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to level 2 financial liabilities.

15. Financial instruments continued

Sensitivities in respect of the fair values of Level 3 assets and liabilities

Group

At 31 December 2012	Held at fair value through profit or loss Net exposure $million	Held at fair value through profit or loss Favourable Changes $million	Held at fair value through profit or loss Unfavourable Changes $million	Investment securities Net exposure $million	Investment securities Favourable Changes $million	Investment securities Unfavourable Changes $million
Financial instruments held at fair value through profit or loss						
Debt securities	176	180	171	-	-	-
Equity shares	1,125	1,237	1,013	-	-	-
Loan and advances	910	924	896	-	-	-
Derivative financial instruments	(77)	2	(154)	-	-	-
Debt securities in issue	(114)	(114)	(114)	-	-	-
Investment securities						
Treasury bills				58	58	58
Debt securities	-	-	-	396	401	385
Equity shares	-	-	-	1,958	2,167	1,759
Total	2,020	2,229	1,812	2,412	2,626	2,202

At 31 December 2011	Held at fair value through profit or loss Net exposure $million	Held at fair value through profit or loss Favourable Changes $million	Held at fair value through profit or loss Unfavourable Changes $million	Investment securities Net exposure $million	Investment securities Favourable Changes $million	Investment securities Unfavourable Changes $million
Financial instruments held at fair value through profit or loss						
Debt securities	293	298	288	-	-	-
Equity shares	566	623	509	-	-	-
Derivative financial instruments	92	115	69	-	-	-
Debt securities	(172)	(172)	(172)	-	-	-
Investment securities						
Treasury bills	-	-	-	49	49	48
Debt securities	-	-	-	745	774	716
Equity shares	-	-	-	1,418	1,557	1,279
Total	779	864	694	2,212	2,380	2,043

15. Financial instruments continued

Sensitivities in respect of the fair values of level 3 assets and liabilities continued

Company

At 31December 2012	Held at fair value through profit or loss Net exposure $million	Held at fair value through profit or loss Favourable Changes $million	Held at fair value through profit or loss Unfavourable Changes $million	Investment securities Net exposure $million	Investment securities Favourable Changes $million	Investment securities Unfavourable Changes $million
Financial instruments held at fair value through profit or loss						
Debt securities	**172**	**176**	**168**	**-**	**-**	**-**
Equity shares	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments	**14**	**-**	**28**	**-**	**-**	**-**
Debt securities in issue	**(114)**	**(114)**	**(114)**	**-**	**-**	**-**
Loan and advances	**910**	**924**	**896**	**-**	**-**	**-**
Investment securities						
Debt securities	**-**	**-**	**-**	**355**	**363**	**348**
Equity shares	**-**	**-**	**-**	**77**	**85**	**69**
Total	**982**	**986**	**978**	**432**	**448**	**417**

At 31December 2011	Held at fair value through profit or loss Net exposure $million	Held at fair value through profit or loss Favourable Changes $million	Held at fair value through profit or loss Unfavourable Changes $million	Investment securities Net exposure $million	Investment securities Favourable Changes $million	Investment securities Unfavourable Changes $million
Financial instruments held at fair value through profit or loss						
Debt securities	241	246	236	-	-	-
Equity shares	1	1	1	-	-	-
Derivative financial instruments	92	100	84	-	-	-
Debt securities in issue	(172)	(172)	(172)	-	-	-
Investment securities						
Debt securities	-	-	-	509	524	495
Equity shares	-	-	-	66	83	49
Total	162	175	149	575	607	544

Where the fair value of financial instruments are measured using valuation techniques that incorporate one or more significant inputs which are based on unobservable market data, we apply a 10 per cent increase or decrease on the values of these unobservable parameter inputs, to generate a range of reasonably possible alternative valuations in accordance with the requirements of IFRS7. The percentage shift is determined by statistical analyses performed on a set of reference prices, which included certain equity indices, credit indices and volatility indices, based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one way market move and does not consider offsets for hedges.

As of 31 December 2012, these reasonably possible alternatives could have increased fair values of financial instruments held at fair value through profit or loss by $ 209 million (2011: $ 85 million) and available-for-sale by $ 212 million (2011: $ 168 million), or decreased fair values of financial instruments held at fair value through profit or loss by $ 208 million (2011: $ 85 million) and available-for-sale by $ 212 million (2011: $ 169 million). For the Company, these reasonably possible alternatives could have increased fair values of financial instruments held at fair value through profit or loss by $ 4 million (2011: $ 13 million) and available-for-sale by $ 16 million (2011: $ 32 million), or decreased fair values of financial instruments held at fair value through profit or loss by $ 4 million (2011: $ 13 million) and available-for-sale by $ 15 million (2011: $ 31 million).

15. Financial instruments continued

Instruments carried at amortised cost

The following table summarises the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. The fair values in the table below may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

Group

	2012		2011	
	Carrying value $million	Fair value $million	Carrying value $million	Fair value $million
Assets				
Cash and balances at central banks	61,043	61,043	47,364	47,364
Loans and advances to banks	68,380	68,344	65,980	65,963
Loans and advances to customers[1]	283,885	282,919	266,790	264,529
Investment securities	3,851	3,803	5,493	5,205
Other assets	21,659	21,659	20,554	20,554
Liabilities				
Deposits by banks	36,477	36,011	35,296	35,259
Customer accounts[1]	377,639	376,467	345,726	342,544
Debt securities in issue	41,445	40,906	35,766	36,142
Subordinated liabilities and other borrowed funds	23,084	24,048	19,462	19,321
Other liabilities	19,739	19,739	19,169	19,169

Company

	2012		2011	
	Carrying value $million	Fair value $million	Carrying value $million	Fair value $million
Assets				
Cash and balances at central banks	49,655	49,655	36,268	36,268
Loans and advances to banks	37,250	37,239	36,972	36,980
Loans and advances to customers[1]	137,982	137,650	123,273	122,540
Investment securities	2,271	2,226	3,840	3,498
Other assets	12,715	12,715	11,411	11,411
Liabilities				
Deposits by banks	28,375	28,377	27,933	27,891
Customer accounts[1]	169,882	170,033	150,772	149,164
Debt securities in issue	31,959	31,882	24,923	24,833
Subordinated liabilities and other borrowed funds	20,107	20,938	16,288	16,108
Other liabilities	9,318	9,318	8,361	8,361

[1] Amounts have been restated as explained in note 46.

15. Financial instruments continued

Instruments carried at amortised cost continued

The following sets out the Group's basis of establishing fair values of the financial instruments shown above.

Cash and balances at central banks
The fair value of cash and balances at central banks is their carrying amounts.

Loans and advances to banks and customers
For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity.

The Group's loans and advances to customers portfolio is well diversified by geography and industry. Approximately one-third of the portfolio reprices within one month, and approximately half reprices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value, subject to significant movement in credit spreads. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, where appropriate, credit spreads. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

Investment securities
For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using inputs proxied from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or inputs proxied from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxied as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relate to asset backed securities. The fair value for such instruments is usually proxied from internal assessments of the underlying cash flows. The Group has a wide range of individual investments within the unlisted debt securities portfolio. Given the number of instruments involved, providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

Deposits and borrowings
The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

Debt securities in issue, subordinated liabilities and other borrowed funds
The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity.

15. Financial instruments continued

Reclassification of financial assets

In 2008 the Group and Company reclassified certain non-derivative financial assets classified as held for trading into the available-for-sale ('AFS') category as these were no longer considered to be held for the purpose of selling or repurchasing in the near term. At the time of transfer, the Group identified the rare circumstances permitting such a transfer as the impact of the credit crisis in financial markets, particularly from the beginning of 2008, which significantly impacted the liquidity in certain markets. The Group also reclassified certain eligible financial assets from trading and available-for-sale categories to loans and receivables where the Group had the intent and ability to hold the reclassified assets for the foreseeable future or until maturity. There have been no reclassifications since 2008.

The following tables provide details of the remaining balance of assets reclassified during 2008:

Group

			If assets had not been reclassified, fair value gains from 1 January to 31 December 2012 which would have been recognised within				
For assets reclassified:	Carrying amount at 31 December 2012 $million	Fair value at 31 December 2012 $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	**85**	**85**	**5** [1]	**-**	**10**	**4.1**	**195**
From trading to loans and receivables	**550**	**532**	**34**	**-**	**28**	**5.0**	**609**
From AFS to loans and receivables	**673**	**661**	**-**	**45**	**26**	**5.3**	**826**
	1,308	**1,278**	**39**	**45**	**64**		
Of which asset backed securities:							
reclassified to available-for-sale	**81**	**81**	**5** [1]	**-**	**8**		
reclassified to loans and receivables	**924**	**896**	**68**	**45**	**43**		

[1] Post-reclassification, this is recognised within the available-for-sale reserve.

			If assets had not been reclassified, fair value gains/(losses) from 1 January to 31 December 2011 which would have been recognised within				
For assets reclassified:	Carrying amount at 31 December 2011 $million	Fair value at 31 December 2011 $million	Income $million	AFS reserve $million	Income recognised in income statement in 2010 $million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows $million
From trading to AFS	176	176	1 [1]	-	9	5.8	316
From trading to loans and receivables	816	711	(44)	-	27	5.6	961
From AFS to loans and receivables	856	796	-	1	27	5.5	1,118
	1,848	1,683	(43)	1	63		
Of which asset backed securities:							
reclassified to available-for-sale	114	114	(1)[1]	-	5		
reclassified to loans and receivables	1,304	1,195	(11)	1	43		

[1] Post-reclassification, this is recognised within the available-for-sale reserve.

15. Financial instruments continued

Reclassification of financial assets continued

Company

For assets reclassified:	Carrying amount at 31 December 2012 $million	Fair value at 31 December 2012 $million	If assets had not been reclassified, fair value gains from 1 January to 31 December 2012 which would have been recognised within: Income $million	AFS reserve $million	Income recognised in income statement in 2012 $million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows $million
From trading to AFS	83	83	5	-	10	6.0	195
From trading to loans and receivables	548	529	34		28	5.0	609
From AFS to loans and receivables	673	661		45	26	5.3	826
	1,304	1,273	39	45	64		
Of which asset backed securities:							
reclassified to available-for-sale	81	81	5	-	8		
reclassified to loans and receivables	924	896	68	45	43		

For assets reclassified:	Carrying amount at 31 December 2011 $million	Fair value at 31 December 2011 $million	If assets had not been reclassified, fair value gains/(losses) from 1 January to 31 December 2011 which would have been recognised within: Income $million	AFS reserve $million	Income recognised in income statement in 2011 $million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows $million
From trading to AFS	174	174	- [1]	-	7	5.7	312
From trading to loans and receivables	617	528	(41)	-	20	5.5	689
From AFS to loans and receivables	471	449	-	1	18	5.6	601
	1,262	1,151	(41)	1	45		
Of which asset backed securities:							
reclassified to available-for-sale	114	114	-	-	5		
reclassified to loans and receivables	723	667	(11)	1	26		

[1] Post-reclassification, this is recognised within the available-for-sale reserve.

15. Financial instruments continued

Transfers of financial assets

Transfers where financial assets are not derecognised - Group

Repurchase transactions

The Group enters into collateralised repurchase agreements (repos) and securities borrowing and lending transactions. These transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos continue to be recognised on the balance sheet as the Group retains substantially the associated risk and rewards of these securities. The counterparty liability is included in deposits by banks or customer accounts, as appropriate.

The table below sets out the financial assets provided by the Group as collateral for repurchase transactions:

Collateral pledged against repurchase agreements	Fair value through profit and loss $million	Available for sale $million	Loans and receivables $million	Total $million
On balance sheet				
Treasury bills and other eligible bills	**62**	**424**	**-**	**486**
Debt securities	**522**	**590**	**-**	**1,112**
Loan and advances to banks and customer	**-**	**-**	**1,780**	**1,780**
Off balance sheet				
Repledged collateral received	**97**	**-**	**1,281**	**1,378**
At 31 December 2012	**681**	**1,014**	**3,061**	**4,756**

Balance sheet liabilities - Repurchase agreements	
Banks	**1,338**
Customers	**1,917**
At 31 December 2012	**3,255**

Collateral pledged against repurchase agreements	Fair value through profit and loss $million	Available for sale $million	Loans and receivables $million	Total $million
On balance sheet				
Treasury bills and other eligible bills	234	490	-	724
Debt securities	933	1,107	15	2,055
Loan and advances to banks and customer	-	-	15	15
Off balance sheet				
Repledged collateral received	104	-	901	1,005
At 31 December 2011	1,271	1,597	931	3,799

Balance sheet liabilities - Repurchase agreements	
Banks	1,913
Customers	1,850
At 31 December 2011	3,763

15. Financial instruments continued

Repurchase and reverse repurchase agreements

The Group also undertakes reverse repurchase transactions as set out in the table below:

Balance sheet assets - Reverse repurchase agreements

	2012 $million	2011 $million
Banks	**7,759**	5,706
Customers	**2,900**	1,890
	10,659	7,596

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	2012 $million	2011 $million
Securities and collateral which can be repledged or sold (at fair value)	**10,517**	7,076
Thereof repledged/transferred to others for financing activities, to satisfy commitments under short sale transactions or liabilities under sale and repurchase agreements (at fair value)	**1,378**	1,005

Securitisation transactions

The Group has also entered into a number of securitisation transactions where the underlying loans and advances have been transferred to special purpose entities (SPEs) that are fully consolidated by the Group. As a result, the Group continues to recognise the assets on its balance sheet, together with the associated liability instruments issued by the special purpose entities. The holders of the liability instruments have recourse only to the assets transferred to the SPE. Further details of SPE are in note 43.

The following table sets out the carrying value and fair value of the assets transferred and the carrying value and fair value of the associated liabilities at 31 December 2012 and 2011 respectively.

	2012		2011	
	Carrying value $million	Fair value $million	Carrying value $million	Fair value $million
Loan and advances	**1,321**	**1,319**	2,212	2,011
Securitisation liability	**1,093**	**1,093**	1,843	1,843
Net	228	226	369	168

The Group did not undertake any transactions that required the recognition of an asset representing continuing involvement in financial assets.

15. Financial instruments continued

Transfers where financial assets are not derecognised - Company

Repurchase transactions

The Company enters into collateralised repurchase agreements (repos) and securities borrowing and lending transactions. These transactions typically entitle the Company and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos continue to be recognised on the balance sheet as the Group retains substantially the associated risk and rewards of these securities. The counterparty liability is included in deposits by banks or customer accounts, as appropriate.

The table below sets out the financial assets provided by the Group as collateral for repurchase transactions:

Collateral pledged against repurchase agreements	Fair value through profit and loss $million	Available for sale $million	Loans and receivables $million	Total $million
On balance sheet				
Treasury bills and other eligible bills	**62**	**363**	**-**	**425**
Debt securities	**522**	**-**	**-**	**522**
Loan and advances to banks and customer	**-**	**-**	**1,780**	**1,780**
Off balance sheet				
Repledged collateral received	**97**	**-**	**1,049**	**1,146**
At 31 December 2012	**681**	**363**	**2,829**	**3,873**

Balance sheet liabilities - Repurchase agreements	
Banks	**510**
Customers	**1,891**
At 31 December 2012	**2,401**

Collateral pledged against repurchase agreements	Fair value through profit and loss $million	Available for sale $million	Loans and receivables $million	Total $million
On balance sheet				
Treasury bills and other eligible bills	17	294	-	311
Debt securities	633	-	15	648
Loan and advances to banks and customer	-	-	15	15
Off balance sheet				
Repledged collateral received	104	-	901	1,005
At 31 December 2011	754	294	931	1,979

Balance sheet liabilities - Repurchase agreements	
Banks	247
Customers	1,772
At 31 December 2011	2,019

15. Financial instruments continued

Repurchase and reverse repurchase agreements

The Company also undertakes reverse repurchase transactions as set out in the table below:

Balance sheet assets - Reverse repurchase agreements

	2012 $million	2011 $million
Banks	6,575	3,468
Customers	1,712	1,523
	8,287	4,991

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

	2012 $million	2011 $million
Securities and collateral which can be repledged or sold (at fair value)	7,963	4,602
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)	1,146	1,005

Securitisation transactions

The Company has also entered into a number of securitisation transactions where the underlying loans and advances have been transferred to special purpose entities (SPEs) that are fully consolidated by the Company. As a result, the Company continues to recognise the assets on its balance sheet, together with the associated liability instruments issued by the special purpose entities. The holders of the liability instruments have recourse only to the assets transferred to the SPE.

The following table sets out the carrying value and fair value of the assets transferred and the carrying value and fair value of the associated liabilities at 31 December 2012 and 2011 respectively.

	2012		2011	
	Carrying value $million	Fair value $million	Carrying value $million	Fair value $million
Loan and advances	54	54	69	69
Securitisation liability	52	52	68	68
Net	2	2	1	1

The Company did not undertake any transactions that required the recognition of an asset representing continuing involvement in financial assets.

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 $282 million (2011: $ 417 million) for the Group and $ 168 million (2011: $ 231 million) for the Company.

The net fair value gain on loans and advances to customers designated at fair value through profit or loss was $0.2million (2011: gain of $2.3million). Of this, $nil million (2011: $nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was $3 million (2011: $ 3 million).

The changes in fair value attributable to credit risk has been determined by comparing fair value movements in risk-free bonds with similar maturities to the changes in fair value of loans designated at fair value through profit or loss.

Debt securities, equity shares and treasury bills held at fair value through profit or loss

Group

	2012			
	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	10,182			
Other public sector securities	131			
	10,313			
Issued by banks:				
Certificates of deposit	255			
Other debt securities	1,723			
	1,978			
Issued by corporate entities and other issuers:				
Other debt securities	2,932			
Total debt securities	15,223			
Of which:				
Listed on a recognised UK exchange	467	23	-	490
Listed elsewhere	9,086	2,081	949	12,116
Unlisted	5,670	1,050	2,006	8,726
	15,223	3,154	2,955	21,332
Market value of listed securities	9,553	2,104	949	12,606

	2011			
	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	7,766			
Other public sector securities	65			
	7,831			
Issued by banks:				
Certificates of deposit	488			
Other debt securities	1,564			
	2,052			
Issued by corporate entities and other issuers:				
Other debt securities	3,187			
Total debt securities	13,070			
Of which:				
Listed on a recognised UK exchange	517	26	-	543
Listed elsewhere	7,269	1,002	799	9,070
Unlisted	5,284	565	3,810	9,659
	13,070	1,593	4,609	19,272
Market value of listed securities	7,786	1,028	799	9,613

16. Financial instruments held at fair value through profit or loss continued

Financial assets held at fair value through profit or loss continued

Company

	2012			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	**5,553**			
Other public sector securities	**77**			
	5,630			
Issued by banks:				
Certificates of deposit	**115**			
Other debt securities	**1,511**			
	1,626			
Issued by corporate entities and other issuers:				
Other debt securities	**1,669**			
Total debt securities	**8,925**			
Of which:				
Listed on a recognised UK exchange	**256**	**23**	**-**	**279**
Listed elsewhere	**4,305**	**1,744**	**427**	**6,476**
Unlisted	**4,364**	**-**	**294**	**4,658**
	8,925	**1,767**	**721**	**11,413**
Market value of listed securities	**4,561**	**1,768**	**428**	**6,757**

	2011			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	3,239			
Other public sector securities	6			
	3,245			
Issued by banks:				
Certificates of deposit	215			
Other debt securities	1,213			
	1,428			
Issued by corporate entities and other issuers:				
Other debt securities	1,803			
Total debt securities	6,476			
Of which:				
Listed on a recognised UK exchange	307	26	-	333
Listed elsewhere	2,632	846	225	3,703
Unlisted	3,537	-	669	4,206
	6,476	872	894	8,242
Market value of listed securities	2,939	872	226	4,037

The net fair value loss on liabilities designated at fair value through profit or loss was $256 million for the year (2011: net loss of $ 438 million). Of this, a loss of $nil million (2011: $nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was a loss of $10.4 million (2011: $ 10 million). The change in fair value attributable to credit risk was determined by comparing fair value movements in risk-free debt instruments with similar maturities, to the changes in fair value of liabilities designated at fair value through profit or loss.

As at 31 December 2012, the amount the Group is contractually obliged to pay at maturity to the holders of these obligations was $31 million higher (2011: $61 million lower) than the carrying amount at fair value.

As at 31 December 2012, the amount the Company is contractually obliged to pay at maturity to the holders of these obligations was $ 12 million higher (2011: $ 56 million) than the carrying amount at fair value.

17. Derivative financial instruments

The tables below analyse the notional principal amounts and the positive and negative fair values of the Group's and Company's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Group

	2012			2011		
Total derivatives	**Notional principal amounts $million**	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets[1] $million	Liabilities[1] $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	**1,220,949**	**11,636**	**12,697**	1,135,255	17,455	17,122
Currency swaps and options	**862,722**	**13,932**	**13,033**	1,098,433	15,406	16,180
Exchange traded futures and options	**8,772**	**-**	**-**	363	-	-
	2,092,443	**25,568**	**25,730**	2,234,051	32,861	33,302
Interest rate derivative contracts:						
Swaps	**1,471,278**	**19,107**	**18,682**	2,009,872	17,182	15,405
Forward rate agreements and options	**145,020**	**1,266**	**796**	242,843	1,086	1,093
Exchange traded futures and options	**306,054**	**-**	**-**	273,089	343	347
	1,922,352	**20,373**	**19,478**	2,525,804	18,611	16,845
Credit derivative contracts	**61,186**	**830**	**1,130**	77,776	1,783	1,807
Equity and stock index options	**12,223**	**355**	**372**	12,057	678	845
Commodity derivative contracts	**138,642**	**2,370**	**1,484**	62,426	4,634	4,319
Total derivatives	**4,226,846**	**49,496**	**48,194**	4,912,114	58,567	57,118

[1] Amounts have been restated as explained in note 46.

Company

	2012			2011		
Total derivatives	**Notional principal amounts $million**	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets[1] $million	Liabilities[1] $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	**1,303,259**	**11,934**	**13,514**	1,096,795	17,152	17,125
Currency swaps and options	**788,787**	**12,271**	**11,034**	1,045,017	16,472	17,283
Exchange traded futures and options	**8,329**	**-**	**-**	-	-	-
	2,100,375	**24,205**	**24,548**	2,141,812	33,624	34,408
Interest rate derivative contracts:						
Swaps	**1,324,557**	**18,612**	**17,827**	1,840,537	14,396	12,602
Forward rate agreements and options	**137,459**	**1,153**	**669**	229,506	973	967
Exchange traded futures and options	**300,888**	**-**	**-**	267,316	343	347
	1,762,904	**19,765**	**18,496**	2,337,359	15,712	13,916
Credit derivative contracts	**59,440**	**799**	**1,104**	81,340	1,904	1,928
Equity and stock index options	**13,607**	**353**	**369**	12,799	749	837
Commodity derivative contracts	**138,893**	**2,321**	**1,480**	64,745	4,940	4,614
Total derivatives	**4,075,219**	**47,443**	**45,997**	4,638,055	56,929	55,703

[1] Amounts have been restated as explained in note 46.

The Group and Company limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business. Details of the amounts available for offset can be found in the Risk review on page 23.

The Derivatives and Hedging sections of the Risk review on pages 71 explain the Group's risk management of derivative contracts and application of hedging.

17. Derivative financial instruments continued

Derivatives held for hedging

Hedge accounting is applied to derivatives and hedged items when the criteria under IAS 39 have been met (see note 1 on page 98. The tables below list the types of derivatives that the Group and Company hold for hedge accounting.

Group

	2012			2011		
	Notional principal amounts	Assets	Liabilities	Notional principal amounts	Assets	Liabilities
	$million	$million	$million	$million	$million	$million
Derivatives designated as fair value hedges:						
Interest rate swaps	34,659	1,234	636	34,820	1,206	717
Currency swaps	2,910	18	5	3,768	60	221
Forward foreign exchange contracts	427	-	9	843	67	-
	37,996	1,252	650	39,431	1,333	938
Derivatives designated as cash flow hedges:						
Interest rate swaps	17,033	33	17	23,537	40	21
Forward foreign exchange contracts	2,066	52	1	2,999	2	72
Currency swaps	8,955	23	13	3,609	30	2
	28,054	108	31	30,145	72	95
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	671	-	52	707	34	-
Total derivatives held for hedging	66,721	1,360	733	70,283	1,439	1,033

Company

	2012			2011		
	Notional principal amounts	Assets	Liabilities	Notional principal amounts	Assets	Liabilities
	$million	$million	$million	$million	$million	$million
Derivatives designated as fair value hedges:						
Interest rate swaps	24,850	1,214	606	24,715	1,175	568
Currency swaps	1,705	18	3	2,583	30	137
Forward foreign exchange contracts	427	-	9	843	67	-
	26,982	1,232	618	28,141	1,272	705
Derivatives designated as cash flow hedges:						
Interest rate swaps	8,355	19	6	9,007	21	8
Forward foreign exchange contracts	2,066	52	1	2,999	2	72
Currency swaps	3,475	19	5	2,041	21	1
	13,896	90	12	14,047	44	81
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	671	-	52	-	-	-
Total derivatives held for hedging	41,549	1,322	682	42,188	1,316	786

17. Derivative financial instruments continued

Fair value hedges

The swaps exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange fixed rates on assets to match the floating rates paid on funding.

For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss. In respect of fair value hedges, net gains arising on the hedging instruments during the year were $156 million (2011: $460 million) compared to net losses arising on the hedged items of $163 million (2011: $435 million). For the Company, net gains arising on fair value hedging instruments were $77 million (2011: $456 million) compared to net losses arising on the hedged items of $102 million (2011: $404 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 (2011: $nil million) was recognised by the Group in the income statement in respect of ineffectiveness arising on cash flow hedges. During the year, net gains of $21 million (2011: $94 million) for the Group were reclassified to profit and loss from the cash flow hedge reserve, of which, gains of $17 million (2011: $96 million) were recognised within operating costs and losses of $2 million (2011: $2 million) recognised within net interest income.

During the year, net gains of $20 million (2011: $97 million) for the Company were reclassified to profit and loss from the cash flow hedge reserve, of which, gains of $16 million (2011: $95 million) were recognised within operating costs and gains of $4 million (2011: $2 million) recognised within net interest income.

The Group has hedged the following cash flows which are expected to impact the income statement in the following periods:

	2012						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	**3,533**	**292**	**174**	**2**	**-**	**-**	**4,001**
Forecast payable cash flows	**(5,229)**	**(577)**	**(177)**	**(3)**	**(2)**	**-**	**(5,988)**
	(1,696)	**(285)**	**(3)**	**(1)**	**(2)**	**-**	**(1,987)**

	2011						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	1,059	432	153	81	1	-	1,726
Forecast payable cash flows	(2,686)	(1,781)	(143)	(80)	(1)	-	(4,691)
	(1,627)	(1,349)	10	1	-	-	(2,965)

The Company has hedged the following cash flows which are expected to impact the income statement in the following periods:

	2012						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	**26**	**16**	**86**	**-**	**-**	**-**	**128**
Forecast payable cash flows	**(1,655)**	**(296)**	**(88)**	**-**	**-**	**-**	**(2,039)**
	(1,629)	**(280)**	**(2)**	**-**	**-**	**-**	**(1,911)**

	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	38	20	6	79	-	-	143
Forecast payable cash flows	(1,720)	(1,389)	(6)	(79)	-	-	(3,194)
	(1,682)	(1,369)	-	-	-	-	(3,051)

Net investment hedges

The Group uses a combination of foreign exchange contracts and non-derivative financial assets to manage the variability in future exchange rates on its net investments in foreign currencies. Gains and losses arising on the effective portion of the hedges are deferred in equity until the net investment is disposed off. During the year, $nil million (2011: $nil million) was recognised in the Income statement in respect of ineffectiveness arising on net investment hedges.

18. Loans and advances to banks

	Group		Company	
	2012 $million	2011 $million	2012 $million	2011 $million
Loans and advances to banks	**69,259**	66,632	**38,049**	37,543
Individual impairment provisions	**(103)**	(82)	**(24)**	(4)
Portfolio impairment provision	**(2)**	(2)	**(1)**	(1)
	69,154	66,548	**38,024**	37,538
Of which: loans and advances held at fair value through profit or loss (note 15)	**(774)**	(568)	**(774)**	(566)
	68,380	65,980	**37,250**	36,972

Analysis of loans and advances to banks by geography are set out in the Risk review section on pages 24 to 25.

19. Loans and advances to customers

	Group		Company	
	2012 $million	2011[1] $million	2012 $million	2011[1] $million
Loans and advances to customers	**291,975**	274,428	**144,429**	129,411
Individual impairment provisions	**(2,368)**	(1,890)	**(1,301)**	(1,013)
Portfolio impairment provision	**(744)**	(760)	**(306)**	(347)
	288,863	271,778	**142,822**	128,051
Of which: loans and advances held at fair value through profit or loss (note 15)	**(4,978)**	(4,988)	**(4,840)**	(4,778)
	283,885	266,790	**137,982**	123,273

[1] Amounts have been restated as explained in note 46.

Analysis of loans and advances to customer by geography and business and related impairment provisions are set out within the Risk review on pages 24 to 56.

20. Assets leased to customers

Finance leases and installment credit

	Group		Company	
	2012	2011	2012	2011
	$million	$million	$million	$million
Finance leases	576	526	178	168
Installment credit agreements	2,248	1,949	2,097	1,949
	2,824	2,475	2,275	2,117

The above assets are included within loans and advances to customers. The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to $841 million (2011: $275 million) for the Group and $766 million (2011: $134 million) for the Company. The cost of assets excludes amounts relating acquisition during the year.

	Group		Company	
	2012	2011	2012	2011
	$million	$million	$million	$million
Minimum lease receivables under finance leases falling due:				
Within one year	116	91	66	52
Later than one year and less than five years	370	391	88	107
After five years	188	141	65	51
	674	623	219	210
Interest income relating to future periods	(98)	(97)	(41)	(42)
Present value of finance lease receivables	576	526	178	168
Of which:				
Falls due within one year	98	73	58	45
Falls due later than one year and less than five years	332	344	73	86
Falls due after five years	146	109	47	37

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 2012, these assets had a net book value of $4,422 million (2011: $2,782 million) in the Group.

	Group	
	2012	2011
	$million	$million
Minimum lease receivables under operating leases falling due:		
Within one year	480	318
Later than one year and less than five years	1,201	1,177
After five years	1,523	768
	3,204	2,263

21. Investment securities

Group

	2012					
	Debt securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	-	23,116	390			
Other public sector securities	-	1,229	-			
	-	24,345	390			
Issued by banks:						
Certificates of deposit	-	5,974	-			
Other debt securities	-	24,195	114			
	-	30,169	114			
Issued by corporate entities and other issuers:						
Other debt securities	-	10,899	3,347			
Total debt securities	-	65,413	3,851			
Of which:						
Listed on a recognised UK exchange	-	6,858	173 [1]	70	-	7,101
Listed elsewhere	-	22,816	878 [1]	1,104	13,039	37,837
Unlisted	-	35,739	2,800	2,104	13,832	54,475
	-	65,413	3,851	3,278	26,871	99,413
Market value of listed securities	-	29,674	1,006	1,174	13,039	44,893

	2011					
	Debt securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	18	20,462	389			
Other public sector securities	-	690	-			
	18	21,152	389			
Issued by banks:						
Certificates of deposit	-	5,811	-			
Other debt securities	-	18,292	1,043			
	-	24,103	1,043			
Issued by corporate entities and other issuers:						
Other debt securities	-	10,312	4,043			
Total debt securities	18	55,567	5,475			
Of which:						
Listed on a recognised UK exchange	-	5,431	242 [1]	150	-	5,823
Listed elsewhere	18	17,082	820 [1]	869	7,516	26,305
Unlisted	-	33,054	4,413	1,524	14,164	53,155
	18	55,567	5,475	2,543	21,680	85,283
Market value of listed securities	18	22,513	954	1,019	7,516	32,020

[1] These debt securities listed or registered on a recognised UK exchange or elsewhere, are thinly traded or the market for these securities is illiquid.

Equity shares largely comprise investment in corporates.

21. Investment securities continued

Company

	2012				
	Debt securities				
	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:					
Government securities	8,238	390			
Other public sector securities	43	-			
	8,281	390			
Issued by banks:					
Certificates of deposit	1,713	-			
Other debt securities	13,370	562			
	15,083	562			
Issued by corporate entities and other issuers:					
Other debt securities	8,418	1,319			
Total debt securities	31,782	2,271			
Of which:					
Listed on a recognised UK exchange	5,274	26 [1]	38	-	5,338
Listed elsewhere	11,087	933 [1]	638	4,075	16,733
Unlisted	15,421	1,312	81	4,730	21,544
	31,782	2,271	757	8,805	43,615
Market value of listed securities	16,361	914	676	4,075	22,026

	2011				
	Debt securities				
	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:					
Government securities	7,903	389			
Other public sector securities	152	-			
	8,055	389			
Issued by banks:					
Certificates of deposit	2,062	-			
Other debt securities	8,905	1,122			
	10,967	1,122			
Issued by corporate entities and other issuers:					
Other debt securities	8,073	2,329			
Total debt securities	27,095	3,840			
Of which:					
Listed on a recognised UK exchange	4,041	67 [1]	75	-	4,183
Listed elsewhere	9,746	887 [1]	548	432	11,613
Unlisted	13,308	2,886	50	6,376	22,620
	27,095	3,840	673	6,808	38,416
Market value of listed securities	13,787	850	623	432	15,692

[1] These debt securities listed or registered on a recognised UK exchange or elsewhere, are thinly traded or the market for these securities is illiquid.

Equity shares largely comprise investment in corporates.

21. Investment securities continued

The change in the carrying amount of investment securities comprised:

Group

	2012				2011			
	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million
At 1 January	61,060	2,543	21,680	85,283	55,384	2,517	17,895	75,796
Exchange translation differences	675	13	615	1,303	(960)	5	(848)	(1,803)
Additions	111,438	783	45,104	157,325	79,385	982	50,893	131,260
Maturities and disposals	(104,700)	(217)	(40,988)	(145,905)	(72,668)	(672)	(46,491)	(119,831)
Impairment, net of recoveries on disposals	24	(108)	-	(84)	(84)	(12)	-	(96)
Changes in fair value (including the effect of fair value hedging)	728	264	57	1,049	99	(277)	(38)	(216)
Amortisation of discounts and premiums	39	-	403	442	(96)	-	269	173
At 31 December	69,264	3,278	26,871	99,413	61,060	2,543	21,680	85,283

At 31 December 2012, unamortised premiums on debt securities held for investment purposes amounted to $607 million (2011: $387 million) and unamortised discounts amounted to $443 million (2011: $308 million).

Income from listed equity shares amounted to $54 million (2011: $36 million) and income from unlisted equity shares amounted to $38 million (2011: $37 million).

Company

	2012				2011			
	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million
At 1 January	30,935	673	6,808	38,416	24,879	742	3,501	29,122
Exchange translation differences	7	2	91	100	(526)	(1)	(509)	(1,036)
Additions	27,248	29	12,729	40,006	30,137	69	14,915	45,121
Maturities and disposals	(24,635)	(35)	(11,044)	(35,714)	(23,818)	(37)	(11,288)	(35,143)
Impairment, net of recoveries on disposals	1	(6)	-	(5)	(15)	-	-	(15)
Changes in fair value (including the effect of fair value hedging)	495	94	4	593	227	(100)	1	128
Amortisation of discounts and premiums	2	-	217	219	51	-	188	239
At 31 December	34,053	757	8,805	43,615	30,935	673	6,808	38,416

At 31 December 2012, unamortised premiums on debt securities held for investment purposes amounted to $423 million (2011: $307 million) and unamortised discounts amounted to $347 million (2011: $179 million).

Income from listed equity shares amounted to $42 million (2011: $25 million) and income from unlisted equity shares amounted to $1 million (2011: $1 million).

21. Investment securities continued

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables.

	Group		Company	
	2012 $million	2011 $million	2012 $million	2011 $million
At 1 January	33	32	28	27
Exchange translation differences	-	(1)	-	(2)
Amounts written off	(2)	(23)	(2)	(3)
Impairment	(4)	25	(4)	6
At 31 December	27	33	22	28

22. Other assets

	Group		Company	
	2012 $million	2011 $million	2012 $million	2011 $million
Financial assets held at amortised cost (note 15)				
Hong Kong SAR Government certificates of indebtedness (note 31)	4,191	4,043	-	-
Cash collateral	5,068	4,856	5,055	4,843
Acceptances and Endorsements	5,156	5,485	2,506	2,303
Unsettled trades and other financial assets	7,244	6,170	5,154	4,265
	21,659	20,554	12,715	11,411
Non-financial assets				
Commodities	5,574	3,523	5,574	3,523
Other	1,512	3,072	490	1,124
	28,745	27,149	18,779	16,058

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

	2012 $million	2011 $million
At 1 January	**14,270**	16,539
Additions	**131**	1,642
Disposals and liquidation	**(830)**	(3,911)
At 31 December	**13,571**	14,270

At 31 December 2012, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital %
Standard Chartered Bank Korea Limited, Korea	Korea	100
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	51[1]
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] 49 per cent is held by Standard Chartered Holdings Limited, the Group's parent company.

23. Investments in subsidiary undertakings, joint ventures and associates continued

Joint ventures

The Group and Company have a 44.56 per cent (2011: 44.51 per cent) interest through a joint venture company which holds a majority investment in PT Bank Permata Tbk (Permata), in Indonesia.

The Group proportionately consolidates its share of the assets, liabilities, income and expense of this joint venture on a line by line basis. Contingent liabilities set out in note 42, include $348 million (2011: $286 million) relating to this joint venture arrangements. These mainly comprise banking guarantees and irrevocable letters of credit. There are no capital commitments related to the Group's investments in these joint ventures. Related party transactions are disclosed in note 47.

The following amounts have been included in the consolidated accounts of the Group:

	2012 $million	2011 $million
Current assets	3,680	3,006
Long-term assets	2,445	2,050
Total assets	6,125	5,056
Current liabilities	(4,765)	(4,066)
Long-term liabilities	(573)	(314)
Total liabilities	(5,338)	(4,380)
Net assets	787	676
Income	287	257
Expenses	(174)	(151)
Impairment	(23)	(20)
Operating profit	90	86
Tax	(25)	(22)
Share of post tax result from joint ventures	65	64

Long-term assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

Investment in joint venture

The Company accounts for its joint venture investment at cost.

	2012 $million	2011 $million
At 1 January	396	396
Additions	93	-
At 31 December	489	396

23. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in associates

	Group		Company	
	2012	2011	2012	2011
	$million	$million	$million	$million
At 1 January	**903**	631	**53**	53
Translation	**14**	10	**-**	-
Additions	**4**	198	**2**	-
Share of profits	**116**	74	**-**	-
Dividends received	**(14)**	(10)	**-**	-
Impairment	**(70)**	-	**(10)**	-
At 31 December	**953**	903	**45**	53

The Company accounts for its investments in associates at cost.

The following amounts represent the total profit, assets and liabilities of the Group's associated undertakings.

	Group		Company	
	2012	2011	2012	2011
	$million	$million	$million	$million
Profit for the year	**609**	405	**5**	5
Total assets	**79,637**	57,006	**114**	59
Total liabilities	**(75,770)**	(53,738)	**(26)**	(10)
Net assets	**3,867**	3,268	**88**	49

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 2012 is $111 million (2011: $145 million). The investments in ACB and China Bohai Bank are less than 20 per cent but both ACB and China Bohai Bank are considered to be associates because of the significant influence the Group is able to exercise over the management of these companies and their financial and operating policies. Significant influence is evidenced largely through the inter change of management personnel and the provision of expertise. The reporting dates of these associates are within three months of the Group’s reporting date.

24. Business Combinations

2012 acquisitions

Group
On 4 November 2012, the Group completed the acquisition of 100 per cent of the issued and paid up share capital of Credit Agricole Yatirim Bankasi Turk A.S. (CAYBT) a wholly-owned subsidiary of Credit Agricole Corporate and Investment Bank for a consideration of $63 million recognising goodwill of $26 million. The net assets acquired primarily comprised balances held with central banks. The goodwill acquired mainly represents intangibles that are not separately recognised and primarily relates to the associated banking licence.

2011 acquisitions

Group
On 8 April 2011, the Group acquired 100 per cent interest in GE Money Pte Limited, a leading specialist in auto and unsecured personal loans in Singapore, for a total cash consideration of $695 million, recognising goodwill of $199 million.

On 2 September 2011, the Group acquired 100 per cent interest in Gryphon Partners Advisory Pty Ltd and Gryphon Partners Canada Inc (together "Gryphon Partners") for a total consideration of $53 million. As required by IFRS 3 *Business combination*, only $28 million of this consideration is deemed to relate to the cost of acquisition; for accounting purposes the balance is deemed to represent remuneration and is charged to the income statement over the period to 2015. Goodwill of $11 million was recognised on this transaction.

If these acquisitions had occurred on 1 January 2011 the operating income of the Group would have been approximately $17,715 million and profit before taxation would have been $6,787 million. In 2011, these acquisitions contributed $66 million to the Group's operating income and $40 million to the Group's profit before taxation since acquisition.

The assets and liabilities arising from the acquisition are as follows:

	Fair value $million
Cash and balances at central banks	6
Loans and advances to customers	1,545
Intangibles other than goodwill	17
Other assets	24
Total assets	1,592
Other liabilities	1,079
Total liabilities	1,079
Net assets acquired	513
Purchase consideration settled in cash	(718)
Cash and cash equivalents in subsidiary acquired	6
Cash outflow on acquisition	(712)
Purchase consideration:	
Cash paid	718
Contingent consideration	5
Fair value of net assets acquired	(513)
Goodwill	210
Intangible assets acquired:	
Customer relationships	17
Total	17

Goodwill arising on the acquisition is attributable to the synergies expected to arise from integration with the Group, the skilled workforce acquired and the distribution networks. The primary reason for these acquisitions is to enhance capability and broaden product offering to customers and enhance capability.

The fair value amounts contain some provisional balances which will be finalised within 12 months of the acquisition date.

The fair value of loans to banks was $16 million. The gross contractual amount due was $16 million, which is expected to be collected.

The fair value of loans to customers was $1,545 million. The gross contractual amount due was $1,554 million, of which $9 million was the best estimate of the contractual cash flows not expected to be collected.

Acquisition related costs of $1.9 million are included within operating expenses.

Company
On 11 December 2011, the Company acquired business through its Singapore branch from its subsidiary GE Money Singapore PTE Limited for a consideration of $695 million recognising goodwill of $199 million.

On 5 September 2011, the Company acquired business through its Australia branch from its subsidiary Gryphon Partners Advisory Pty Ltd for a consideration of $18 million recognising goodwill of $11 million.

25. Goodwill and intangible assets

Group

	2012				2011			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	5,935	897	816	7,648	5,846	885	776	7,507
Exchange translation differences	158	13	37	208	(121)	(5)	(12)	(138)
Acquisitions	34	3	-	37	210	17	-	227
Additions	-	-	296	296	-	-	240	240
Disposals	-	-	-	-	-	-	(47)	(47)
Amounts written off	-	-	(219)	(219)	-	-	(141)	(141)
Other movements	-	-	2	2	-	-	-	-
At 31 December	6,127	913	932	7,972	5,935	897	816	7,648
Provision for amortisation								
At 1 January	-	582	345	927	-	500	330	830
Exchange translation differences	-	14	16	30	-	(5)	(3)	(8)
Amortisation for the period	-	86	190	276	-	87	184	271
Disposals	-	-	-	-	-	-	(31)	(31)
Amounts written off	-	-	(215)	(215)	-	-	(135)	(135)
At 31 December	-	682	336	1,018	-	582	345	927
Net book value	6,127	231	596	6,954	5,935	315	471	6,721

At 1 January 2011, the net book value was: goodwill, $5,846 million; acquired intangibles, $385 million; and software, $446 million.

At 31 December 2012, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $69 million (2011: $69 million).

Company

	2012				2011			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	466	126	668	1,260	259	105	596	960
Exchange translation differences	13	-	35	48	(3)	4	(9)	(8)
Acquisitions	8	3	-	11	210	17	-	227
Additions	-	-	243	243	-	-	204	204
Amounts written off	-	-	(205)	(205)	-	-	(123)	(123)
At 31 December	487	129	741	1,357	466	126	668	1,260
Provision for amortisation								
At 1 January	-	75	252	327	-	56	216	272
Exchange translation differences	-	-	13	13	-	-	-	-
Amortisation for the period	-	25	163	188	-	19	159	178
Amounts written off	-	-	(202)	(202)	-	-	(123)	(123)
At 31 December	-	100	226	326	-	75	252	327
Net book value	487	29	515	1,031	466	51	416	933

At 1 January 2011, the net book value was: goodwill, $259 million; acquired intangibles, $49 million; and software, $380 million.

25. Goodwill and intangible assets continued

At 31 December 2012, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $69 million (2011: $69 million).

	Group		Company	
	2012	2011	**2012**	2011
	$million	$million	**$million**	$million
Acquired intangibles comprise:				
Core deposits	**18**	25	**-**	-
Customer relationships	**124**	174	**29**	51
Brand names	**86**	112	**-**	-
Licences	**3**	4	**-**	-
Net book value	**231**	315	**29**	51

Group

Acquired intangibles primarily comprise those recognised as part of the acquisitions of Korea First Bank (subsequently renamed Standard Chartered Bank Korea Limited), Permata, Union Bank (now amalgamated into Standard Chartered Bank (Pakistan) Limited), Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan) Limited), Pembroke, Harrison Lovegrove, American Express Bank and the custody business in Africa. The acquired intangibles are amortised over periods from four years to a maximum of 16 years in the case of the customer relationships intangible acquired in Korea First Bank (KFB).

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing goodwill is allocated at the date of acquisition to a cash-generating unit (CGU), and the table above sets out the goodwill allocated to each CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amounts for all the CGUs were measured based on value-in-use. The key assumptions used in determining the recoverable amounts are set out above and are solely estimates for the purposes of assessing impairment of acquired goodwill.

The calculation of value-in-use for each CGU is based on cash flow projections over a 20 year period, including a terminal value which is determined based on long-term earnings multiple consistent with available market data. These cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the CGU as set out in the table above.

The cash flow projections are based on budgets and forecasts approved by management covering one year, except for Taiwan, Korea, Thailand, Pakistan and Permata CGUs, where management forecasts cover the four years to 2016. 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.

At 31 December 2012, the results of our review indicate that there is no goodwill impairment. The Group also believes that a reasonable possible change in any of the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount in the future.

It is possible that certain scenarios could be constructed where a combination of a material change in the discount rate coupled with a reduction in current business plan forecasts or the GDP growth rate, could potentially result in the carrying amount of the goodwill exceeding the recoverable amount.

Based on our review and assessment, we believe that the Korea CGU would be more sensitive to such a scenario.

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.

		2012			2011		
		Goodwill	Pre-tax discount rate	Long-term forecast GDP growth rates	Goodwill	Pre-tax discount rate	Long-term forecast GDP growth rates
Acquisition	Cash Generating Unit	$million	per cent	per cent	$million	per cent	per cent
KFB, A Brain and Yeahreum	Korean business	**1,850**	**16.4**	**3.9**	1,720	18.1	4.0
Union Bank	Pakistan business	**270**	**19.0**	**3.5**	292	27.1	4.8
Hsinchu and Asia Trust	Taiwan business	**1,348**	**16.3**	**4.8**	1,294	17.2	4.9
Manhattan Card Business	Credit card and personal loan - Asia, India & MESA	**494**	**15.8**	**1.8**	494	16.5	1.6
Grindlays (India) and STCI	India business	**364**	**16.8**	**6.8**	377	18.7	8.1
Grindlays (MESA)	MESA business	**368**	**20.4**	**4.0**	370	21.1	3.7
Standard Chartered Bank (Thai)	Thailand business	**331**	**16.1**	**5.0**	324	16.3	4.9
Permata	Group's share of Permata (Indonesia business)	**162**	**16.9**	**6.7**	172	20.0	6.9
American Express Bank	Financial Institutions and Private Banking Business	**396**	**15.2**	**1.8**	396	15.6	1.6
Harrison Lovegrove, Pembroke, Cazenove Asia, First Africa and Gryphon partners.	Corporate advisory business	**77**	**15.9**	**1.8**	76	16.7	1.6
GE Money and GE Singapore	Consumer banking business in Singapore	**228**	**12.6**	**3.8**	208	12.8	4.1
Other		**239**	**15.6 - 17.0**	**1.8 - 7.5**	212	15.9 - 17.4	1.6 - 5.3
		6,127			5,935		

Company

Acquired intangibles primarily comprise those recognised as part of the acquisitions of American Express Bank, GE Money and GE Singapore.

Significant items of goodwill arising on acquisitions have been allocated to the following cash generating units for the purposes of impairment testing:

		Goodwill	
		2012	2011
Acquisition	Cash Generating Unit	$million	$million
American Express Bank	Financial Institutions and Private Banking Business	**148**	148
GE Money and GE Singapore	Consumer banking business in Singapore	**228**	208
Other		**111**	110
		487	466

All recoverable amounts were measured based on value in use.

The key assumptions and approach to determining value in use calculations, as set out above, are solely estimates for the purposes of assessing impairment on acquired goodwill. The calculation for each unit uses cash flow projections based on budgets and forecasts approved by management covering one year. These are then extrapolated for periods of up to a further 19 years using steady long term growth forecast GDP growth rates and as terminal value determined based on long term earnings multiples.

Where these rates are different from available market data on long term rates, that fact is stated above. The cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the cash generating unit. Management believes that a reasonable possible change in any of the key assumptions on which recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

26. Property, plant and equipment

Group

	2012				2011			
	Premises $million	Equipment $million	Operating lease assets $million	Total $million	Premises $million	Equipment $million	Operating lease assets $million	Total $million
Cost or valuation								
At 1 January	**2,559**	**826**	**3,021**	**6,406**	2,665	837	2,183	5,685
Exchange translation differences	**54**	**7**	**-**	**61**	(74)	(40)	-	(114)
Additions	**73**	**95**	**1,788**	**1,956**	138	148	1,049	1,335
Acquisitions	**2**	**-**	**-**	**2**	-	1	-	1
Disposals and fully depreciated assets written off	**(111)**	**(84)**	**-**	**(195)**	(138)	(120)	(211)	(469)
Transfers to assets held for re-sale	**-**	**-**	**-**	**-**	(32)	-	-	(32)
At 31 December	**2,577**	**844**	**4,809**	**8,230**	2,559	826	3,021	6,406
Depreciation								
Accumulated at 1 January	**531**	**558**	**239**	**1,328**	471	557	150	1,178
Exchange translation differences	**8**	**5**	**-**	**13**	(7)	(29)	-	(36)
Charge for the year	**127**	**136**	**148**	**411**	123	145	100	368
Attributable to assets sold or written off	**(86)**	**(82)**	**-**	**(168)**	(56)	(115)	(11)	(182)
Accumulated at 31 December	**580**	**617**	**387**	**1,584**	531	558	239	1,328
Net book amount at 31 December	**1,997**	**227**	**4,422**	**6,646**	2,028	268	2,782	5,078

At 1 January 2011, the net book value was: premises, $2,194 million; equipment, $280 million and operating lease assets, $2,033 million.

Assets held under finance leases have a net book value of $173 million (2011: $192 million) with minimum lease payments of $7 million (2011: $7 million) before and after future finance charges.

Company

	2012			2011		
	Premises $million	Equipment $million	Total $million	Premises $million	Equipment $million	Total $million
Cost or valuation						
At 1 January	**666**	**285**	**951**	696	296	992
Exchange translation differences	**(3)**	**-**	**(3)**	(58)	(19)	(77)
Additions	**22**	**39**	**61**	70	75	145
Disposals and fully depreciated assets written off	**(46)**	**(35)**	**(81)**	(38)	(67)	(105)
Reclassification	**-**	**-**	**-**	(4)	-	(4)
At 31 December	**639**	**289**	**928**	666	285	951
Depreciation						
Accumulated at 1 January	**118**	**148**	**266**	108	155	263
Exchange translation differences	**-**	**-**	**-**	(4)	(11)	(15)
Charge for the year	**44**	**65**	**109**	41	68	109
Attributable to assets sold or written off	**(39)**	**(34)**	**(73)**	(27)	(64)	(91)
Accumulated at 31 December	**123**	**179**	**302**	118	148	266
Net book amount at 31 December	**516**	**110**	**626**	548	137	685

At 1 January 2011, the net book value was; premises $588 million; and equipment $141 million.

Assets held under finance leases have a net book value of $173 million (2011: $191 million) with minimum lease payments of $5 million (2011: $4 million) before and after future finance charges.

27. Deferred tax

Group

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year:

	At 1 January 2012 $million	Exchange & other adjustments $million	Acquisitions/ disposals $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2012 $million
Deferred taxation comprises:						
Accelerated tax depreciation	**(47)**	**16**	**-**	**159**	**-**	**128**
Impairment provisions on loans and advances	**19**	**20**	**-**	**(190)**	**-**	**(151)**
Tax losses carried forward	**(433)**	**(15)**	**-**	**(29)**	**-**	**(477)**
Available-for-sale assets	**(3)**	**1**	**-**	**1**	**87**	**86**
Premises revaluation	**-**	**(1)**	**-**	**1**	**-**	**-**
Cash flow hedges	**(2)**	**-**	**-**	**-**	**19**	**17**
Retirement benefit obligations	**(105)**	**(1)**	**-**	**12**	**(14)**	**(108)**
Share based payments	**(88)**	**(2)**	**-**	**18**	**(8)**	**(80)**
Other temporary differences	**(46)**	**-**	**-**	**101**	**-**	**55**
Net deferred tax assets	**(705)**	**18**	**-**	**73**	**84**	**(530)**

	At 1 January 2011 $million	Exchange & other adjustments $million	Acquisitions/ disposals $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2011 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(174)	(16)	25	118	-	(47)
Impairment provisions on loans and advances	41	9	-	(31)	-	19
Tax losses carried forward	(324)	(13)	-	(96)	-	(433)
Available-for-sale assets	71	-	-	-	(74)	(3)
Premises revaluation	1	(1)	-	-	-	-
Cash flow hedges	18	-	-	-	(20)	(2)
Unrelieved foreign tax	-	-	-	-	-	-
Retirement benefit obligations	(77)	2	-	7	(37)	(105)
Share based payments	(175)	-	-	66	21	(88)
Other temporary differences	(145)	11	(13)	101	-	(46)
Net deferred tax assets	(764)	(8)	12	165	(110)	(705)

Deferred taxation comprises assets and liabilities as follows:

	2012			2011		
	Total $million	Asset $million	Liability $million	Total $million	Asset $million	Liability $million
Deferred taxation comprises:						
Accelerated tax depreciation	**128**	**(15)**	**143**	(47)	(114)	67
Impairment provisions on loans and advances	**(151)**	**(319)**	**168**	19	(196)	215
Tax losses carried forward	**(477)**	**(404)**	**(73)**	(433)	(401)	(32)
Available-for-sale assets	**86**	**51**	**35**	(3)	(18)	15
Premises revaluation	**-**	**-**	**-**	-	1	(1)
Cash flow hedges	**17**	**14**	**3**	(2)	(6)	4
Retirement benefit obligations	**(108)**	**(103)**	**(5)**	(105)	(98)	(7)
Share based payments	**(80)**	**(67)**	**(13)**	(88)	(63)	(25)
Other temporary differences	**55**	**152**	**(97)**	(46)	60	(106)
	(530)	**(691)**	**161**	(705)	(835)	130

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

27. Deferred tax continued

Company

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the reporting period:

	At 1 January 2012 $million	Exchange & other adjustments $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2012 $million
Deferred taxation comprises:					
Accelerated tax depreciation	(10)	3	19	-	12
Impairment provisions on loans and advances	(94)	3	(139)	-	(230)
Tax losses carried forward	(267)	3	(39)	-	(303)
Available-for-sale assets	5	(1)	1	33	38
Cash flow hedges	(5)	-	-	20	15
Retirement benefit obligations	(75)	(1)	12	(14)	(78)
Share based payments	(58)	-	4	(8)	(62)
Other temporary differences	37	8	66	-	111
	(467)	15	(76)	31	(497)

	At 1 January 2011 $million	Exchange & other adjustments $million	Charge/ (credit) to profit	Charge/ (credit) to equity $million	At 31 December 2011 $million
Deferred taxation comprises:					
Accelerated tax depreciation	(153)	-	143	-	(10)
Impairment provisions on loans and advances	(76)	8	(26)	-	(94)
Tax losses carried forward	(192)	(1)	(74)	-	(267)
Available-for-sale assets	28	-	-	(23)	5
Cash flow hedges	21	-	-	(26)	(5)
Retirement benefit obligations	(60)	1	9	(25)	(75)
Share based payments	(154)	-	75	21	(58)
Other temporary differences	18	9	10	-	37
	(568)	17	137	(53)	(467)

Deferred taxation comprises assets and liabilities as follows:

	2012			2011		
	Total $million	Asset $million	Liability $million	Total $million	Asset $million	Liability $million
Deferred taxation comprises:						
Accelerated tax depreciation	12	(37)	49	(10)	(37)	27
Impairment provisions on loans and advances	(230)	(245)	15	(94)	(120)	26
Tax losses carried forward	(303)	(303)	-	(267)	(267)	-
Available-for-sale assets	38	30	8	5	(3)	8
Cash flow hedges	15	13	2	(5)	(7)	2
Retirement benefit obligations	(78)	(77)	(1)	(75)	(74)	(1)
Share based payments	(62)	(62)	-	(58)	(58)	-
Other temporary differences	111	110	1	37	47	(10)
	(497)	(571)	74	(467)	(519)	52

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

27. Deferred tax continued

At 31 December 2012, the Group has net deferred tax assets of $530 million (2011: $705 million).

The recoverability of the Group's deferred tax assets is based on management's judgment of the availability of future taxable profits against which the deferred tax assets will be utilised.

Of the group's total deferred tax asset, $477 million relates to tax losses carried forward. These tax losses have arisen in individual legal entities and will be offset as future taxable profits arise in those entities.

$238 million of these losses have arisen in the UK, where there is no expiry date for unused tax losses. There is a defined profit stream against which the losses are forecast to be fully utilised, over a period of 15 years.

$52 million of these losses have arisen in Ireland, where there is no expiry date for unused tax losses. These losses relate to aircraft leasing and are expected to be fully utilised over the useful economical life of the assets being up to 25 years.

$50 million of these losses have arisen in Taiwan. Management forecasts show that the losses are expected to be fully utilised over a period of 5 years. The tax losses expire after 10 years.

$40 million of these losses have arisen in Australia, where these is no expiry date for unused tax losses. Management forecasts show that the losses are expected to be fully utilised over a period of 15 years.

The remaining losses relate to other jurisdictions and are expected to be recovered in less than 5 years.

	Group		Company	
	2012 $million	2011 $million	2012 $million	2011 $million
No account has been taken of the following potential deferred taxation assets/(liabilities):				
Unremitted earnings from overseas subsidiaries	**(316)**	(294)	**(186)**	(131)
Foreign exchange movements on investments in branches	**36**	45	**36**	45
Tax losses	**112**	78	**84**	72
Held over gains on incorporations of overseas branches	**(496)**	(476)	**(496)**	(476)

28. Deposits by banks

	Group		Company	
	2012 $million	2011 $million	2012 $million	2011 $million
Deposits by banks	**36,477**	35,296	**28,375**	27,933
Deposits by banks included within:				
Financial liabilities held at fair value through profit or loss (note 15)	**968**	1,092	**968**	1,013
Total deposits by banks	**37,445**	36,388	**29,343**	28,946

29. Customer accounts

	Group		Company	
	2012 $million	2011 [1] $million	2012 $million	2011 [1] $million
Customer accounts	**377,639**	345,726	**169,882**	150,772
Customer accounts included within:				
Financial liabilities held at fair value through profit or loss (note 15)	**12,243**	9,118	**4,968**	1,846
Total customer accounts	**389,882**	354,844	**174,850**	152,618

[1] Amounts have been restated as explained in note 46.

Included in customer accounts were deposits of $2,862 million (2011: $2,000 million) held for the Group and $158 million (2011: $115 million) for the Company, as collateral for irrevocable commitments under import letters of credit.

30. Debt securities in issue

Group

	2012			2011		
	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total
	$million	$million	$million	$million	$million	$million
Debt securities in issue	16,982	24,463	41,445	15,787	19,979	35,766
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	165	5,096	5,261	163	4,270	4,433
Total debt securities in issue	17,147	29,559	46,706	15,950	24,249	40,199

Company

	2012			2011		
	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total
	$million	$million	$million	$million	$million	$million
Debt securities in issue	15,463	16,496	31,959	11,930	12,993	24,923
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	-	3,869	3,869	-	2,366	2,366
Total debt securities in issue	15,463	20,365	35,828	11,930	15,359	27,289

31. Other liabilities

	Group		Company	
	2012	2011	2012	2011
	$million	$million	$million	$million
Financial liabilities held at amortised cost (note 15)				
Notes in circulation	4,191	4,043	-	-
Acceptances and endorsements	5,053	5,473	2,505	2,303
Cash collateral	3,245	3,145	2,881	2,920
Unsettled trades and other financial liabilities	7,250	6,508	3,932	3,138
	19,739	19,169	9,318	8,361
Non-financial liabilities				
Other liabilities	4,769	4,600	2,420	2,658
	24,508	23,769	11,738	11,019

Hong Kong currency notes in circulation of $4,191 million (2011: $4,043 million) which 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

Subordinated loan capital - issued by subsidiary undertakings	2012 $million	2011 $million
$750 million 5.875 per cent subordinated notes 2020	847	763
$300 million floating rate subordinated note 2017 (callable 2012)	-	300
$22 million 9.75 per cent fixed to floating rate note 2021 (callable and floating rate from 2016)	23	25
BWP 127.26 million 8.2 per cent subordinated notes 2022	16	-
BWP 75 million floating rate subordinated Notes 2017 (callable 2013)	10	10
BWP 70 million floating rate subordinated notes 2021 (callable 2016)	9	9
BWP 50 million floating rate subordinated notes 2022 (callable 2017)	6	-
IDR 1,800 billion 9.4 per cent subordinated notes 2019	81	-
IDR 1,750 billion 11 per cent subordinated notes 2018	76	82
IDR 700 billion 8.9 per cent subordinated notes 2019	32	-
KRW 300 billion 7.05 per cent subordinated debt 2019 (callable 2014)	280	260
KRW 270 billion 4.67 per cent subordinated debt 2021 (callable 2016)	252	235
KRW 260 billion 6.08 per cent subordinated debt 2018 (callable 2013)	244	230
KRW 90 billion 6.05 per cent subordinated debt 2018	95	86
KRW 30 billion Floating Rate subordinated debt 2011	-	26
MYR 500 million 4.28 per cent subordinated bonds 2017 (callable and floating rate from 2012)	-	157
PKR 2.5 billion floating rate notes 2022 (callable 2017)	26	-
PKR 1 billion floating rate notes 2013	3	8
SGD 750 million 4.15 per cent subordinated notes 2021 (callable and floating rate from 2016)	607	624
TWD 10 billion 2.9 per cent subordinated debt 2019 (callable 2014)	349	337
TZS 10 billion 11 per cent subordinated notes 2020 (callable and floating rate from 2015)	6	6
UGX 40 billion 13 per cent subordinated notes 2020 (callable 2015)	15	16
	2,977	3,174
Subordinated loan capital - issued by Company		
£700 million 7.75 per cent subordinated notes 2018	1,353	1,281
£675 million 5.375 per cent undated step op subordinated notes (callable and floating rate from 2020)	781	730
£600 million 8.103 per cent step up callable perpetual preferred securities (callable and floating rate from 2016)	1,177	1,154
£300 million 6.0 per cent subordinated notes 2018 (callable and floating rate from 2013)	488	488
£200 million 7.75 per cent undated step up subordinated notes (callable and floating rate from 2022)	446	419
€1,100 million 5.875 per cent subordinated notes 2017	1,706	1,662
€750 million 3.625 per cent subordinated notes 2017 (callable and floating rate from 2012)	-	977
€675 million floating rate subordinated notes 2018 (callable 2013)	890	886
$1.8 billion floating rate undated subordinated notes callable 2014	1,800	1,800
$1.6 billion floating rate subordinated notes 2022 (callable 2017)	1,600	-
$1.5 billion 9.5 per cent step up perpetual preferred securities (callable 2014)	1,582	1,602
$1.3 billion floating rate subordinated notes 2021 (callable 2016)	1,300	1,300
$1.25 billion floating rate subordinated notes 2022 (callable 2017)	1,250	-
$1 billion 6.4 per cent subordinated notes 2017	1,188	1,193
$1 billion floating rate subordinated notes 2022	1,000	-
$960 million floating rate subordinated notes 2022	960	-
$700 million 8.0 per cent subordinated notes 2031	675	683
$100 million floating rate subordinated notes 2018 (callable 2013)	100	100
JPY 10 billion 3.35 per cent subordinated notes 2023 (callable 2018)	128	149
SGD 450 million 5.25 per cent subordinated notes 2023 (callable and floating rate from 2018)	408	376
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	50	233
$925 million 8.125 per cent non-cumulative redeemable preference shares (Callable 2013)	953	983
Total for Company	20,107	16,288
Total for Group	23,084	19,462

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, $13,808 million is at fixed interest rates (2011: $12,918 million).

On 25 January 2012, Standard Chartered Bank issued $1 billion floating rate notes due January 2022.

On 15 June 2012, PT Bank Permata Tbk issued IDR 700 billion 8.9 percent fixed interest rate notes due June 2019.

On 27 June 2012, Standard Chartered Bank (Botswana) Limited issued BWP 50 million floating interest rate notes due June 2022 and BWP 127.26 million fixed interest rate notes due June 2022.

On 29 June 2012, Standard Chartered Bank (Pakistan) Limited issued PKR 2.5 billion floating interest rate notes due June 2022.

On 12 July 2012, Standard Chartered Bank issued $1.25 billion floating rate notes due July 2022.

On 23 November 2012, Standard Chartered Bank issued $960 million floating rate notes due November 2022.

On 19 December 2012, PT Bank Permata Tbk issued IDR 1,800 billion 9.4 percent fixed interest rate notes due December 2019.

On 20 December 2012, Standard Chartered Bank issued $1.6 billion floating rate notes due December 2022.

On 2 January 2012, Standard Chartered Bank Korea Limited redeemed KRW 30 billion floating rate subordinated debt on maturity.

On 3 February 2012, Standard Chartered Bank exercised its right to redeem its €750 million 3.625 per cent notes in full on the first optional call date.

On 13 April 2012, Standard Chartered Bank Hong Kong Limited exercised its right to redeem its $300 million floating rate subordinated notes in full on the first optional call date.

On 15 November 2012, Standard Chartered Bank Malaysia Berhad exercised its right to redeem its MYR 500 million 4.28 per cent subordinated bonds in full on the first optional call date.

33. Provisions for liabilities and charges

Group

	2012		
	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January	14	355	369
Exchange translation differences	1	-	1
Charge against profit	5	105	110
Provisions utilised	10	(275)	(265)
At 31 December	30	185	215

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations. Other provisions include provisions for regulatory settlement, legal claims and restructuring.

Company

	2012		
	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January	106	19	125
Exchange translation differences	-	-	-
Charge against profit	7	8	15
Provisions utilised	1	(8)	(7)
At 31 December	114	19	133

Provision for credit commitments for the Company comprises primarily provisions made as part of risk participation agreements with subsidiaries.

34. Retirement benefit obligations

Retirement benefit obligations comprise:

	2012 $million	2011 $million
Defined benefit schemes obligation	483	499
Defined contribution schemes obligation	21	20
Net book amount	504	519

	2012 $million	2011 $million
At 1 January	519	310
Exchange translation differences	14	(5)
Charge against profit (net of finance income)	302	282
Change in other comprehensive income	76	189
Net payments	(407)	(257)
At 31 December	504	519

Retirement benefit charge comprises:

	2012 $million	2011 $million
Defined benefit schemes	99	103
Defined contribution schemes	203	179
Charge against profit (note 8)	302	282

34. Retirement benefit obligations continued

Group

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2012. Pension costs for the purpose of these accounts were assessed using the projected unit method and the assumptions set out below which were based on market data at the date of calculation.

The principal assumptions relate to the rate of inflation and the discount rate. The discount rate is equal to the yield on high-quality corporate bonds which have a term to maturity approximating that of the related liability.

UK Fund

The financial position of the Group's principal retirement benefit scheme, the Standard Chartered Pension Fund (the 'Fund') (a defined benefit scheme), is assessed in the light of the advice of an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was performed as at 31 December 2008 by A Zegleman, Fellow of the Faculty of Actuaries, of Towers Watson, using the projected unit method. The 31 December 2011 funding valuation is currently underway and its findings on updated life expectancies are reflected in the IAS 19 position at 31 December 2012.

Following the 31 December 2008 valuation, regular contributions to the Fund were set at 28 per cent of pensionable salary for all members. Over 2012, additional contributions were paid under the terms of the 2008 valuation agreement, bringing the total amount paid to $52 million.

No further contributions are planned in 2013 under the terms of the 2008 valuation.

With effect from 1 July 1998 the Fund was closed to new entrants and new employees have subsequently been offered membership of a defined contribution scheme. Due to the closure of the Fund to new entrants, it is expected that the current service cost will increase, as a percentage of pensionable pay, as the members approach retirement.

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 2013 are expected to be $80 million.

The financial assumptions used at 31 December 2012 were:

	Funded defined benefit schemes			
	UK Fund[1]		Overseas Schemes[2]	
	2012 %	2011 %	**2012 %**	2011 %
Price inflation	**3.00**	3.10	**1.50 – 4.50**	1.50 – 4.50
Salary increases	**2.30**	3.10	**2.10 – 6.00**	3.10 – 6.00
Pension increases	**2.30**	2.10	**1.75 – 3.00**	1.75 – 3.10
Discount rate	**4.50**	4.80	**0.70 – 8.40**	1.40 – 8.80

1 The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 28 years (2011: 26 years) and a female member 29 years (2011: 29 years) and a male member currently aged 40 will live for 30 years (2011: 29 years) and a female member 31 years (2011: 31 years) after their 60th birthday.
2 The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the US. These comprise over 80 per cent of the total liabilities of funded overseas schemes.

These assumptions are likely to change in the future and thus will affect the value placed on the liabilities. For example, if the discount rate for the UK Fund increased by 25 basis points the liability would reduce by approximately $65 million. Whilst changes in other assumptions would also have an impact, the effect would not be as significant.

34. Retirement benefit obligations continued

Group continued

	Unfunded schemes			
	Post-retirement medical[1]		Other[2]	
	2012 %	2011 %	2012 %	2011 %
Price inflation	**2.50**	2.50	**3.00 – 5.00**	3.10 – 5.00
Salary increases	**4.00**	4.00	**2.30 – 6.00**	3.10 – 6.00
Pension increases	**N/A**	N/A	**2.30**	2.10
Discount rate	**4.20**	4.70	**4.20 – 8.40**	4.70 – 8.80
Post-retirement medical rate	**9% in 2012 reducing by 1% per annum to 5% in 2016**	8% in 2011 reducing by 1% per annum to 5% in 2014	**N/A**	N/A

[1] The post-retirement medical plan is in the US.
[2] The range of assumptions shown is for the main Unfunded schemes in India, Indonesia, UAE and the UK.

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2012 were:

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2012	Expected return on assets %	Value $million	Expected return on assets %[3]	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million
Equities	**8.00**	**382**	**6.30 – 16.00**	**254**	**N/A**	**N/A**	**N/A**	**N/A**
Bonds	**3.20**	**1,072**	**1.00 – 16.00**	**229**	**N/A**	**N/A**	**N/A**	**N/A**
Property	**7.50**	**58**	**5.25 – 16.00**	**8**	**N/A**	**N/A**	**N/A**	**N/A**
Others	**8.00**	**190**	**0.50 – 16.00**	**173**	**N/A**	**N/A**	**N/A**	**N/A**
Total market value of assets		**1,702**		**664**		**N/A**		**N/A**
Present value of the schemes' liabilities		**(1,795)**		**(854)**		**(28)**		**(172)**
Net pension liability		**(93)**		**(190)**		**(28)**		**(172)**

[3] IAS 19R removes the impact of expected asset returns on the Income statement. These figures are included here for presentational purposes and are sent at the same level as the 31 December 2011 returns.

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2011	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million
Equities	8.00	320	6.38 – 16.00	210	N/A	N/A	N/A	N/A
Bonds	3.20	889	1.00 – 16.00	208	N/A	N/A	N/A	N/A
Property	7.50	50	5.25 – 16.00	7	N/A	N/A	N/A	N/A
Others	8.00	276	0.50 – 16.00	158	N/A	N/A	N/A	N/A
Total market value of assets		1,535		583		N/A		N/A
Present value of the schemes' liabilities		(1,609)		(832)[4]		(28)		(148)
Net pension liability		(74)		(249)		(28)		(148)

[4] Includes $4 million impact as a result of IFRIC 14 'unrecognisable surplus' in Kenya

	Funded defined benefit schemes		Unfunded schemes	
	UK Fund	Overseas schemes	Post-retirement medical	Other
At 31 December 2010	Value $million	Value $million	Value $million	Value $million
Total market value of assets	1,552	597	N/A	N/A
Present value of the schemes' liabilities	(1,545)	(741)	(21)	(139)
Net pension asset/(liability)	7	(144)	(21)	(139)
At 31 December 2009				
Total market value of assets	1,478	531	N/A	N/A
Present value of the schemes' liabilities	(1,704)	(649)	(20)	(134)
Net pension liability	(226)	(118)	(20)	(134)
At 31 December 2008				
Total market value of assets	1,232	489	N/A	N/A
Present value of the schemes' liabilities	(1,296)	(693)	(12)	(153)
Net pension liability	(64)	(204)	(12)	(153)

The expected return on plan assets is set by reference to historical returns in each of the main asset classes, current market indicators such as long term bond yields and the expected long term strategic asset allocation of each plan.

34. Retirement benefit obligations continued

Group continued

The pension cost for defined benefit schemes was:

Year ended 31 December 2012	Funded defined benefit schemes UK Fund $million	Funded defined benefit schemes Overseas schemes $million	Unfunded schemes Post-retirement medical $million	Unfunded schemes Other $million	Total $million
Current service cost	8	74	1	19	102
Past service cost	-	-	-	3	3
Gains on settlements and curtailments	-	(6)	-	-	(6)
Expected return on pension scheme assets	(80)	(32)	-	-	(112)
Interest on pension scheme liabilities	77	26	1	8	112
Total charge to profit before deduction of tax	5	62	2	30	99
Gain on assets above expected return[1]	(53)	(22)	-	-	(75)
Experience loss on liabilities	115	28	-	8	151
Total loss recognised directly in other comprehensive income before tax	62	6	-	8	76
Deferred taxation	(14)	-	-	-	(14)
Total loss after tax	48	6	-	8	62

[1] The actual return on the UK fund assets was $133 million and on overseas scheme assets was $54 million.

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of $376 million (2011: loss of $300 million).

Year ended 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
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[2]	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

[2] The actual return on the UK fund assets was $60 million and on overseas scheme assets was $2 million.

34. Retirement benefit obligations continued

Group continued

Year ended 31 December 2010	Funded defined benefit schemes UK Fund $million	Overseas schemes $million	Unfunded schemes Post-retirement medical $million	Other $million	Total $million
Gain on assets in excess of expected return[3]	(42)	(17)	-	-	(59)
Experience (gain)/loss on liabilities	(67)	35	-	8	(24)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(109)	18	-	8	(83)
Deferred taxation	30	(12)	-	(1)	17
Total (gain)/loss after tax	(79)	6	-	7	(66)
Year ended 31 December 2009					
Gain on assets in excess of expected return[4]	(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 los/(gain) after tax	119	(38)	7	25	113
Year ended 31 December 2008					
Loss on assets in excess of expected return[5]	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

[3] The actual return on the UK fund assets was $122 million and on overseas scheme assets was $48 million.
[4] The actual return on the UK fund assets was $159 million and on overseas scheme assets was $67 million.
[5] The actual return on the UK fund assets was $99 million and on overseas scheme assets was $94 million.

Movement in the pension schemes and post retirement medical deficit during the year comprise:

Year ended 31 December 2012	Funded defined benefit schemes UK Fund $million	Overseas schemes $million	Unfunded schemes Post-retirement medical $million	Other $million	Total $million
Deficit at 1 January 2012	(74)	(249)	(28)	(148)	(499)
Contributions	52	139	2	11	204
Current service cost	(8)	(74)	(1)	(19)	(102)
Past service cost	-	-	-	(3)	(3)
Settlement/curtailment costs	-	6	-	-	6
Other finance income/(charge)	3	6	(1)	(8)	-
Actuarial loss	(62)	(6)	-	(8)	(76)
Exchange rate adjustment	(4)	(12)	-	3	(13)
Deficit at 31 December 2012	(93)	(190)	(28)	(172)	(483)

34. Retirement benefit obligations continued

Group continued

Year ended 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 pension schemes and post-retirement medical gross assets and obligations during the year comprise:

Year ended 31 December 2012	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2012	**2,118**	**(2,617)**	**(499)**
Contributions	**204**	**-**	**204**
Current service cost	**-**	**(102)**	**(102)**
Past service cost	**-**	**(3)**	**(3)**
Settlement/curtailment costs	**(72)**	**78**	**6**
Interest cost	**-**	**(112)**	**(112)**
Expected return on scheme assets	**112**	**-**	**112**
Benefits paid out	**(151)**	**151**	**-**
Actuarial loss	**75**	**(151)**	**(76)**
Exchange rate adjustment	**80**	**(93)**	**(13)**
Deficit at 31 December 2012	**2,366**	**(2,849)**	**(483)**

Year ended 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 benefit	-	(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)

34. Retirement benefit obligations continued

Company

Retirement benefit obligations comprise:

	2012 $million	2011 $million
Defined benefit schemes obligation	352	313
Defined contribution schemes obligation	13	11
Net book amount	365	324

	2012 $million	2011 $million
At 1 January	324	193
Exchange translation differences	10	(10)
Charge against profit (net of finance income)	146	142
Change in other comprehensive income	73	116
Net payments	(188)	(117)
At 31 December	365	324

Retirement benefit charge comprises:

	2012 $million	2011 $million
Defined benefit schemes	46	48
Defined contribution schemes	100	94
Charge against profit	146	142

UK Fund
See the Group note on the UK Fund on page 172, there are no differences between Group and Company in respect of the Fund.

Overseas Schemes
The principal overseas defined benefit arrangements operated by the Company are in Germany, India and the United States.

All Schemes
The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2012.

Employer contributions to defined benefit plans over 2013 are expected to be $45 million.

The financial assumptions used at 31 December 2012 were:

	Funded defined benefit schemes			
	UK Fund[1]		Overseas Schemes[2]	
	2012 %	2011 %	2012 %	2011 %
Price inflation	3.00	3.10	2.00 – 4.50	2.00 – 4.50
Salary increases	2.30	3.10	3.50 – 6.00	3.50 – 6.00
Pension increases	2.30	2.10	0.00 – 1.75	0.00 - 1.75
Discount rate	4.50	4.80	3.20 – 8.40	4.70 – 8.80

1 The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 28 years (2011: 26 years) and a female member 29 years (2011: 29 years) and a male member currently aged 40 will live for 30 years (2011: 29 years) and a female member 31 years (2011: 31 years) after their 60th birthday.

2 The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, India, and the United States. These comprise over 80 per cent of the total liabilities of funded overseas schemes.

	Unfunded schemes			
	Post-retirement medical[3]		Other[4]	
	2012 %	2011 %	2012 %	2011 %
Price inflation	2.50	2.50	2.30 – 4.50	2.10 – 4.50
Salary increases	4.00	4.00	2.30 – 6.00	3.10 – 6.00
Pension increases	N/A	N/A	0.00 - 2.30	0.00 - 2.10
Discount rate	4.20	4.70	4.20 – 8.40	4.70 – 8.80
Post-retirement medical rate[1]	9% in 2012 reducing by 1% per annum to 5% in 2016	8% in 2011 reducing by 1% per annum to 5% in 2014	N/A	N/A

3 The Post-retirement medical plan is in the United States.

4 The range of assumptions shown is for the main Unfunded Schemes in India, UAE and the UK.

34. Retirement benefit obligations continued

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2012 were:

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2012	Expected return on assets %	Value $million	Expected return on assets %[1]	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million
Equities	8.00	382	8.90 – 9.00	61	N/A	N/A	N/A	N/A
Bonds	3.20	1,072	4.50 – 10.00	61	N/A	N/A	N/A	N/A
Property	7.50	58	N/A	28	N/A	N/A	N/A	N/A
Others	8.00	190	7.50 – 10.00	9	N/A	N/A	N/A	N/A
Total market value of assets		1,702		159		N/A		N/A
Present value of the schemes' liabilities		(1,795)		(245)		(28)		(145)
Net pension liability		(93)		(86)		(28)		(145)

[1] IAS 19R removes the impact of expected asset returns on the Income statement. These figures are included here for presentational purposes only and are set at the same level as the 31 December 2011 returns.

	Funded defined benefit schemes				Unfunded schemes			
	UK Fund		Overseas schemes		Post-retirement medical		Other	
At 31 December 2011	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million	Expected return on assets %	Value $million
Equities	8.00	320	8.90 – 9.00	53	N/A	N/A	N/A	N/A
Bonds	3.20	889	4.50 – 10.00	49	N/A	N/A	N/A	N/A
Property	7.50	50	N/A	-	N/A	N/A	N/A	N/A
Others	8.00	276	7.50 – 10.00	35	N/A	N/A	N/A	N/A
Total market value of assets		1,535		137		N/A		N/A
Present value of the schemes' liabilities		(1,609)		(227)		(28)		(121)
Net pension liability		(74)		(90)		(28)		(121)

	Funded defined benefit schemes		Unfunded schemes	
	UK Fund	Overseas schemes	Post-retirement medical	Other
At 31 December 2010	Value $million	Value $million	Value $million	Value $million
Total market value of assets	1,552	119	N/A	N/A
Present value of the schemes' liabilities	(1,545)	(207)	(21)	(108)
Net pension asset/(liability)	7	(69)	(21)	(108)
At 31 December 2009				
Total market value of assets	1,478	119	N/A	N/A
Present value of the schemes' liabilities	(1,704)	(174)	(20)	(91)
Net pension liability	(226)	(55)	(20)	(91)
At 31 December 2008				
Total market value of assets	1,232	100	N/A	N/A
Present value of the schemes' liabilities	(1,296)	(140)	(12)	(63)
Net pension liability	(64)	(40)	(12)	(63)

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.

34. Retirement benefit obligations continued

Company continued

The pension cost for defined benefit schemes was:

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2012	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	8	14	1	16	39
Past service cost	-	-	-	-	-
Expected return on pension scheme assets	(80)	(9)	-	-	(89)
Interest on pension scheme liabilities	77	11	1	7	96
Total charge to profit before deduction of tax	5	16	2	23	46
Gains on assets above expected return[1]	(53)	(4)	-	-	(57)
Experience loss on liabilities	115	7	-	8	130
Total loss recognised directly in statement of comprehensive income before tax	62	3	-	8	73
Deferred taxation	(14)	-	-	-	(14)
Total loss after tax	48	3	-	8	59

[1] The actual return on the UK fund assets was $133 million and on overseas scheme assets was $13 million.

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of $286 million (2011: loss of $213 million).

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2011	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	8	13	1	14	36
Past service cost	2	1	-	-	3
Expected return on pension scheme assets	(86)	(9)	-	-	(95)
Interest on pension scheme liabilities	85	12	1	6	104
Total charge to profit before deduction of tax	9	17	2	20	48
Loss on assets in excess of expected return[2]	26	11	-	-	37
Experience loss on liabilities	58	10	7	4	79
Total loss recognised directly in statement of comprehensive income before tax	84	21	7	4	116
Deferred taxation	(11)	(11)	(3)	(1)	(26)
Total loss after tax	73	10	4	3	90

[2] The actual return on the UK fund assets was a gain of $60 million and on overseas scheme assets was a loss of $2 million.

34. Retirement benefit obligations continued

Company continued

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2010	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Gain on assets in excess of expected return[3]	(42)	(7)	-	-	(49)
Experience (gain)/loss on liabilities	(67)	17	-	11	(39)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(109)	10	-	11	(88)
Deferred taxation	30	(14)	-	(1)	15
Total (gain)/loss after tax	(79)	(4)	-	10	(73)
Year ending 31 December 2009					
Gain on assets in excess of expected return[4]	(76)	(9)	-	-	(85)
Experience loss/(gain) on liabilities	236	(7)	-	21	250
Total loss/(gain) recognised directly in statement of comprehensive income before tax	160	(16)	-	21	165
Deferred taxation	(41)	2	-	-	(39)
Total loss/(gain) after tax	119	(14)	-	21	126
Year ended 31 December 2008					
Gain on assets in excess of expected return[5]	(28)	(2)	-	-	(30)
Experience (gain)/loss on liabilities	(113)	-	2	5	(106)
Total (gain)/loss recognised directly in statement of comprehensive income before tax	(141)	(2)	2	5	(136)
Deferred taxation	44	-	-	1	45
Total (gain)/loss after tax	(97)	(2)	2	6	(91)

[3] The actual return on the UK fund assets was $122 million and on overseas scheme assets was $48 million.

[4] The actual return on the UK fund assets was $159 million and on overseas scheme assets was $67 million.

[5] The actual return on the UK fund assets was $99 million and on overseas scheme assets was $94 million.

Movement in the pension schemes and post retirement medical deficit during the year comprise:

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2012	**UK Fund $million**	**Overseas schemes $million**	**Post-retirement medical $million**	**Other $million**	**Total $million**
Deficit at 1 January 2012	**(74)**	**(90)**	**(28)**	**(121)**	**(313)**
Contributions	**52**	**25**	**2**	**9**	**88**
Current service cost	**(8)**	**(14)**	**(1)**	**(16)**	**(39)**
Past service cost	**-**	**-**	**-**	**-**	**-**
Other finance income/(charge)	**3**	**(2)**	**(1)**	**(7)**	**(7)**
Actuarial loss	**(62)**	**(3)**	**-**	**(8)**	**(73)**
Exchange rate adjustment	**(4)**	**(2)**	**-**	**(2)**	**(8)**
Deficit at 31 December 2012	**(93)**	**(86)**	**(28)**	**(145)**	**(352)**

34. Retirement benefit obligations continued

Company continued

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2011	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Surplus/(Deficit) at 1 January 2011	7	(69)	(21)	(108)	(191)
Contributions	10	13	1	8	32
Current service cost	(8)	(13)	(1)	(14)	(36)
Past service cost	(2)	(1)	-	-	(3)
Other finance income/(charge)	1	(3)	(1)	(6)	(9)
Actuarial loss	(84)	(21)	(7)	(4)	(116)
Exchange rate adjustment	2	4	1	3	10
Deficit at 31 December 2011	(74)	(90)	(28)	(121)	(313)

Movement in pension schemes and post-retirement medical gross assets and obligations during the year comprise:

Year ended 31 December 2012	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2012	**1,672**	**(1,985)**	**(313)**
Contributions	**88**	**-**	**88**
Current service cost	**-**	**(39)**	**(39)**
Past service cost	**-**	**-**	**-**
Interest cost	**-**	**(96)**	**(96)**
Expected return on scheme assets	**89**	**-**	**89**
Benefits paid out	**(113)**	**113**	**-**
Actuarial loss	**57**	**(130)**	**(73)**
Exchange rate adjustment	**68**	**(76)**	**(8)**
Deficit at 31 December 2012	**1,861**	**(2,213)**	**(352)**

Year ended 31 December 2011	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2011	1,690	(1,881)	(191)
Contributions	32	-	32
Current service cost	-	(36)	(36)
Past service cost	-	(3)	(3)
Interest cost	-	(104)	(104)
Expected return on scheme assets	95	-	95
Benefits paid out	(98)	98	-
Actuarial loss	(37)	(79)	(116)
Exchange rate adjustment	(10)	20	10
Deficit at 31 December 2011	1,672	(1,985)	(313)

35. Share capital, reserves and own shares

Share capital

The authorised share capital of the Company at 31 December 2012 was $15,005 million (2011: $15,005 million) made up of 15,000 million ordinary shares of $1 each, 1 million non-cumulative preference shares of $5 each.

Group and Company

	Number of ordinary shares (millions)	Ordinary share capital $million	Preference share capital $million	Total $million
At 1 January 2011	11,687	11,687	-	11,687
Shares issued	367	367	-	367
At 31 December 2011	**12,054**	**12,054**	**-**	**12,054**
Shares issued	**-**	**-**	**-**	**-**
At 31 December 2012	**12,054**	**12,054**	**-**	**12,054**

During the year the company did not issue any new shares (2011: 367 million shares) to its parent company, Standard Chartered Holdings limited.

Reserves

The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001.

The capital redemption reserve represents the nominal value of preference shares redeemed.

Available-for-sale reserve represents the unrealised fair value gains and losses in respect of financial assets classified as available-for-sale, net of taxation. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired.

Cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria of a cash flow hedge. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur.

Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve and are reclassified to the income statement when the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations.

Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions and own shares (treasury shares).

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

36. Non-controlling interests

	$300m 7.267% Hybrid Tier 1 Securities $million	Other non-controlling interests $million	Total $million
At 1 January 2011	321	2,733	3,054
Income in equity attributable to non-controlling interests	-	(142)	(142)
Other profits attributable to non-controlling interests	22	628	650
Comprehensive income for the year	22	486	508
Distributions	(23)	(414)	(437)
Other increases	-	20	20
At 31 December 2011	**320**	**2,825**	**3,145**
Income in equity attributable to non-controlling interests	**-**	**29**	**29**
Other profits attributable to non-controlling interests	**22**	**633**	**655**
Comprehensive income for the year	**22**	**662**	**684**
Distributions	**(22)**	**(234)**	**(256)**
Other increases	**-**	**8**	**8**
At 31 December 2012	**320**	**3,261**	**3,581**

37. Share based payments

The Group operates a number of share based arrangements for its directors and employees. Details of the share based payment charge are set out below:

	2012	2011
	$ million	$million
Deferred share awards	**314**	295
Other share awards	**59**	135
Total charge taken to the income statement	**373**	430

2011 Standard Chartered Share Plan (the 2011 Plan)
Approved by shareholders in May 2011 this is the Group's main share plan applicable to all employees. The 2011 Plan is designed to deliver performance shares, deferred awards and restricted shares, giving us sufficient flexibility to meet the challenges of the changing regulatory and competitive environment. Discretionary share awards are a key part of both executive directors' and senior management's variable compensation and their significance as a proportion of potential total remuneration is one of the strongest indicators of our commitment to pay for sustainable performance and aligning reward with our risk horizon. The remaining life of the plan is nine years.

Performance shares
Awards vest after a three year period and are subject to three equally weighted (albeit independently assessed) performance measures, Total Shareholder Return ('TSR'), Earnings Per Share ('EPS') and Return on Risk Weighted Assets ('RoRWA'). The fair value of awards is based on the market value less an adjustment for the expected dividends over the vesting period and the relevant performance condition applying to that portion of the award.

Valuation
The fair value of the TSR component is derived by discounting a third of the award by the loss of expected dividends over the performance period together with the probability of meeting the TSR condition, which is calculated by the area under the TSR vesting schedule curve. The EPS fair value is derived by discounting one third of the award respectively by the loss of expected dividends over the performance period. The same approach is applied to calculate the RoRWA fair value for one third of the award. In respect of the EPS and RoRWA components, the number of shares expected to vest is adjusted for actual performance when calculating the share based payment charge for the year. The same fair value applies to all employees including directors.

	2012				2011			
Grant date	21 December	19 September	20 June	13 March	14 December	20 September	22 June	6 May
Share price at grant date (£)	**15.84**	**14.82**	**14.17**	**15.65**	14.35	13.52	15.75	16.31
Vesting period (years)	**3**	**3**	**3**	**3**	3	3	3	3
Expected dividend yield (%)	**3.7**	**3.2**	**3.5**	**3.5**	4.0	4.0	3.7	3.7
Fair value (EPS) (£)	**4.73**	**4.50**	**4.26**	**4.71**	4.26	4.01	4.70	4.87
Fair value (RoRWA) (£)	**4.73**	**4.50**	**4.26**	**4.71**	4.26	4.01	4.70	4.87
Fair value (TSR) (£)	**1.86**	**1.77**	**1.68**	**1.85**	1.67	1.58	1.85	1.91

The expected dividend yield is based on the historical dividend yield over the three years prior to grant.

Deferred share awards / Restricted shares
Deferred awards are used to deliver the deferred portion of annual performance awards, in line with both market practice and the requirements of the FSA. These awards are subject to a three year deferral period, vesting equally one third on each of the first, second and third anniversaries.

Restricted share awards which are made outside of the annual performance process, as additional incentive or retention mechanisms, are provided as restricted shares under the 2011 Plan. These awards typically vest in equal instalments on the second and the third anniversaries of the award date. In a few circumstances some awards vest over a four year period in equal tranches, this is in line with similar plans operated by our competitors.

37. Share based payments continued

Valuation
The fair value, for all employees including directors, is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

Deferred share awards

	2012		2011
Grant date	20 June	13 March	22 June
Share price at grant date (£)	14.17	15.65	15.75
Vesting period (years)	1/2/3	1/2/3	1/2/3
Expected dividend yield (%)	n/a	n/a	n/a
Fair value (£)	14.17	15.65	15.75

Deferred awards accrue dividend equivalent payments during the vesting period.

Other restricted share awards

	2012				2011		
Grant date	21 December	19 September	20 June	13 March	14 December	20 September	22 June
Share price at grant date (£)	15.84	14.82	14.17	15.65	14.35	13.52	15.75
Vesting period (years)	2/3 1/2/3/4	2/3	2/3	2/3	2/3	2/3	2/3
Expected dividend yield (%)	3.7	3.0	3.8	3.8	2.9	2.9	4.1
Fair value (£)	14.46	13.76	12.91	14.26	13.36	12.59	14.25

The expected dividend yield is based on the historical dividend for two and a half years prior to grant.

2000 Executive Share Option Scheme (2000 ESOS)- now closed to new grants
The Group previously operated the 2000 ESOS for executive directors and selected senior managers. Executive share options to purchase ordinary shares in Standard Chartered PLC were exercisable after the third, but before the tenth, anniversary of the date of grant subject to an EPS performance criteria being satisfied. The exercise price per share is the share price at the date of grant.

2001 Performance Share Plan (PSP)- now closed to new grants
The Group's previous plan for delivering performance shares was the PSP and there remain outstanding vested and unvested awards.

Under the PSP half the award is dependent upon TSR performance and the balance is subject to a target of defined EPS growth. Both measures use the same three-year period and are assessed independently.

1997/2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS)
The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There are still unvested and vested awards outstanding under these plans. Awards were generally in the form of nil cost options and did not have any performance conditions. Generally deferred restricted share awards vest equally over three years and for non-deferred awards half vests two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

2004 Deferred Bonus Plan (DBP)
Under the DBP, shares are conditionally awarded as part of certain executive directors' annual performance award. Awards under the DBP are made in very limited circumstances to a small number of employees. The remaining life of the plan is two years.

All Employee Sharesave Plan (Sharesave)
Under the Sharesave plans, employees have the choice of opening a three-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company. A discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the Sharesave plans. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based plan to its employees. The remaining life of the Sharesave plans is two years.

37. Share based payments continued

Valuation

Options under the Sharesave plans are valued using a binomial option-pricing model. The same fair value is applied to all employees including directors. The fair value per option granted and the assumptions used in the calculation are as follows:

	2012		2011	
Grant date	11 October	1 October	11 October	4 October
Share price at grant date	13.95	14.35	14.11	11.70
Exercise price (£)	11.40	11.40	10.65	10.65
Vesting period (years)	3	3	3/5	3/5
Expected volatility (%)	29.8	30.0	53.8/45.8	53.3/45.5
Expected option life (years)	3.33	3.33	3.33/5.33	3.33/5.33
Risk free rate (%)	0.4	0.4	0.9/1.4	0.7/1.2
Expected dividend yield (%)	3.1	3.1	3.9/3.5	3.9/3.5
Fair value (£)	3.28	3.53	5.46/5.39	3.87/3.87

The expected volatility is based on historical volatility over the 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.

Reconciliation of option movements for the year to 31 December 2012

	2012 Plan[1]									
	Performance shares	Deferred/ Restricted shares	PSP[1]	RSS[1]	SRSS[1]	DBP [1, 2]	ESOS	Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)
Outstanding at 1 January	4,159,843	631,525	6,860,767	30,071,548	7,110,450	55,795	958,376	7.10	15,381,639	11.42
Granted	5,116,875	10,268,598	-	364,112	-	70,255	-	-	4,572,789	11.40
Lapsed	(201,051)	(299,723)	(1,657,903)	(937,152)	(103,149)	-	(123,016)	6.33	(2,337,736)	11.64
Exercised	-	(1,450)	(2,981,607)	(12,813,210)	(4,136,454)	(70,255)	(484,316)	6.77	(3,539,744)	10.44
Outstanding at 31 December	9,075,667	10,598,950	2,221,257	16,685,298	2,870,847	55,795	351,044	7.46	14,076,948	11.59
Exercisable at 31 December	-	-	863,644	3,396,479	2,154,834	-	351,044	7.46	1,068,182	10.96
Range of exercise prices (£)	-	-	-	-	-	-	5.82-7.89		10.48-11.04	
Intrinsic value of vested but not exercised options ($ million)	-	-	2	8	3	-	-		-	
Weighted average contractual remaining life (years)	8.82	6.19	6.57	4.52	4.09	-	1.01		2.53	
Weighted average share price for options exercised during the period (£)	-	14.39	15.59	15.66	15.64	15.97	14.94		14.87	

1 Employees do not contribute towards the cost of these awards.
2 Notes:
a) The market value of shares on date of awards (13 March 2012) was 1,605 pence.
b) The shares vest one year after the date of award.
c) A notional scrip dividend accrues on the shares held in the Trust. The dividend is normally delivered in the form of shares and is released on vesting.

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 towards the cost of these awards.

2 Notes:

a) The market value of shares on date of awards (8 March 2011) was 1,680 pence.

b) The shares vest one year after the date of award.

c) A notional scrip dividend accrues on the shares held in the Trust. The dividend is normally delivered in the form of shares and is released on vesting.

38. Cash flow statement

Adjustment for non-cash items included within income statement

	Group		Company	
	2012	2011	2012	2011
	$million	$million	$million	$million
Amortisation of discounts and premiums of investment securities	**(442)**	(173)	**(219)**	(239)
Interest expense on subordinated liabilities	**670**	562	**250**	237
Interest expense on senior debt liabilities	**98**	581	**-**	417
Other non - cash income items	**(400)**	(454)	**(255)**	(281)
Depreciation and amortisation	**687**	639	**297**	287
Pension costs for defined benefit schemes	**99**	103	**46**	48
Share based payment costs	**374**	395	**274**	307
UK bank levy	**10**	69	**10**	69
Impairment losses on loans and advances and other credit risk provisions	**1,221**	908	**546**	516
Dividend income from subsidiaries	**-**	-	**(1,237)**	(940)
Other impairment	**194**	111	**321**	25
Profit from associates	**(116)**	(74)	**-**	-
Total	**2,395**	2,667	**33**	446

Change in operating assets

	Group		Company	
	2012	2011	2012	2011
	$million	$million	$million	$million
Decrease/(increase) in derivative financial instruments	**9,484**	(21,570)	**9,454**	(22,245)
Net (increase)/decrease in debt securities, treasury bills and equity shares held at fair value through profit or loss	**(3,121)**	(2,373)	**(2,683)**	274
Net increase in loans and advances to banks and customers	**(19,144)**	(38,771)	**(15,135)**	(26,081)
(Increase)/decrease in pre-payments and accrued income	**(34)**	(440)	**34**	(286)
Decrease in other assets	**(3,031)**	(16,758)	**(5,196)**	(5,111)
Total	**(15,846)**	(79,912)	**(13,526)**	(53,449)

Change in operating liabilities

	Group		Company	
	2012	2011	2012	2011
	$million	$million	$million	$million
(Decrease)/Increase in derivative financial instruments	**(9,325)**	20,426	**(9,672)**	21,112
Net increase in deposits from banks, customer accounts, debt securities in issue and short positions	**34,886**	56,598	**30,946**	39,120
Increase/(decrease) in accruals and deferred income	**5**	239	**140**	(20)
Increase in amounts due to parents/subsidiaries/other related parties	**1,466**	1,870	**1,691**	3,125
Increase in other liabilities	**(297)**	14,601	**2,480**	4,860
Total	**26,735**	93,734	**25,585**	68,197

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	
	2012 $million	2011 $million	2012 $million	2011 $million
Cash and balances at central banks	**61,043**	47,364	**49,655**	36,268
Less restricted balances	**(9,336)**	(9,961)	**(4,629)**	(4,673)
Treasury bills and other eligible bills	**3,101**	3,244	**1,062**	1,031
Loans and advances to banks	**24,485**	27,470	**13,914**	14,080
Trading securities	**1,307**	2,333	**663**	160
Total	**80,600**	70,450	**60,665**	46,866

40. Capital commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

	Group		Company	
	2012 $million	2011 $million	2012 $million	2011 $million
Contracted	**51**	9	**-**	1

41. Operating lease commitments

Group

	2012		2011	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	**336**	**4**	290	2
Later than one year and less than five years	**755**	**5**	637	2
After five years	**806**	**-**	479	-
	1,897	**9**	1,406	4

During the year $443 million (2011: $393 million) was recognised as an expense in the income statement in respect of operating leases. The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2012 is $6 million (2011:$2 million).

Company

	2012		2011	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	**112**	**1**	84	1
Later than one year and less than five years	**385**	**1**	245	-
After five years	**628**	**-**	277	-
	1,125	**2**	606	1

During the year $186 million (2011: $151 million) was recognised as an expense in the income statement in respect of operating leases. The Company leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2012 are $nil million (2011: $nil 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.

Group

	2012 Contract or underlying principal amount $million	2011 Contract or underlying principal amount $million
Contingent liabilities[1]		
Guarantees and irrevocable letters of credit	**34,281**	27,022
Other contingent liabilities	**10,168**	15,858
	44,449	42,880
Commitments[1]		
Documentary credits and short term trade-related transactions	**7,752**	8,612
Forward asset purchases and forward deposits placed	**711**	733
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	**39,309**	28,507
Less than one year	**17,388**	24,193
Unconditionally cancellable	**110,138**	88,652
	175,298	150,697

1 Includes amounts relating to the Group's share of its joint ventures.

Company

	2012 Contract or underlying principal amount $million	2011 Contract or underlying principal amount $million
Contingent liabilities		
Guarantees and irrevocable letters of credit	**25,089**	17,515
Other contingent liabilities	**9,159**	14,572
	34,248	32,087
Commitments		
Documentary credits and short term trade-related transactions	**4,808**	5,759
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	**27,985**	21,579
Less than one year	**5,375**	5,789
Unconditionally cancellable	**60,231**	52,537 [3]
	98,399	85,664

Contingent liabilities

Where the Group undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit as part of the Group’s transaction banking business for which an obligation to make a payment has not arisen at the reporting date those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit and bonds issued on behalf of customers to customs officials, for bids or offers and as shipping guarantees.

The Group receives legal claims against it in a number of jurisdictions arising in the normal course of business. The Group considers none of these matters as material either individually or in aggregate. Where appropriate the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation (see note 33).

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

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.

43. Special purpose entities

The Group uses Special Purpose Entities (SPEs) in the normal course of business across a variety of activities. SPEs are established for specific limited purposes and take a number of legal forms. The main types of activities for which the Group utilises SPEs cover synthetic credit default swaps for portfolio management purposes, managed investment funds (including specialised principal finance funds) and structured finance.

SPEs are only consolidated when the Group has control of the SPE. Control is assessed based on the Group's exposure to the majority of the risks of the SPE and the right to obtain the majority of the benefits of the SPE. The assessment of risks and benefits is based on the assessed risk exposures at inception and these risks and benefits are re-considered if and when circumstances change. These circumstances may include situations when the Group acquires additional interests in the SPE, or the Group acquires control of the financial and operating policies of the SPE.

Most of the Group's consolidated SPEs are in respect of the Group's securitised portfolios of residential mortgages (see page 23 of the Risk review).

The total assets of unconsolidated SPEs in which the Group has an interest are set out below.

	2012		2011	
	Total assets	Maximum exposure	Total assets	Maximum exposure
	$million	$million	$million	$million
Portfolio management vehicles	**1,267**	**44**	1,136	130
Principal Finance Funds[1]	**766**	**181**	1,089	131
Structured finance	**464**	**103**	291	99
	2,497	**328**	2,516	360

[1] Committed capital for these funds is $375 million (2011: $375 million) of which $145 million (2011: $129 million) has been drawn down net of provisions for impairment of $33 million (2011: $33 million).

For the purposes of portfolio management, the Group has entered into synthetic credit default swaps with note-issuing SPEs. The referenced assets remain on the Group's balance sheet as the credit risk is not transferred to these SPEs. The Group continues to own or hold all of the risks and returns relating to these assets and the credit protection afforded by the synthetic securitisation only serves to protect the Group against losses upon the occurrence of certain credit events, the assets are not de-recognised from the Group balance sheet. The Group's exposure arises from (a) the capitalised start-up costs in respect of the swap vehicles and (b) interest in the first loss notes and investment in a minimal portion of the mezzanine and senior rated notes issued by the note issuing SPEs. The proceeds of the notes issuance are typically invested in AAA-rated Government securities, which are used to collateralise the SPE's swap obligations to the Group, and to repay the principal to investors at maturity. The SPEs reimburse the Group on actual losses incurred, through the realisation of the collateral security. Correspondingly, the SPEs write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All the funding is committed for the life of these vehicles and hence the Group has no indirect exposure in respect of the vehicles' liquidity position.

The Group's exposure to Principal Finance Funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure and real estate.

Structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more SPEs, which provide beneficial arrangements for customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions largely relate to the provision of aircraft leasing and ship finance.

The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the SPEs have Standard Chartered branding.

44. Post balance sheet events

Tax

On 5 December 2012, the UK government announced a further reduction in the main rate of UK corporation tax of one per cent with effect from 1 April 2014, in addition to the stepped reductions as previously announced. The combined effect of the reductions is to lower the main rate of UK corporation tax to 24 per cent in 2012-13, to 23 per cent in 2013-14, and 21 per cent in 2014-15.

At 31 December 2012, only the further tax rate change for 2013-14 to 23 per cent had been substantively enacted. Had the further rate change for 2014-15 been substantively enacted at the balance sheet date, the Group estimates that the UK deferred tax assets would have reduced by a further $24 million.

45 Assets and Liabilities classified as held for sale

It is the intention that the Consumer Banking operations of the Company's Singapore branch of the Company be transferred into another Group subsidiary company during 2013. Accordingly the business has been classified as a disposal group and classified as assets and liabilities held for sale. The disposal group comprises total assets and liabilities as follows:

	2012 $million
Cash	**600**
Loans and advances to customers	**21,300**
Investment securities	**3,700**
Total assets	**25,600**
Customer accounts	**24,900**
Other liabilities	**500**
Total liabilities	**25,400**

[1] Excludes interbranch asset balance of $700 million

46. Restatement of prior year

The Group has re-presented certain balances in the consolidated balance sheet and entity-wide geographic disclosures to reflect the effect of enhanced system capabilities introduced during the year. The Group has also re-presented the entity-wide geographic disclosure following the transfer of the governance of its franchise in Mauritius from Other Asia Pacific to Africa to align with Group's overall strategy in Africa. The impact of these changes has required: (i) gross up of loans and advances to customers (Mortgages) and customer deposit accounts (Interest-bearing current accounts) for items that were previously recorded net; (ii) netting of certain Interest rate derivatives which were previously shown gross; and (iii) change of the Group's entity-wide geographic disclosures to reflect the transfer of Mauritius from Other Asia Pacific to Africa. For consistency, comparative balances have also been re-presented on a similar basis to enhance the comparability of information presented.

Group

Balance sheet

	As reported at 2011 $million	Restated $million	Restated at 2011 $million
Loans and advances to customers	263,765	3,025	266,790
Customer accounts	342,701	3,025	345,726
Derivative assets	67,976	(9,409)	58,567
Derivative liabilities	66,527	(9,409)	57,118
Total assets	598,635	(6,384)	592,251
Total liabilities	563,185	(6,384)	556,801

46. Restatement of prior year continued

Entity-wide geographic regions

Note 2 - Segmental information

	Hong Kong $million	Singapore $million	Other Asia Pacific $million	India $million	Africa $million	Americas UK & Europe $million
Loans and advances to customers						
As reported at 2011	50,541	42,574	54,196	23,379	10,004	-
Mortgage restatement	455	1,253	1,010	307	-	-
Mauritius geographic region change	-	-	(1,227)	-	1,227	-
Restated at 2011	50,996	43,827	53,979	23,686	11,231	-
Total assets employed						
As reported at 2011	118,390	102,701	115,513	42,270	17,264	158,985
Mortgage restatement	455	1,253	1,010	307	-	-
Derivative restatement	-	-	-	-	-	(9,409)
Mauritius geographic region change	-	-	(3,127)	-	3,127	-
Restated at 2011	118,845	103,954	113,396	42,577	20,391	149,576
Customer accounts (Current accounts)						
As reported at 2011	87,253	63,053	70,657	12,757	8,835	-
Deposit restatement	455	1,253	1,010	307	-	-
Mauritius geographic region change	-	-	(670)	-	670	-
Restated at 2011	87,708	64,306	70,997	13,064	9,505	-
Deposit by banks						
As reported at 2011	-	-	5,881	-	532	-
Mauritius geographic region change	-	-	(37)	-	37	-
Restated at 2011	-	-	5,844	-	569	-

	Other Asia Pacific			Africa Region		
	As reported at 2011 $million	Restated $million	As restated at 2011 $million	As reported at 2011 $million	Restated $million	As restated at 2011 $million
Operating income	3,564	(42)	3,522	1,343	42	1,385
Operating expenses	(2,088)	11	(2,077)	(708)	(11)	(719)
Loan impairment	(134)	(1)	(135)	(25)	1	(24)
Other impairment	31	-	31	(16)	-	(16)
Profit from associates	73	-	73	-	-	-
Profit before tax	1,446	(32)	1,414	594	32	626

	Hong Kong $million	Singapore $million	Other Asia Pacific $million	India $million	Africa $million	Americas UK & Europe $million
Loans and advances to customers - Risk review disclosure						
As reported at 2011	50,459	47,535	51,835	10,846	6,068	-
Mortgage restatement	455	1,253	1,010	307	-	-
Mauritius segmental change	-	-	(1,227)	-	1,227	-
Restated at 2011	50,914	48,788	51,618	11,153	7,295	-

46. Restatement of prior year continued

Company

Balance sheet

	As reported at 2011 $million	Restated $million	Restated at 2011 $million
Loans and advances to customers	121,713	1,560	123,273
Customer accounts	149,212	1,560	150,772
Derivatives assets	66,338	(9,409)	56,929
Derivatives liabilities	65,112	(9,409)	55,703
Total assets	363,947	(7,849)	356,098
Total liabilities	340,893	(7,849)	333,044

Entity-wide geographic regions

	Singapore $million	India $million
Loans and advances to customers		
As reported at 2011	47,536	10,543
Mortgage restatement	1,253	307
Restated at 2011	48,789	10,850
Customer accounts		
As reported at 2011	63,053	12,298
Deposit restatement	1,253	307
Restated at 2011	64,306	12,605

47. Related party transactions

The ultimate parent company of the Group is Standard Chartered PLC, a company registered in England and Wales, and the immediate parent company is Standard Chartered Holdings Limited. The consolidated financial statements of Standard Chartered PLC are available at the registered address located at 1 Aldermanbury Square, London, EC2V 7SB, England.

Directors and officers

Details of directors' remuneration and interests in shares are disclosed in note 14 on Remuneration of Directors.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises non-executive directors of Standard Chartered PLC and members of the Group Management Committee (from January 2013, the Executive Management Committee), which includes all directors of Standard Chartered Bank.

	2012 $million	2011 $million
Salaries, allowances and benefits in kind	21	19
Pension contributions	5	5
Bonuses paid or receivable	10	11
Share based payments	35	39
	71	74

Transactions with directors, officers and others

At 31 December 2012, the total amounts to be disclosed under the Companies Act 2006 (the Act) about loans to directors and officers were as follows:

	2012		2011	
	Number	$000	Number	$000
Directors	4	4,898	3	5,594
Officers[1]	1	18	1	20

[1] For this disclosure, the term 'Officers' means the members of the Group Management Committee, other than those who are directors of Standard Chartered PLC, and the Company Secretary.

Other than as disclosed in the Directors' Report and these financial statements, there were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act.

Group

	2012				2011			
	Due from/to subsidiary undertakings and other related parties $million	Derivatives $million	Subordinated liabilities and other borrowed funds $million	Accruals $million	Due from/to subsidiary undertakings and other related parties $million	Derivatives $million	Subordinated liabilities and other borrowed funds $million	Accruals $million
Assets								
Ultimate parent company	23	-	-	-	39	43	-	-
Fellow subsidiaries of								
Joint ventures	18	-	-	-	7	-	-	-
	41	-	-	-	46	43	-	-
Liabilities								
Ultimate parent company	14,717	1,002	288	76	13,600	601	505	45
Fellow subsidiaries of								
SC PLC Group	303	-	-	-	-	-	-	-
Joint ventures	23	-	-	-	29	-	-	-
	15,043	1,002	288	76	13,629	601	505	45

	2012		2011	
	Interest expense $million	Dividend expense $million	Interest expense $million	Dividend expense $million
Ultimate parent company	510	1,372	318	1,118
	510	1,372	318	1,118

47. Related party transactions continued

Group continued

Several inter-company balances were settled in cash during the year. The asset due from the ultimate parent company relates to the partial rebate of the license value as explained below.

In 2006, SC PLC licensed intellectual property rights related to its main brands to a wholly owned subsidiary of the Company, Standard Chartered Strategic Brand Management ('SCSBM'). In 2009, SC PLC transferred part of the intellectual property rights to the Company for $1. The intangible asset is held on SCSBM's and the Company's balance sheet and amortised to the income statement over the term of the licence. At 31 December 2012 $54 million (2011: $72 million) has been included as intangible asset in the Group's balance sheet in relation to this licence.

The Group contributes to employee pension funds and provides banking services free of charge to the UK fund. For details of the funds see note 34.

The Group's employees participate in the Standard Chartered PLC group's share based compensation plans (see note 37). The cost of the compensation is recharged from SC PLC to the Group's branches and subsidiaries.

Joint ventures
The Group has loans and advances to PT Bank Permata Tbk totalling $18 million at 31 December 2012 (2011: $7 million), and deposits of $23 million (2011: $29 million). The Group has investments in subordinated debt issued by PT Bank Permata Tbk of $128 million (2011: $132 million).

Associates
The Group has loans and advances to Merchant Solutions and China Bohai Bank totalling $29 million and $32 million respectively at 31 December 2012 (2011: $39 million and $172 million respectively) and amounts payable to Merchant Solutions and China Bohai Bank of $21 million and $16 million respectively at 31 December 2012 (2011: $30 million and $10 million respectively).

Company

	2012				2011			
	Due from/to subsidiary undertakings and other related parties	Derivatives	Subordinated liabilities and other borrowed funds	Accruals	Due from/to subsidiary undertakings and other related parties	Derivatives	Subordinated liabilities and other borrowed funds	Accruals
	$million	$million	$million	$million	$million	$million	$million	$million
Assets								
Ultimate parent company	23	-	-	-	39	43	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	17,933	3,752	-	58	16,490	4,570	-	45
Joint ventures	18	-	-	-	7	-	-	-
	17,974	3,752	-	58	16,536	4,613	-	45
Ultimate parent company	14,717	1,002	288	76	13,600	601	505	45
Subsidiaries and fellow subsidiaries of SC PLC Group	24,387	3,233	-	45	36,014	4,463	-	61
Joint ventures	23	-	-	-	29	-	-	-
	39,127	4,235	288	121	49,643	5,064	505	106

47. Related party transactions continued

Company continued

	2012					
	Fees and commission income $million	Fees and commission expense $million	Interest income $million	Interest expense $million	Dividend income $million	Dividend expense $million
Ultimate parent company	-	-	-	510	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	115	135	146	91	-	-
Joint ventures	-	-	5	-	-	-
	115	135	151	601	-	-

	2011					
	Fees and commission income $million	Fees and commission expense $million	Interest income $million	Interest expense $million	Dividend income $million	Dividend income $million
Ultimate parent company	-	-	-	318	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	121	471	74	373	-	-
Joint ventures	-	-	-	-	-	-
	121	471	74	691	-	-

As at 31 December 2012, the Company had created a charge over $43 million (2011: $42 million) of cash assets in favour of the independent trustee of its employer financed retirement benefit scheme.

The Company has provided a letter of support to its subsidiary undertaking Standard Chartered Overseas Holdings Limited.

The Company contributes to employee pension funds and provides banking services free of charge to the UK fund. For details of the funds see note 34.

In the normal course of business the Company has guaranteed credit risk on credit exposures to customers of certain subsidiaries of $nil million (2011: $2 million).

The Company has entered into risk participation agreements with its subsidiary undertakings which transferred exposures of $379 million (2011: $658 million).

As at 31 December 2012 the Company holds debt securities issued by subsidiary undertakings of $762 million (2011: $638 million) and has issued debt securities to subsidiary undertakings of $0.1 million (2011: $2 million).

The Company's employees participate in the Standard Chartered PLC group's share based compensation plans (see notes 1 and 37).

The Company has an agreement with Standard Chartered PLC that in the event of the Company defaulting on its debt coupon interest payments, where the terms of such debt requires it, Standard Chartered PLC shall issue shares as settlement for non-payment of the coupon interest.

Joint ventures
The Company has loans and advances to PT Bank Permata Tbk totalling $18 million at 31 December 2012 (2011: $7 million), and deposits of $23 million (2011: $29 million).

Glossary

Advances-to-deposits ratio	The ratio of total loans and advances to customers relative to total customer deposits. A low advances-to-deposits ratio demonstrates that customer deposits exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers.
Asset Backed Securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and in the case of **Collateralised Debt Obligation (CDOs)**, the reference pool may be ABS.
Advanced Internal Rating Based (AIRB) approach	The AIRB approach under the **Basel II** framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters.
Attributable profit to ordinary shareholders	Profit for the year after non-controlling interests and the declaration of dividends on preference shares classified as equity.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
Basel III	In December 2010, the BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements are being phased from 1 January 2013 with full implementation by 31 December 2019.
Basis point	One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities.
CAD2	An amendment to Capital Adequacy Directive that gives national regulators the discretion to permit firms to use their own value at risk model for calculating capital requirements subject to certain criteria.
Collateralised Debt Obligations (CDOs)	Securities issued by a third party which reference **ABSs** and/or certain other related assets purchased by the issuer. CDOs may feature exposure to sub-prime mortgage assets through the underlying assets.
Collateralised Loan Obligation (CLO)	A security backed by the repayments from a pool of commercial loans. The payments may be made to different classes of owners (in tranches).
Collectively assessed loan impairment provisions	Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified at the balance sheet date. Typically assets within the Consumer Banking business are assessed on a portfolio basis.
Commercial Mortgage Backed Securities (CMBS)	Securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Commercial Paper (CP)	An unsecured promissory note issued to finance short-term credit needs. It specifies the face amount paid to investors on the maturity date.
Commercial real estate	Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multifamily housing buildings, warehouses, garages, and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets.
Constant currency	Constant currency change is derived by applying a simple translation of the previous period functional currency number in each entity using the current average and period end US dollar exchange rates to the income statement and balance sheet respectively.
Contractual maturity	Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.
Core Tier 1 Capital	Core Tier 1 capital comprises called-up ordinary share capital and eligible reserves plus non-controlling interests, less goodwill and other intangible assets and deductions relating to excess expected losses over eligible provisions and securitisation positions as specified by the UK's Financial Services Authority (FSA).
Core Tier 1 Capital ratio	**Core Tier 1 capital** as a percentage of risk weighted assets.
Cost to income ratio	Represents the proportion of total operating expense to total operating income.
Cover ratio	Represents the extent to which **non-performing loans** are covered by **impairment allowances**.
Credit Conversion Factor (CCF)	CCF is an internally modelled parameter based on historical experience to determine the amount that is expected to be further drawn down from the undrawn portion in a committed facility.
Credit Default Swaps (CDSs)	A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

Credit risk spread	The credit spread is the yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.
Credit valuation adjustments (CVA)	An adjustment to fair value primarily in respect of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions.
Customer deposits	Money deposited by all individuals and companies which are not credit institutions. Such funds are recorded as liabilities in the Group's balance sheet under Customer accounts.
Debt restructuring	This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.
Debt securities	Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.
Debt securities in issue	Debt securities in issue are transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.
Delinquency	A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. **Loans and advances** are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.
Dividend per share	Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.
Effective tax rate (ETR)	The tax on profits on ordinary activities as a percentage of profit on ordinary activities before taxation.
Expected loss (EL)	The Group measure of anticipated loss for exposures captured under an internal ratings based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on **Probability of Default (PD), Loss Given Default (LGD)** and **Exposure at Default (EAD)**, with a one-year time horizon.
Exposures	Credit exposures represent the amount lent to a customer, together with an undrawn commitments.
Exposure at default (EAD)	The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.
Forbearance	Arrangements initiated by customers, the Group or third parties to assist customers in financial difficulty where the Group agrees to accept less than the contractual amount due where financial distress would otherwise prevent satisfactory repayment within the original terms and conditions of the contract. Such arrangements include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures, and loan restructurings.
Foundation Internal Ratings Based Approach	A method of calculating credit risk capital requirements using internal **PD** models but with supervisory estimates of **LGD** and conversion factors for the calculation of **EAD**.
Funded/unfunded exposures	**Exposures** where the notional amount of the transaction is funded or unfunded. Represents exposures where there is a commitment to provide future funding is made but funds have been released / not released.
Guaranteed mortgages	Mortgages for which there is a guarantor to provide the lender a certain level of financial security in the event of default of the borrower.
Impaired loans	Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.
Impairment allowances	Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).
Individually assessed loan impairment provisions	Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Wholesale Banking business of the Group are assessed individually.
Innovative Tier 1 Capital	Innovative Tier 1 Capital consists of instruments which incorporate certain features, the effect of which is to weaken (but only marginally) the key characteristics of Tier 1 Capital (that is fully subordinated, perpetual and non-cumulative). Innovative Tier 1 Capital is subject to a limit of 15 per cent of total Tier 1 Capital.
Internal Ratings Based (IRB) approach	The IRB approach is used to calculate risk weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters.

Investment grade	A **debt security**, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.
Jaws	The rate of income growth less the rate of expense growth, expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws).
Leveraged finance	Loans or other financing agreements provided to companies whose overall level of debt is high in relation to their cash flow (net debt : EBITDA (earnings before interest tax, depreciation and amortisation)) typically arising from private equity sponsor led acquisitions of the businesses concerned.
Liquidity and credit enhancements	Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through over-collateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing **commercial paper.**
Liquid asset buffer	High quality unencumbered assets that meet the UK FSA's requirements for liquidity. These assets include high quality government or central bank securities, certain deposits with central banks and securities issued by designated multilateral development banks.
Liquid asset ratio	Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.
Loans and advances	This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument. An example of a loan product is a home loan.
Loans to individuals	Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays, and other consumer uses.
Loan-to-value ratio	The loan-to-value ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.
Loans past due	Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.
Loss given default (LGD)	LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.
Master netting agreement	An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.
Mezzanine capital	Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.
Mortgage Backed Securities (MBS)	Securities that represent interests in a group of mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Mortgage related assets	Assets which are referenced to underlying mortgages.
Medium term notes (MTNs)	Corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years.
Net asset value per share	Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.
Net interest income	The difference between interest received on assets and interest paid on liabilities.
Net interest margin	The margin is expressed as net interest income divided by average interest earning assets.
Net interest yield	Interest income divided by average interest earning assets less interest expense divided by average interest bearing liabilities.
Non-performing loans	A non performing loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is: – **renegotiated** before 90 days past due, and on which no default in interest payments or loss of principal is expected; or – **renegotiated** at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.
Normalised earnings	**Profit attributable to ordinary shareholders** adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.

Over the counter (OTC) derivatives	A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.
Pre-provision profit	Operating profit before impairment losses and taxation.
Private equity investments	Equity securities in operating companies *generally* not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.
Probability of default (PD)	PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.
Profit attributable to ordinary shareholders	Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.
Renegotiated loans	**Loans and advances** are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation may lead to a new agreement, which would be treated as a new loan.
Repo/Reverse repo	A repurchase agreement or repo is a short term funding agreements which allow a borrower to sell a financial asset, such as **ABS** or Government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.
Residential mortgage	A loan to purchase a residential property which is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a Home loan.
Residential Mortgage Backed Securities (RMBS)	Securities that represent interests in a group of **residential mortgages.** Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Return on equity	Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.
Risk weighted assets	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the FSA.
Seasoning	The emergence of credit loss patterns in portfolios over time.
Secured (fully and partially)	A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.
Securitisation	Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a **special purpose entity (SPE)** who then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.
Senior debt	Senior debt, frequently issued in the form of senior notes, is debt that takes priority over other unsecured or otherwise more "junior" debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.
Sovereign exposures	**Exposures** to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures as defined by the European Banking Authority includes only exposures to central governments.
Special purpose entities (SPEs)	SPEs are entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities. Transactions with SPEs take a number of forms, including: – The provision of financing to fund asset purchases, or commitments to provide finance for future purchases. – Derivative transactions to provide investors in the SPE with a specified exposure. – The provision of liquidity or backstop facilities which may be drawn upon if the SPE experiences future funding difficulties. – Direct investment in the notes issued by SPEs.
Standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.

Glossary continued

Stressed value at risk	A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.
Structured finance /notes	A structured note is an investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
Sub-prime	Sub-prime is defined as loans to borrowers typically having weakened credit histories that include payment delinquencies and potentially more severe problems such as court judgements and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, high debt-to-income ratios, or other criteria indicating heightened risk of default.
Tangible net asset value per share	Ratio of parent shareholders' equity less preference shares classified as equity and goodwill and intangible assets to the number of ordinary shares outstanding at the end of the reporting period.
Tier 1 capital	Tier 1 capital comprises **Core Tier 1 capital** plus innovative Tier 1 securities and preference shares and tax on excess expected losses less material holdings in credit or financial institutions.
Tier 1 capital ratio	**Tier 1 capital** as a percentage of risk weighted assets.
Tier 2 capital	Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.
UK bank levy	A levy that applies to certain UK banks and the UK operations of foreign banks from 1 January 2011. The levy is payable each year based on a percentage of the chargeable liabilities of the Group as at 31 December.
Value at Risk (VaR)	VaR 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.