# Standard Chartered Bank

**Reference Number ZC18**

**Directors' Report and Financial Statements**

**31 December 2010**

Standard Chartered

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

# Standard Chartered Bank
## Contents


| | Page |
|---|---|
| *Financial review* | *3* |
| *Financial risk management* | *14* |
| *Report of the directors* | *20* |
| *Statement of Directors' responsibilities* | *23* |
| *Report of the auditors* | *24* |
| *Financial statements* | *25* |
| *Notes to the accounts* | *32* |

# Standard Chartered Bank
# Financial Review

## Group summary

The Group has delivered another record performance for the eighth year in succession. Operating income increased by $941 million, or 6 per cent, to $16,155 million. Operating profit rose 20 per cent to $6,230 million. On a constant currency basis, operating income rose 3 per cent and operating profit rose 16 per cent.

The normalised cost to income ratio was 55.9 per cent, compared to 51.3 per cent in 2009 and reflects the conscious decision to continue investing in both businesses to underpin the Group's future growth. Investments in 2010 include – opening new branches, investing in new business lines, hiring front office relationship staff, improving systems and investing in the brand. Additionally, increased regulatory and compliance costs as well as pressure on talent retention as competition returns strongly to our key markets has led to a cost growth of 14 per cent.

Our disciplined approach to risk has resulted in credit quality improvement in both businesses. Consumer Banking experienced lower impairment in 2010; its lowest average loss rate for 10 years. Wholesale Banking "early alert" indicators improved steadily throughout 2010 and do not show any particular concentration in terms of industry or geography. Overall, the Group's asset quality is good and the level of impairment is significantly below the levels seen in 2009.

The Group continues to adopt a conservative stance to balance sheet management with a continued emphasis on liquidity and capital management. The liquidity position continues to strengthen with very good levels of deposit growth in both businesses, especially in current accounts and saving accounts. This, coupled with selective asset growth and a continuing rigour around key liquidity metrics at a country level, has resulted in an advances to deposits ratio of the Group at 77.9 per cent, compared to 78.6 per cent in the previous year. The asset book remains high quality with a short tenor profile in Wholesale Banking and with a strong bias to secured lending in Consumer Banking. The funding structure remains conservative with very limited levels of refinancing required over the next few years.

We have continued to perform consistently and delivered another record performance in 2010 built on strong foundations and diversified income streams. We have continued to invest in both businesses and 2011 has started well. We are well prepared to capture the growth opportunities provided by our markets.

**Operating income and profit**

| | 2010 $million | 2009 $million | 2010 vs 2009 Better/(worse) % |
|---|---|---|---|
| Net interest income | **8,547** | 7,671 | 11 |
| Fees and commissions income, net | **4,238** | 3,370 | 26 |
| Net trading income | **2,595** | 2,872 | (10) |
| Other operating income | **775** | 1,301 | (40) |
| | **7,608** | 7,543 | 1 |
| **Operating income** | **16,155** | 15,214 | 6 |
| **Operating expenses** | **(9,008)** | (7,932) | 14 |
| **Operating profit before impairment losses and taxation** | **7,147** | 7,282 | (2) |
| Impairment losses on loans and advances and other credit risk provisions | **(883)** | (2,000) | (56) |
| Other impairment | **(76)** | (102) | (25) |
| Profit from associates | **42** | 21 | 100 |
| **Profit before taxation** | **6,230** | 5,201 | 20 |

## Group performance

Operating income grew by $941 million, or 6 per cent, to $16,155 million. Consumer Banking continued to make good progress in transitioning towards a customer-focused business model. Income was 8 per cent higher at $6,108 million. Consumer Banking has continued to be impacted by low margins but balance sheet growth coupled with improved wealth management income on the back of improving investor sentiment has led to positive income growth. Wholesale Banking continued to strengthen relationships with existing clients. Client income has grown 17 per cent. However, a fall in own account income from the exceptional levels seen in early 2009 has restricted our income growth in Wholesale Banking to 8 per cent, at $10,043 million.

The Group's income streams continue to be highly diversified with all eight geographic segments continuing to deliver over a billion dollars of income in 2010. This is reflective of the emphasis on client and customer annuity flows in both businesses. With the exception of Americas, UK and Europe, all geographic segments delivered positive income growth. Income grew in a range of high single digit to low teen growth in all geographies except MESA, which was impacted by the aftermath of the market developments in the UAE in late 2009 and Hong Kong, our largest market, which was impacted by margin compression.

Whilst interest rates continued to be low and impacted liability margins in particular, both businesses benefitted from balance sheet momentum. Net interest income grew by $876 million or 11 per cent. The Consumer Banking business has selectively increased focus on unsecured lending in selected markets with higher margins. Consumer Banking interest income grew $223 million or 6 per cent. Wholesale Banking net interest income increased $624 million or 16 per cent as new mandates and higher balance across the Transaction Banking and Lending Businesses helped offset lower margins. On average, the year on year fall in margins was 37 basis points (bps) and 15 bps, for trade and cash respectively.

Asset and liability Management ('ALM') was also adversely impacted as motoring investments were re-invested at lower yields in early part of 2010. Accrued income was lower, primarily as a result of flatter money market yields, especially in markets such as United States and Hong Kong.

## Standard Chartered Bank

## Financial Review continued

The Group net interest margin at 2.2 per cent was marginally down from 2.3 per cent in 2009, reflecting the continuing low margins on liability products and also some pressure on asset margins in the latter half of 2010 as competition intensified.

Non-interest income grew marginally by $65 million to $7,608 million but experienced a significant shift in mix. Net fees and commissions income increased by $868 million, or 26 per cent, to $4,238 million but was offset by lower trading income and the absence of any debt buy-back transactions, which in 2009, had contributed gains of $264 million. The increase in fee income was in both businesses. In Wholesale Banking, it was primarily through Corporate Finance, Trade and Capital Market fees. In Consumer Banking, it was driven by an improved investor sentiment to Wealth Management products.

Net trading income fell $277 million, or 10 per cent, to $2,595 million as a result of lower own account income, reflecting in part the exceptional performance in the first half of 2009 when the market was more volatile and the competition distracted. 2010 saw a more normalised and range bound movement in interest rates and yields. The return of competition further narrowed spreads. We have however, continued to build scale through a strong pipeline of client driven business focussing on strategic and transactional opportunities and leveraging on our local corporate franchise in key geographies.

Other operating income primarily comprises gains arising on sale from the available-for-sale (AFS) portfolio, aircraft lease income and dividend income. In 2009, it also included gains arising from buy-back of Tier 2 notes but this was not repeated in 2010. Other operating income fell by $526 million, or 40 per cent, to $775 million driven by lower gains arising from the sale of AFS assets. This was partially offset by higher income from aircraft leasing as we grew the portfolio. Other operating income also included $29 million of recoveries in respect of assets that had been fair valued at acquisition in Taiwan, Korea and Pakistan, down 33 per cent from 2009.

Operating expenses increased $1,076 million, or 14 per cent, to $9,008 million. At constant exchange rates the increase was 10 per cent. This increase was primarily driven by staff expenses, which grew 18 per cent, or $858 million, to $5,732 million. In the aftermath of the crisis in 2008, both businesses had controlled expenditure very tightly in 2009 with Consumer Banking in particular taking steps to reduce headcount. As the external environment improved in the latter half of 2009 and revenue momentum trended positively, both businesses increased investment. This has continued in 2010 with investment in specialist and front line staff and infrastructure spend by way of new branches and enhancement of distribution channels. The change in the external environment has also resulted in greater competition for talent necessitating appropriate retention measures in our key markets. Expenses in 2010 include some $150 million relating to increased direct regulatory and compliance costs with investments in upgrading capabilities, system infrastructure to support surveillance and new regulatory reporting requirements and on specific reviews related primarily to historical sanctions compliance across various geographies. This was partially offset by a $54 million reduction on retirement obligations in the UK consequent to a change in the measure for applying increases from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). In addition, we have recently announced a settlement relating to Lehman's structured notes amounting to $192 million. This has an impact of $95 million on 2010 costs. Expense in 2009 included the cost of the buy-back of structured notes in Taiwan of $170 million, the UK bonus tax of $58 million and the reduction of retirement benefits in Taiwan of $59 million.

Operating profit before impairment losses and taxation (also referred to as "Working Profit") was lower by $135 million, or 2 per cent, at $7,147 million. On a constant currency basis, the decrease was 5 per cent.

The charge for loan impairment fell by $1,117 million, or 56 per cent, to $883 million. This was a result of improving economic conditions in most of our markets as well as our consistently robust risk management processes and underwriting standards. Consumer Banking also benefitted from a largely secured lending portfolio. The Wholesale Banking impairment charge, which was driven by a small number of specific provisions has fallen following an improvement in early alerts and a lower rate of credit migration.

Other impairment charges were lower at $76 million, down from $102 million in 2009. These include impairments related to our asset backed portfolio. The previous year also included impairment of certain strategic investments.

Operating profit was up $1,029 million, or 20 per cent, to $6,230 million. India joined Hong Kong as the second market to deliver over $2 billion of income this year and became the largest geography by profit in 2010.

The Group's effective tax rate (ETR) was 27.7 per cent, down from 31.5 per cent in 2009. The 2009 ETR was higher than the Group's normal underlying tax rate due to the effects of a voluntary exercise with Her Majesty's Revenue and Customs (HMRC) which finalised prior year UK tax computations from 1990 to 2006 and resulted in a onetime charge of $165 million.

### Consumer Banking

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

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

| 2009 | Asia Pacific: Hong Kong $million | Asia Pacific: Singapore $million | Asia Pacific: Korea $million | Asia Pacific: Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Consumer Banking Total $million |
|---|---|---|---|---|---|---|---|---|---|
| Operating income | 1,083 | 636 | 996 | 1,285 | 445 | 680 | 351 | 160 | 5,636 |
| Operating expenses | (605) | (297) | (693) | (1,043) | (248) | (396) | (228) | (187) | (3,697) |
| Loan impairment | (104) | (34) | (185) | (240) | (147) | (285) | (28) | (29) | (1,052) |
| Other impairment | 5 | - | (1) | (2) | 4 | - | - | (7) | (1) |
| Operating profit/(loss) | 379 | 305 | 117 | - | 54 | (1) | 95 | (63) | 886 |

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

| Operating income by product | 2010 $million | 2009 $million | 2010 vs 2009 Better/(worse) % |
|---|---|---|---|
| Cards, Personal Loans and Unsecured Lending | **2,055** | 1,994 | 3 |
| Wealth Management | **1,140** | 922 | 24 |
| Deposits | **1,204** | 1,313 | (8) |
| Mortgages and Auto Finance | **1,526** | 1,246 | 22 |
| Other | **183** | 161 | 14 |
| Total operating income | **6,108** | 5,636 | 8 |

Consumer Banking operating income grew $472 million, or 8 per cent, to $6,108 million. On a constant currency basis, income grew 4 per cent. Net interest income grew $249 million, or 6 per cent, to $4,038 million. Asset and liability balances increased and helped offset lower liability margins, which fell 16 bps from the previous year. Non-interest income at $2,025 million, was $227 million, or 13 per cent, higher compared to $1,814 million in the previous year driven by higher Wealth Management as consumer demand improved due to rebounding equity markets. The business continued to focus on liquidity and managing and improving its deposits mix. Current and Savings Account (CASA) balances constitute just under 60 per cent of Consumer Banking deposits, largely similar to levels seen at the previous year end.

Income grew in all geographic segments except Americas, UK and Europe.

Expenses were up $471 million or 13 per cent to $4,168 million. On a constant currency basis, expenses were up 8 per cent. Costs increased primarily as a result of increase in front line staff as well as investment targeted at expansion of the distribution network, system enhancements and increased marketing spend.

Loan impairment fell by $474 million, or 45 per cent, to $578 million. Delinquency rates have continued to improve through the year due to an easing of the economic environment and this coupled with the proactive credit actions and de-risking of the portfolio has helped reduce impairment levels.

Operating profit grew $463 million, or 52 per cent, to $1,349 million. On a constant currency basis, the increase was 47 per cent. The second half operating performance was 4 per cent higher than the first half.

**Product performance**

Income from Cards, Personal Loans and Unsecured Lending grew $61 million, or 3 per cent, to $2,055 million predominantly in Hong Kong, Singapore and Other Asia Pacific (Other APR), especially in Malaysia, Indonesia and China. Excluding the $68 million gains arising from the sale of BC Cards in 2009, income grew 6 per cent. We had, in the previous year, de-risked our portfolios and reduced emphasis on unsecured products. However, with flow rates improving in the current year, we have been targeting selected markets resulting in an increase in income.

Wealth Management was adversely impacted by subdued investment sentiment in 2009. Market sentiment and investor appetite has gradually improved through 2010 resulting in an increase in income of $109 million, or 25 per cent, to $2,344 million, led by funds and treasury products. We continued our focus on selected markets in Asia where the appetite was higher on the back of relatively better economic and market indicators. Deposits continued to be impacted by margin compression, which further intensified in key markets due to competitive pricing. We however, continued with our deposit gathering initiatives driven by product innovation including bundling of products and a focus on collaborating with Wholesale Banking to source payroll accounts continued. Deposits grew by 15 per cent and helped offset the margin compression of 16 bps.

Mortgages and Auto Finance performed well delivering positive income growth of $280 million, or 22 per cent, to $1,526 million. Margins on retail mortgages fell 13 bps but were offset by advances growth on the back of improving property markets in many of our geographies although regulatory focus and curbs introduced in certain markets remain a challenge.

The 'Other' classification primarily includes SME related trade and transactional income and has grown 14 per cent on a relatively low base.

**Geographic performance**

**Hong Kong**

Income was up $39 million, or 4 per cent, to $1,112 million. Hong Kong is our most liquid market and income was therefore impacted by the low interest rate environment. Liability margin compression was countered by strong growth in balance sheet footings with both advances and deposits growing. Advances growth was across multiple products and we gained market share in Mortgages and Cards. The SME segment grew strongly benefitting from higher trade loans. Wealth Management income has shown significant improvement with daily fees now back to pre-crisis levels. This was driven through higher unit trust sales and securities brokerage services. Income in the second half of 2010 was significantly higher than the first half. Operating expenses were up $117 million, or 19 per cent due to regulatory settlement related to structured notes and investments in front office staff coupled with increased marketing spend. Working profit was down $78 million, or 16 per cent, to $400 million. Loan impairment was considerably lower at $45 million. Personal bankruptcies, which were high in early 2009, reduced considerably over period. This, coupled with the focus earlier in 2010 on secured lending, has helped reduce impairment levels. Operating profit fell $25 million, or 8 per cent, to $354 million.

**Singapore**

Income was up $96 million, or 15 per cent, to $732 million. On a constant currency basis, income grew 9 per cent, especially in Mortgages and Cards, supported by customer-centric product innovation. Wealth Management which saw reduced demand in early 2010 improved considerably through the year registering a significant growth on the back of improved investor appetite. Deposit income continued to be challenged by low interest rates. From a customer segment perspective, the Private Banking business consolidated on prior investments and delivered strong income momentum. Operating expenses increased $88 million, or 30 per cent, to $385 million with investments in frontline staff, marketing and infrastructure to underpin future income momentum. On a constant currency basis, this was 22 per cent higher. Working profit was up $6 million, or 2 per cent, at $347 million. Despite the 29 per cent growth in customer advances, loan impairment was marginally down $1 million, or 3 per cent, to $33 million. Operating profit was higher by $9 million or 2 per cent at $314 million. On a constant currency basis, operating profit fell 1 per cent.

**Korea**

Income was up $67 million, or 7 per cent, to $1,063 million. On a constant currency basis and excluding the $68 million gain on sale of BC Cards in 2009, income was up 3 per cent with growth in Mortgages and Personal Loans. The SME business saw higher volumes from lending and trade. Wealth Management income was up strongly driven by investment sales and bancassurance. Deposit income continued to be impacted by narrowing margins. Operating expenses grew $97 million, or 14 per cent, to $790 million. On a constant currency basis, expenses were 3 per cent higher. We have continued to invest as we look to reshape our distribution network and related infrastructure. During 2010, we refurbished or relocated 17 existing branches and opened 12 new branches. Working profit was 11 per cent lower at $273 million. On a constant currency basis, this was 20 per cent lower. Loan impairment was down $46 million, or 25 per cent, to $139 million driven by the de-risking of the portfolio through 2009 and early 2010. Operating profit was up $13 million, or 11 per cent, to $130 million. On a constant currency basis, operating profit decreased by 1 per cent.

# Standard Chartered Bank

## **Financial Review** continued

**Other Asia Pacific (Other APR)**
Income was up $200 million, or 16 per cent, to $1,485 million. All major markets including China, Taiwan, Indonesia and Malaysia saw positive income momentum. Income in China was up 19 per cent to $204 million driven by strong advances growth and improved deposit margins. This helped compensate for the fall in asset margins. Taiwan saw strong income growth in Mortgages and Wealth Management, with higher sales of mutual funds and structured notes as consumer confidence improved and equity markets rose. Income in Malaysia was up 20 per cent to $295 million, benefitting from a growth in Mortgages, SME and Personal Loans. Operating expenses in Other APR were up $41 million, or 4 per cent, to $1,084 million. Excluding the impact of the buy-back of structured notes and reduced retirement obligations in 2009, current year expenses were up $157 million or 17 per cent. Expenses across the region were driven by the investment focus as we grew frontline staff, opened additional branches (17 in Indonesia, 9 in China, 5 in Malaysia and 3 in Taiwan) and enhanced our delivery channels. Other APR working profit was up $159 million, or 66 per cent, to $401 million. Loan impairment was significantly down by $118 million, or 49 per cent, to $122 million, particularly in Taiwan and Thailand as actions taken to de-risk the portfolios coupled with enhanced collection efforts and asset sales took effect. Other APR delivered an operating profit of $278 million as compared to $nil million in 2009. Taiwan, with an operating profit of $182 million (2009 – operating loss of $61 million) and Malaysia, with an operating profit of $88 million (2009 - $71 million of operating profits) were significant contributors. The operating loss in China was $78 million, up from $60 million in 2009, as we continued to invest.

**India**
Income was up $51 million, or 11 per cent, to $496 million. On a constant currency basis, income was higher by 5 per cent driven by growth in SME specifically Mortgages. Improved investor demand resulting an increase in fee income from sale of unit trusts. This was largely offset by lower margins on deposits with interest rates being impacted by change in regulations. Operating expenses were $89 million, or 36 per cent higher at $337 million. On a constant currency basis, expenses were higher by 28 per cent. 2009 included a service tax rebate, adjusting for which the increase was driven by additional front office staff and enhancement of infrastructure, including 79 Express Banking Centres. Working profit was down $38 million, or 19 per cent, to $159 million. On a constant currency basis, the drop in working profit was 24 per cent. Loan impairment was however significantly lower by $91 million, or 62 per cent, at $56 million and was driven by the de-risking of the portfolio in the latter half of 2009 and early part of 2010. Operating profit was consequently higher by $49 million, or 91 per cent, at $103 million. On a constant currency basis, operating profit was 83 per cent higher.

**Middle East and Other South Asia (MESA)**
Income was marginally up $13 million, or 2 per cent to $693 million driven by the increase in UAE which helped offset the fall in Pakistan where our appetite for customer lending continued to be selective and impacted by margin compression. UAE income grew 4 per cent helped by a stronger Wealth Management performance, which helped offset the run down of the high-yield personal loan portfolio. Operating expenses in MESA were higher by $69 million, or 15 per cent, at $457 million. UAE expenses were up by $29 million or 17 per cent driven by investment in frontline staff and realignment of distribution channels. Pakistan expenses were higher by $5 million or 5 per cent. Working profit for MESA was down $48 million, or 17 per cent, to $236 million. Loan impairment was considerably lower at $159 million, 44 per cent down on $285 million in 2009. Whilst the decrease was primarily in UAE and Pakistan, most markets benefitted from the improvement in the economic outlook and the de-risking of the portfolios. Consequently, MESA delivered an operating profit of $77 million, compared to an operating loss of $1 million in 2009.

**Africa**
Income was up $31 million, or 9 per cent, at $382 million with strong momentum in Personal Loans and SME. Deposit margins continued to be under pressure but were partially offset by higher customer balances. Nigeria and Kenya drove income growth, benefitting from increased balances across both deposits and advances. Operating expenses were $25 million or 11 per cent higher at $253 million, driven by higher staff costs and investments to strengthen the distribution network. Working profit in Africa was higher by $6 million or 4 per cent, at $127 million. Loan impairment was down $9 million, or 32 per cent, to $19 million. Operating profit was up $10 million, or 11 per cent, to $105 million.

**Americas, UK & Europe**
Income fell $25 million or 17 per cent from $160 million to $135 million. The business in this region is primarily Private Banking and liability driven. It continued to be adversely impacted by low investor confidence and low interest rates continued to impact liability margins. Operating expenses fell $47 million, or 25 per cent, through continued focus on cost management and the transformation of Miami branch as an advisory centre. Impairment was considerably lower by $24 million, or 83 per cent. The operating loss consequently reduced from $63 million to $12 million.

## Wholesale Banking

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

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

| | 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Wholesale Banking Total $million |
| Operating income | 1,291 | 959 | 562 | 1,607 | 1,372 | 1,402 | 740 | 1,381 | 9,314 |
| Operating expenses | (565) | (505) | (250) | (730) | (324) | (497) | (324) | (982) | (4,177) |
| Loan impairment | (41) | (3) | (93) | (155) | (54) | (526) | (26) | (50) | (948) |
| Other impairment | 5 | (40) | - | 28 | 13 | (10) | - | (78) | (82) |
| Operating profit | 690 | 411 | 219 | 750 | 1,007 | 369 | 390 | 271 | 4,107 |

Income by product is set out below:

| Operating Income by product | 2010 $million | 2009 $million | 2010 vs 2009 Better/(worse) % |
|---|---|---|---|
| Lending and Portfolio Management | 874 | 851 | 3 |
| Transaction Banking | | | |
| Trade | 1,476 | 1,292 | 14 |
| Cash management and custody | 1,311 | 1,251 | 5 |
| | 2,787 | 2,543 | 10 |
| Global Markets[1] | | | |
| Financial Markets | 3,324 | 3,319 | - |
| Asset and Liability Management ('ALM') | 918 | 965 | (5) |
| Corporate Finance | 1,721 | 1,297 | 33 |
| Principal Finance | 419 | 339 | 24 |
| | 6,382 | 5,920 | 8 |
| Total operating income | 10,043 | 9,314 | 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 | 2010 $million | 2009 $million | 2010 vs 2009 Better/(worse) % |
|---|---|---|---|
| Foreign Exchange | 1,208 | 1,352 | (11) |
| Rates | 842 | 881 | (4) |
| Commodities and Equities | 414 | 390 | 6 |
| Capital Markets | 544 | 410 | 33 |
| Credit and Other | 316 | 286 | 10 |
| Total Financial Markets operating income | 3,324 | 3,319 | - |

Wholesale Banking has had another strong year, continuing to strengthen relationships with existing clients and diversifying income growth using our network capabilities as a source of differentiation. Client income, which remains the cornerstone of our strategy at around 80 per cent of total income, was up 17 per cent on the previous year and helped offset declining own account income. Operating income grew $729 million, or 8 per cent, to $10,043 million. Net interest income was up $627 million, or 16 per cent, to $4,464 million while non-interest income grew marginally by $102 million to $5,579 million.

As in prior years, commercial banking, which includes Cash, Trade, Lending and flow foreign exchange business contributed the majority of client income. Corporate Finance had another excellent year delivering a 33 per cent increase in income with a continuing stream of deals across Asia and Africa. The Capital Markets business also grew strongly with income growth of 33 per cent. This helped offset the steep fall in own account resulting in flat income growth for Financial Markets overall. The year on year fall in own account income was in part a consequence of the exceptional performance witnessed in the first half of 2009. Market conditions in the current year were less favourable with reduced volatility and increased competition resulting in narrower spreads. Asset and Liability Management (ALM), also saw re-investment of its maturing positions at lower yields.

Operating expenses grew $656 million, or 16 per cent, to $4,833 million. The increase in expenses was primarily on account of staff costs as a consequence of increased hires in the second half of 2009. In addition to flow through impact, the business continued to invest in new businesses such as equities. The moderation in own account income in the current year magnifies the negative jaws of 9 per cent. Expense growth over a two year period is more aligned to income growth as the volatility in own account income is normalised.

Loan impairment fell significantly by $643 million to $305 million as economic conditions continued to improve. Whilst a significant portion of the impairment in 2009 arose in MESA, other markets such as Korea, India and Other APR were also impacted. Current year provisioning was largely concentrated in a few specific problem accounts. The portfolio continues to be well diversified and well collateralised.

Other impairment was lower by $19 million, or 23 per cent, at $63 million. This primarily represents impairment on our ABS and private equity portfolio. As markets improved, it enabled realisation of profits on disposal.

Operating profit increased $735 million, or 18 per cent, to $4,842 million. Wholesale Banking continues to be a significant contributor to the Group profits.

**Product performance**
Lending and Portfolio Management income increased marginally by $23 million, or 3 per cent, to $874 million with an increase in lending balances and related fees offset by margin pressure. Whilst the first half saw improved margins through re-pricing, the latter half has seen a softening of margins with year on year margins down 4 bps.

Income from Trade grew 10 per cent with higher assets and contingents of 28 per cent partially offset by a 37 bps reduction in margins. Cash and Custody income also continued to be impacted by margin compression but continued winning new mandates and the resultant growth in average balances of 21 per cent enabled the business to end the year with a 4 per cent increase in income.

Global Markets income increased by $462 million, or 7 per cent, to $6,382 million.

Within Global Markets, the Financial Markets (FM) business, despite flat income growth, continued to be the largest contributor. The FM business primarily comprises sales and trading of exchange and interest rate products and has over the past couple of years seen diversification of income streams with higher contributions from commodity, equity and credit derivatives. FM sales and trading income was adversely impacted by spread compression, increased competition and less volatile markets through most of the year.

ALM income was $47 million, or 5 per cent, lower at $918 million. Positions put on at the end of 2008 and early 2009 captured both high fixed interest rates and wide credit spreads benefitting from lower funding rates. Re-investment of maturing positions in the early part of 2010 was at lower yields in a low interest rate environment. Accruals have continued to be lower with money market curves being flat, especially in the United States and Hong Kong.

Corporate Finance income was up $424 million or 33 per cent to $1,721 million with strong income growth across all products. Much of the growth was in corporate advisory driven by a number of deals originating across our key markets in Asia and Africa and supported through our global hubs in UK and Singapore.

Principal Finance income was up $80 million or 24 per cent higher at $419 million and benefitted from investments as Asian market prices rose resulting in valuation gains and gains on disposal.

## Geographic performance

### Hong Kong

Income was up $100 million, or 8 per cent, to $1,391 million. This was largely driven by client income, which grew 19 per cent. Growth was broad based and seen across FM sales, Capital Markets, Lending and Trade. While Capital Markets saw good pick up in bonds, Lending and Trade saw significant asset and volume growth that helped offset margin compression. This helped minimise the fall in ALM which was impacted by low reinvestment yield. Operating expenses grew $71 million, or 13 per cent, to $636 million on account of higher staff costs coupled with increase in infrastructure spends. Working profit was up $29 million, or 4 per cent, to $755 million. Loan impairment was lower by $43 million compared to the previous year reflecting our proactive risk management processes and ongoing refinement of underwriting standards. Operating profit was up $68 million, or 10 per cent, at $758 million.

### Singapore

Income grew $57 million, or 6 per cent, to $1,016 million driven by client income, which grew 17 per cent benefitting from increased trade finance, higher number of corporate finance deals and increased cross border business. Own account was however, impacted by decreased market volatility and tighter margins and fell 32 per cent. Operating expenses grew $98 million, or 19 per cent, to $603 million. Staff costs constituted the majority of the increase and was driven by the full year impact of flow through from the previous year investment in specialist teams in areas such as commodities, options and interest rate derivatives. Much of the increase in headcount was on account of Singapore being a regional hub for the business. Premises costs also increased as the business moved to new and larger premises to support the increased headcount and business volumes with resultant costs related to fit out and maintenance. Working profit fell $41 million or 9 per cent, to $408 million. Other impairment of $1 million represents provisions made against private equity investments, significantly lower than the previous year amount of $40 million. Operating profit was marginally lower by $1 million, or 1 per cent, at $412 million.

### Korea

Income grew $83 million or 15 per cent to $645 million. On a constant currency basis, income was 3 per cent higher primarily due to a gain on private equity disposals. Client income increased 4 per cent as both Trade and Cash suffered from severe margin compression in a liquidity surplus environment. Excluding the private equity gain booked in the second half, own account income fell as a stable market and increasing competition drove margins down. Operating expenses were higher by $30 million, or 12 per cent, at $280 million. On a constant currency basis, expenses rose 1 per cent, driven by flow through from previous year investments in infrastructure expansion and costs related to starting the securities business. Working profit was higher by $53 million, or 17 per cent, at $365 million. On a constant currency basis, working profit rose 5 per cent. Loan impairment was marginally lower at $87 million as compared to $93 million and primarily related to ship building exposures provided in the first half of 2010. Operating profit was higher by $58 million, or 26 per cent, at $277 million. On a constant currency basis, operating profit rose 13 per cent.

### Other Asia Pacific (Other APR)

Income was up $90 million, or 6 per cent, at $1,697 million and was primarily driven by an increase in client income and growth in FM sales. Income from Lending and Trade volumes helped offset the fall in own account income. Income in China fell 11 per cent to $503 million as client income growth of 52 per cent was more than offset by a decline in own account income and the non-recurrence of private equity gains seen in 2009. Income in Taiwan fell 13 per cent to $118 million despite client income growth of 5 per cent, which was more than offset by a fall in own account income. Trade performed particularly well as we leveraged on the Mainland China-Taiwan trade flows. Malaysia income was up 12 per cent to $272 million as business sentiment improved and client income benefitted through higher balances in Lending and Trade. Indonesia and Philippines delivered a healthy income growth driven by Corporate Finance and helped diversify the income flow in this business. Operating expenses in Other APR were up $154 million, or 21 per cent, to $884 million. Expenses were driven higher by staff and premises expenses and flow through from prior year investments. China operating expenses were up 33 per cent to $335 million. Working profit in Other APR was lower by 7 per cent and ended at $813 million. Loan impairment was significantly lower by $125million from $155 million in 2009, driven by an improving economic environment. Other impairment is negligible in the current year and had recoveries amounting to $28 million in 2009 related to private equity sales. Operating profit was $32 million, or 4 per cent, higher at $782 million. China delivered an operating profit of $165 million and Taiwan contributed $56 million. Indonesia and Malaysia were the other key profit contributors in this region.

### India

Income grew $167 million, or 12 per cent, to $1,539 million led by Capital Markets and Cash Management, the latter benefitting from significant average balance growth that more than offset margin compression. Corporate advisory continued to perform well by leveraging cross border financing and deal structuring capabilities. Operating expenses were up $88 million, or 27 per cent, at $412 million. On a constant currency basis, expenses were higher by 20 per cent largely from increased staff and premises related costs, inflationary pressures and investments, which related to the set up of the equities business. Working profit was up $79 million, or 8 per cent, at $1,127 million. Loan impairment decreased $31 million, or 57 per cent, at $23 million as the economic environment improved. Operating profit was up $94 million, or 9 per cent, to $1,101 million.

### Middle East and Other South Asia (MESA)

Income was up $82 million, or 5 per cent, to $1,484 million with increase in client income helping offset a fall in own account income. Client income growth was broad based with Lending, Trade and corporate advisory reflecting increased balances and steady margins and Islamic banking continuing to be a focus area. UAE led income growth with an overall increase of 11 per cent. Oman and Bangladesh grew income by 58 and 26 per cent, respectively driven by lending growth and re-pricing. Bahrain saw a drop in income as credit appetite in the region reduced. Islamic banking, however, continues to be a significant source of income. Despite business sentiment continuing to be impacted by political and economic uncertainty, Pakistan registered 12 per cent growth. MESA operating expenses were up $42 million, or 8 per cent, to $539 million reflecting staff and investment expenditure. MESA working profit was up $40 million, or 5 per cent, to $945 million. Loan impairment was driven by a small number of specific provisions. The current year charge ended at $143 million, down 73 per cent. We continue to hold an additional portfolio provision coverage against uncertainties in the region. Current year charge ended at $143 million, down 73 per cent. Operating profit more than doubled to end at $773 million

### Africa

Income was up $130 million, or 18 per cent, to $870 million, driven by strong Corporate Finance performance. Trade and Lending income increased on higher balances benefitting from Asia trade flows coupled with re-pricing. This increase helped offset drop in Cash income where higher average balances could only partially make up for margin compression. Corporate Finance benefitted from landmark deals as we continued to deepen client relationships. Ghana and Zambia led the way with strong contribution from Trade, ALM and Rates trading. Nigeria, Kenya and Uganda grew on the back of higher Lending and Trade balances partly offset by the decline in Cash due to margin compression. Operating expenses were up $75 million, or 23 per cent, to $399 million, reflecting investments in people and infrastructure. Working profit was up $55 million, or 13 per cent, to $471 million. Loan impairment charge remained low at $5 million. Operating profit was up $71 million, or 18 per cent, to $461 million.

### Americas, UK & Europe

This region continues to originate and support our clients' cross border business within our footprint countries. Income was marginally higher with a 31 per cent growth in client income helping offset a fall in own account income. Lending, Trade and Cash saw volume increases, countering margin compression in Cash income. The fixed income business was impacted by narrowing of spreads and increased competition. ALM accruals were adversely impacted by redeployment of maturities in a low interest rate environment. Operating expenses were higher by $98 million, driven by increases in staff and regulatory expenses. Working profit fell $78 million, or 20 per cent. Impairment was lower by $31 million or 62 per cent. Other impairment was lower by $54 million or 69 per cent, at $24 million. Operating profit remained stable at $278 million.

### Acquisitions

On 12 April 2010, the Group acquired 100 per cent of the consumer finance business of GE Capital (Hong Kong) Limited, a Hong Kong (restricted licence) banking company.

On 2 August 2010, the Group acquired 100 per cent of the consumer finance business of GE Commercial Financing (Singapore) Limited.

On 1 October 2010, the Company purchased the remaining 25.1 per cent interest in Standard Chartered STCI Capital Markets (STCI). By virtue of this transaction, STCI became a subsidiary of the Group.

Between 31 October 2010 and 5 December 2010, the Group acquired the custody business of Barclays Bank plc across various locations in Africa.

The effects of the above acquisitions were not material to the Group's 2010 performance.

# Standard Chartered Bank
## Financial Review continued

### Balance Sheet

| | 2010 $million | 2009 $million | Increase/ (decrease) $million | Increase/ (decrease) % |
|---|---|---|---|---|
| **Assets** | | | | |
| **Lending & investements** | | | | |
| Cash and balances at central banks | **32,724** | 18,131 | 14,593 | 80 |
| Loans and advances to banks | **52,057** | 50,884 | 1,173 | 2 |
| Loans and advances to customers | **240,358** | 198,292 | 42,066 | 21 |
| Investment securities held at amortised cost | **4,829** | 6,688 | (1,859) | (28) |
| | **329,968** | 273,995 | 55,973 | 20 |
| **Assets held at fair value** | | | | |
| Investment securities held at fair value through equity | **70,967** | 69,040 | 1,927 | 3 |
| Financial assets held at fair value through profit or loss | **27,021** | 22,446 | 4,575 | 20 |
| Derivative financial instruments | **47,949** | 38,218 | 9,731 | 25 |
| | **145,937** | 129,704 | 16,233 | 13 |
| **Other assets** | **40,358** | 32,721 | 7,637 | 23 |
| **Total assets** | **516,263** | 436,420 | 79,843 | 18 |
| **Liabilities** | | | | |
| **Deposits and debt securities in issue** | | | | |
| Deposits by banks | **28,551** | 38,461 | (9,910) | (26) |
| Customer accounts | **306,992** | 251,244 | 55,748 | 22 |
| Debt securities in issue | **23,038** | 24,502 | (1,464) | (6) |
| | **358,581** | 314,207 | 44,374 | 14 |
| **Liabilities held at fair value** | | | | |
| Financial liabilities held at fair value through profit or loss | **20,288** | 14,505 | 5,783 | 40 |
| Derivative financial instruments | **47,574** | 36,875 | 10,699 | 29 |
| | **67,862** | 51,380 | 16,482 | 32 |
| **Subordinated liabilities and other borrowed funds** | **17,418** | 19,240 | (1,822) | (9) |
| **Other liabilities** | **39,042** | 24,405 | 12,815 | 29 |
| **Total liabilities** | **482,903** | 409,232 | 73,671 | 18 |
| **Equity** | **33,360** | 27,188 | 6,172 | 23 |
| **Total liabilities and shareholders' funds** | **516,263** | 436,420 | 79,843 | 18 |

### Balance sheet

The Group continues to be focused on maintaining a strong balance sheet, which remains well diversified and conservative with limited exposure to problem assets classes. We remain highly liquid, with good levels of deposit growth across both businesses during 2010, and continue to be a strong net lender to the interbank market. Our advances to deposit ratio remains excellent at 77.9 per cent compared to 78.6 per cent in 2009. We remain well capitalised and further strengthened the capital position through a successful rights issue. We continue to be disciplined in the management of risk weighted assets through proactive distribution of the loan book. The Group has a conservative funding structure, with limited levels of refinancing over the next few years, and continued to see good appetite for its paper when raising senior debt funding during the year.

Balance sheet footings grew by $80 billion, or 18 per cent year on year. On a constant currency basis the balance sheet grew by 16 per cent as, over the course of 2010, most of the Asian currencies appreciated against the US dollar following a period of volatility in the first half of the year. Balance sheet growth was largely driven by an increase in customer lending on the back of significant growth in customer deposits, with surplus liquidity held with central banks. Increases were also noted in derivative mark to market as volumes continued to grow. Our equity position further strengthen by $6.2 billion reflecting profit accretion during the year. Around 64 per cent of the Group's financial assets continue to be held and managed on an amortised cost basis and just over 55 per cent of total assets have a residual contractual maturity of less than one year.

### Advances
Loans to banks and customers, including those held at fair value, grew by $45 billion, or 18 per cent, to $300 billion.

Consumer Banking grew their book by $23 billion to $117 billion, which represents 48 per cent of the Group's customer advances. Mortgages grew across all markets except Africa by $13 billion, or 23 per cent, reflecting a period of focused growth in secured products. With delinquency trends and flow rates improving, we also started to selectively drive growth in unsecured products driving up other lending, which includes credit cards and personal loans, by 22 per cent. As business activity levels have increased, lending to SMEs has risen by 32 per cent and we continue to reshape the book. 85 per cent of the Consumer Banking portfolio is in secured and partially secured products.

Wholesale Banking also maintained strong momentum, increasing customer advances by $22 billion, or 20 per cent, to $130 billion, as we continued to focus on deepening existing client relationships. Lending increased across a number of sectors in 2010, with an increased focus on exposure to better rated counterparties and collateralised transactions. Growth was particularly strong in the "Manufacturing" (up $7 billion), "Commerce" (up $3.5 billion) and "Transport, storage and communication" (up $4 billion) sectors as manufacturing and infrastructure projects revived on the back of improvement, especially in the Asian economies. Loans to banks remained relatively flat year on year, although in Hong Kong, our most liquid market, we redirected surplus liquidity to higher yielding assets.

### Investment securities
Investment securities, including those held at fair value, grew by $3 billion, due to increased statutory requirement in some countries, higher trading positions based on expected rate movements and a $0.5 billion investment in Agricultural Bank of China. The maturity profile of our investment book is largely consistent with 2009, with around 55 per cent of the book having a residual maturity of less than twelve months.

### Derivatives
Following reduced customer appetite for derivative transactions in 2009, confidence is being restored and volumes have significantly increased year on year, with a resultant increase of $10 billion in unrealised mark to market positions at the balance sheet date. Our risk positions continue to be largely balanced, resulting in a corresponding increase in negative mark to market positions. Of the $48 billion mark to market positions, $27 billion is available for offset due to master netting agreements.

### Deposits
The Group has continued to see good deposit growth in both businesses in 2010. Deposits by banks and customers, including those held at fair value, increased by $50 billion, with an increase of $59 billion in customer accounts offset by a decline of $9 billion in bank deposits. Customer deposits increased across all markets, with growth in term deposits contributing $38 billion of the increase following a renewed focus in 2010 in driving growth in these products as rates are expected to maintain an upward bias. However, CASA continues to grow strongly and constitutes over 50 per cent of total customer and bank deposits.

### Debt securities in issue, subordinated liabilities and other borrowed funds
Subordinated debt dropped by $1.8 billion, as redemptions of $1.2 billion were only partially offset by new issues. The remainder was replaced with senior debt funding, leveraging on the continuing market appetite for our paper and in line with our strategy to reduce Tier 2 capital and strengthen Tier 1 capital.

### Cash and balances held at central banks
Cash balances increased $14.6 billion compared to 2009, $5.2 billion of which reflects the proceeds from the rights issue. The remaining increase represents surplus funds held with central banks pending alternate deployment, following strong deposit growth particularly in the last quarter of the year which exceeded asset growth.

### Equity
Equity increased by $6.2 billion to $33.4 billion compared to 2009, and was primarily driven profit accretion, net of distributions ($3.6 billion). As currencies across our markets appreciated, $0.8 billion of net foreign exchange gains have been recognised in equity, together with an increase of $0.5 billion in unrealised gains (net of realisations) on available-for-sale investments.

# Standard Chartered Bank

# Financial risk management

### Financial risk management

### Risk overview

2010 has seen an upturn in the global economy but the pace of recovery has been uneven. Growth in our footprint markets has been buoyant and although there has been a slowdown in the second half of the year, Asia, Africa and the Middle East are still strongly outperforming the West.

Our proactive approach to risk management enabled us to take steps early on in the global financial crisis of 2008-09 to reshape our portfolios and tighten underwriting standards, which helped to mitigate the impact of market turbulence on our performance. In 2010, we have maintained our cautious stance but have selectively increased our exposures in certain markets to capitalise on improved market conditions. Our balance sheet and liquidity have remained strong throughout the year, and we are well positioned for 2011.

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

Our lending portfolio is diversified across a wide range of products, industries and customer segments, which serves to mitigate risk. We operate in more than 70 markets and there is no single market which accounts for more than 20 per cent of loans and advances to customers, or operating income. Our cross-border asset exposure is diversified and reflects our strategic focus on our core markets and customer segments. Approximately 50 per cent of our loans and advances to customers are of short maturity, and within Wholesale Banking more than 65 per cent of loans and advances have a tenor of one year or less. More than 75 per cent of Consumer Banking assets are secured.

We also have low exposure to asset classes and segments outside of our core markets and target customer base. Our exposure to Portugal, Italy, Ireland, Greece and Spain is less than 0.5 per cent of our total assets and our exposure to sovereign debt is negligible.

Our commercial real estate exposure accounts for less than two per cent of our total assets Our exposure to leveraged loans and to asset backed securities (ABS) each account for approximately 0.5 per cent of our total assets.

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

Our liquidity in 2010 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 multi-currency 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. We are a net provider of liquidity to the interbank money markets.

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

In March 2010, the Board Audit and Risk Committee was split into a Board Risk Committee (BRC) and an Audit Committee to align with the recommendations of the Walker Review. Also as of March 2010, the Group Chief Risk Officer (GCRO) reports to the Group Finance Director and to the BRC.

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. The UK's Financial Services Authority (FSA) has granted Standard Chartered CAD2 internal model approval covering the majority of interest rate and foreign exchange risk as well as market risk arising from precious and base metals, energy and agricultural trading. Positions outside the CAD2 scope are assessed according to standard FSA rules.

### Risk performance review

During 2010, credit conditions continued to improve. Both businesses saw significant reductions in total impairment provisions compared to 2009 as macroeconomic conditions strengthened in our footprint countries.

In Consumer Banking the total loan impairment in 2010, as a percentage of loans and advances to customers, was less than half the 2009 charge. The improvement in impairment was also supported by a disciplined approach to risk management and continued investment in collections infrastructure to minimise account delinquency. While there was improvement across all our markets and products, Taiwan, India and the UAE, in particular, significantly reduced their impairment provision charges.

In Wholesale Banking there was a substantial reduction in the level of provisions in 2010 after the increase experienced in 2008-2009. Portfolio indicators trended positively throughout the year in the Wholesale Banking book reflecting the improved credit environment in our footprint. However a number of provisions were taken against corporate customers in a range of industries in the Middle East and Korea.

Total average VaR declined in 2010 compared to 2009. This decline was primarily due to lower non-trading book VaR, and reflected a decrease in the volatility of credit spreads that had increased sharply after the collapse of Lehman Brothers in September 2008.

# Financial risk management continued

## Principal uncertainties

| Risk | Description | Mitigants |
|---|---|---|
| **Deteriorating macroeconomic conditions in footprint countries** | • Deteriorating macroeconomic conditions can have an impact on our performance via their influence on personal expenditure and consumption patterns; demand for business products and services; the debt service burden of consumers and businesses; the general availability of credit for retail and corporate borrowers; and the availability of capital and liquidity funding for our business. | • We balance risk and return taking account of changing conditions through the economic cycle.<br>• We monitor economic trends in our markets very closely and continuously review the suitability of our risk policies and controls.<br>• Our risk management processes are pro-active and dynamic, allowing us to respond quickly to changes in economic conditions or outlook. |
| **Changes in regulations and laws** | • The nature and impact of future changes in economic policies, laws and regulations are not predictable and may run counter to our strategic interests. These changes could also affect the volatility and liquidity of financial markets, and more generally the way we conduct business and manage capital and liquidity. | • We keep a close watch on key regulatory developments in order to anticipate changes and their potential impact on our performance.<br>• Both unilaterally and through our participation in industry forums we respond to consultation papers and discussions initiated by regulators and governments. The focus of these is to develop the framework for a stable and sustainable financial sector and global economy. |
| **Financial markets dislocation** | • Financial market volatility or a sudden dislocation could affect our performance, through its impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios or the availability of capital or liquidity.<br>• Financial market instability also increases the likelihood of default by our corporate customers and financial institution counterparties. | • We assess carefully the performance of our financial institution counterparties, rate them internally according to their systemic importance, adjusting our exposure accordingly.<br>• We maintain robust suitability and appropriateness processes. |
| **Geopolitical events** | • We face a risk that geopolitical tensions or conflict in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital across borders. | • We actively monitor the political situation in all of our principal markets, and conduct regular stress tests of the impact of such events on our portfolios, which inform assessments of risk appetite and any need to take mitigating action. |
| **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 the risk.<br>• 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.<br>• 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.<br>• 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 continued

**Principal uncertainties** continued

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

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

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

During 2010, the world economy continued to emerge from the crisis, but the pace of recovery diverged significantly between East and West. Accelerated fiscal retrenchment in Europe, combined with the risk aversion created by recent volatility in the Euro area, mean the possibility of a return to negative growth is still a significant risk in some economies in the West. We operate primarily in the countries that have led the global recovery in 2010, and our major markets in Asia, Africa and the Middle East appear well positioned to grow strongly, albeit at a slower pace than in 2010. Our exposure to leveraged loans and European 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.

Commodity price-driven inflation is a growing concern in a number of our footprint markets, as are rising asset prices caused by rising capital inflows. We expect further monetary tightening and the use of other macro-prudential measures and selective capital controls, especially in Asia and Africa.

While we believe them to be less likely, other risks we are monitoring include a sharp slowdown or another debt crisis in the West, triggered by a surge in oil prices or policy mistakes such as premature tightening, regulatory over-reaction or trade protectionism.

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

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

A key uncertainty relates to the way in which governments and regulators adjust laws and regulations and economic policies in response to macroeconomic and other systemic conditions. The financial crisis has spurred unprecedented levels of proposals to change the regulations governing financial institutions and further changes to regulations remain under consideration in many jurisdictions.

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

Both unilaterally and through our participation in industry forums, we respond to consultation papers and discussions initiated by regulators and governments. We also keep a close watch on key regulatory developments in order to anticipate changes and their potential impact. A number of changes have been proposed under Basel III but significant uncertainty remains around the specific application and the combined impact of these proposals.

We have a commitment to maintaining strong relationships with governments and regulators in the countries in which we operate. At any time the Group may be in discussion with a range of authorities and regulatory bodies in different countries on matters that relate to its past or current business activities.

The UK government has established the Independent Commission on Banking to consider structural and non-structural reforms to the UK banking sector to promote financial stability and competition. The Commission is set to publish its final recommendations in September. The Commission's conclusions may have an impact on the Group.

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

On 29 February 2008, the Group completed the acquisition of American Express Bank (AEB). Prior to the acquisition, subsidiaries of AEB located in New York and Miami had entered separately into a Written Agreement with the New York State Banking Department and a Cease and Desist Order with the Federal Reserve Bank of Atlanta to address deficiencies relating to compliance with applicable federal and state laws and regulations governing anti-money laundering. All the requirements of the Cease and Desist Order have been satisfied in the first half of 2010 and we are now in full compliance.

# Standard Chartered Bank

## Financial risk management continued

### Financial markets dislocation

There is a risk that a sudden financial market dislocation, perhaps as a result of a sharp slowdown in economic activity or debt crisis in the West, could significantly increase general financial market volatility which could affect our performance. These factors may have an impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios. The potential losses incurred by certain customers holding derivative contracts during periods of financial market volatility could also lead to an increase in customer disputes and corporate defaults. At the same time, financial market instability could cause some financial institution counterparties to experience tighter liquidity conditions or even fail. Government action since the global financial crisis of 2008-2009 has reduced the systemic risk, but the impact on the financial services industry of ongoing uncertainty in the broader economic environment means that the risk nonetheless remains.

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

### Geopolitical events

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

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

### 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 in society.

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

### Exchange rate movements

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

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

The table below sets out the period end and average currency exchange rates per US dollar for India, Korea and Singapore for the periods ending 31 December 2010 and 31 December 2009.

| | Year ended 31.12.10 | Year ended 31.12.09 |
|---|---|---|
| Indian rupee | | |
| Average | **45.72** | 48.35 |
| Period end | **44.68** | 46.54 |
| Korean won | | |
| Average | **1,156.34** | 1,276.62 |
| Period end | **1,134.61** | 1,164.47 |
| Singapore dollar | | |
| Average | **1.36** | 1.45 |
| Period end | **1.28** | 1.40 |

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

### Operational risk

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

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

### Operational risk continued

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

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

### Reputational risk

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

Reputational risk will arise from the failure to effectively mitigate one or more of country, credit, liquidity, market, regulatory, operational, environmental or social risk. All employees are responsible for day to day identification and management of reputational risk.

The Wholesale Banking Responsibility and Reputational Risk Committee and the Consumer Banking Reputational Risk Committee have responsibility for managing reputational risk in their respective businesses, while the GRC provides Group-wide oversight, sets policy and monitors any material risk issues.

At country level, the Head of Corporate Affairs is the risk control owner and it is their responsibility to protect our reputation in that market with the support of the country management team. To achieve this, the head of corporate affairs and country chief executive officer must actively:

- promote awareness and application of our policy and procedures regarding reputational risk
- encourage business and functions to take account of our reputation in all decision-making, including dealings with customers and suppliers
- implement effective in-country reporting systems to ensure they are aware of all potential issues 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 Pensions Executive Committee is the body responsible for governance of pension risk and it receives its authority directly from the Court.

# Standard Chartered Bank

# Supplementary Information

## Asset backed securities

### Total exposures to asset backed securities

The Group had the following exposures to asset backed securities:

| | 31-December-2010 | | | | 31-December-2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Percentage of notional value of portfolio | Notional $million | Carrying value $million | Fair value $million | Percentage of notional value of portfolio | Notional $million | Carrying value $million | Fair value $million |
| Residential Mortgage Backed Securities (RMBS) | | | | | | | | |
| - US Alt-A | 2% | 64 | 32 | 25 | 2% | 74 | 42 | 31 |
| - US Prime | - | 1 | - | - | - | 1 | - | - |
| - Other | 29% | 779 | 740 | 715 | 24% | 819 | 767 | 708 |
| Collateralised Debt Obligations (CDOs) | | | | | | | | |
| - Asset backed securities | 2% | 65 | 10 | 10 | 2% | 77 | 13 | 10 |
| - Other CDOs | 12% | 310 | 268 | 261 | 10% | 353 | 285 | 273 |
| Commercial Mortgage Backed Securities (CMBS) | | | | | | | | |
| - US CMBS | 5% | 131 | 117 | 110 | 4% | 139 | 122 | 108 |
| - Other | 22% | 586 | 452 | 414 | 19% | 664 | 480 | 373 |
| Other asset backed securities (Other ABS) | 28% | 737 | 690 | 697 | 39% | 1,315 | 1,227 | 1,204 |
| | 100% | 2,673 | 2,309 | 2,232 | 100% | 3,442 | 2,936 | 2,707 |
| Of which included within: | | | | | | | | |
| Financial assets held at fair value through profit or loss | 3% | 86 | 85 | 85 | 3% | 103 | 97 | 97 |
| Investment securities - available-for-sale | 27% | 724 | 499 | 499 | 26% | 903 | 608 | 608 |
| Investment securities - loans and receivables | 70% | 1,863 | 1,725 | 1,648 | 71% | 2,436 | 2,231 | 2,002 |
| | 100% | 2,673 | 2,309 | 2,232 | 100% | 3,442 | 2,936 | 2,707 |

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

The carrying value of asset backed securities represents 0.5 per cent (31 December 2009: 0.7 per cent) of our total assets.

The notional value of the ABS portfolio fell by approximately $769 million during 2010 due to natural redemptions in the portfolio and some asset sales. The difference between carrying value and fair value of the remaining portfolio is $77 million at 31 December 2010, benefiting from both the redemptions and a recovery in market prices in certain asset classes.

The credit quality of the asset backed securities portfolio remains strong. With the exception of those securities subject to an impairment charge, 80 per cent of the overall portfolio is rated A or better, and 30 per cent of the overall portfolio is rated as AAA. The portfolio is broadly diversified across asset classes and geographies, and there is no direct exposure to the US sub-prime market. The portfolio has an average credit grade of A+ in 2010.

The Group reclassified some asset backed securities from trading and available-for-sale to loans and receivables with effect from 1 July 2008. The securities were reclassified at their fair value on the date of reclassification. Note 15 on page 70 provides details of the remaining balance of those assets reclassified in 2008. No assets were reclassified in 2010 or 2009.

### Writedowns of asset backed securities

| | Available-for-sale $million | Loans and receivables $million | Total $million |
|---|---|---|---|
| 31 December 2010 | | | |
| Credit to available-for-sale reserves | 68 | - | 68 |
| Charge to the profit and loss account | (22) | (4) | (26) |
| 31 December 2009 | | | |
| Credit to available-for-sale reserves | 26 | - | 26 |
| Charge to the profit and loss account | (70) | (7) | (77) |

# Standard Chartered Bank

# Report of the Directors

### Directors' Report

The directors present their report and the audited financial statements of Standard Chartered Bank Group (the 'Group') and Standard Chartered Bank (the 'Company') for the year ended 31 December 2010.

### 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 2010.

### Post balance sheet events

There are no post balance sheet events, other than disclosed in note 57 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 25.

An interim dividend of $693 million was paid to ordinary shareholders during the year (2009: $270 million). The directors do not recommend the payment of a final dividend (2009: $nil).

### Share capital

Details of the Company's share capital are given in note 39 to the accounts.

### Loan capital

Details of the loan capital are given in note 38 to the accounts.

### Property, plant and equipment

Details of the property, plant and equipment of the Company are given in note 28 to the accounts.

### Directors and their interests

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

Mr P A Sands, Chairman
Mr S P Bertamini
Mr J S Bindra
Mr V Shankar (appointed on 1 May 2010)
Mr R H Meddings
Mr T J Miller
Mr A M G Rees
Mr G R Bullock (stepped down from the Board on 1 May 2010)

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 2010, except for Mr T Miller and Mr V Shankar are directors of the Company's ultimate holding company, Standard Chartered PLC, and their interests in the share capital of that company are shown in its report and accounts.

### Directors' Interests in Standard Chartered PLC Ordinary Shares

| Directors | At 1 January 2010 Total interests | At 31 December 2010 Total interests |
|---|---|---|
| T J Miller | 162,525 | 187,557 |
| V Shankar | 152,456 | 21,513 |

### Directors and their interests continued

### Long term incentives – Share Options and Awards of Shares

| Directors | Scheme | At 1 January 2010 | Granted | Exercised | Lapsed | Rights issue Adjustments [1] | At 31 December 2010 |
|---|---|---|---|---|---|---|---|
| T J Miller | 2000 ESOS | - | - | - | - | - | - |
| | Sharesave | 1,912 | 1,002 | 1,984 | - | 110 | 1,040 |
| | 2001 PSP | 299,003 | 86,206 | 61,002 | 17,731 | 11,639 | 318,115 |
| | 2006 RSS | 34,148 | 37,615 | - | - | 2,724 | 74,487 |
| V Shankar | 2000 ESOS | - | - | - | - | - | - |
| | Sharesave | 880 | - | 913 | - | 33 | - |
| | 2001 PSP | 61,213 | 57,471 | - | - | 4,506 | 123,190 |
| | 2006 RSS | 268,047 | 174,147 | 41,163 | - | 15,227 | 416,258 |

[1] Adjustments made to all unexercised share awards as part of the Standard Chartered PLC rights issue.

**Definitions:**

**2000 Executive Share Option Scheme ('2000 ESOS')**

The 2000 scheme is designed to be internationally competitive and focus executive directors and their senior management teams on delivering long-term performance. A Standard Chartered PLC, EPS performance criterion must be met before options can be exercised. Executive share options to purchase ordinary shares in Standard Chartered PLC are exercisable after the third, but before the tenth, anniversary of the date of grant. The exercise price per share is the share price at the date of grant and options can only be exercised if a performance condition is satisfied. No further awards may be granted under the 2000 ESOS.

**2001 Performance Share Plan ('2001 PSP')**

The 2001 PSP is an intrinsic element of total remuneration for our executive directors and a for a small number of the Group's most senior executives. Its significance as a percentage of these individuals' total potential remuneration is one of the strongest indicators of our commitment to paying for sustainable performance. A performance test is applied both at the time of award and upon vesting. The remaining life of the scheme is one year.

**Restricted Share Scheme ('2006 RSS')**

Restricted Share Schemes are to deliver the deferred portion of annual performance awards and as an incentive to motivate and retain high performing employees. In line with similar schemes operated by our competitors, our existing restricted share awards do not have any performance conditions. Generally half of the award vests two years after the date of grant and the balance after three years.

The remaining life of the scheme is six years.

**2007 Supplementary Restricted Share Scheme ('2007 SRSS')**

The Group operates a Supplementary Restricted Share Scheme which is similar to the RSS. This scheme is principally used for Global Markets. It was used in 2010 to defer one-third of an employee's 2009 Annual Performance award which vests after one year. For all other grants, half of the award vests two years after the date of grant and the balance after three years. Executive directors are specifically prohibited from the plan; no new shares can be issued to satisfy awards; and there is no individual annual limit.

The remaining life of the scheme is seven years.

**Sharesave**

Under Sharesave schemes, Standard Chartered PLC (SCPLC) Group's 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 SCPLC. The price at which they may purchase shares is at a discount of up to 20 per cent on SCPLC share price at the date of invitation. There are no performance conditions attached to options granted under all the employee sharesave schemes.

**Community Investment**

The Group recognises its responsibility to invest in the communities where it operates and to act as a good corporate citizen. In 2010, the Group made a total investment of $47.4 million (2009: $38.3 million) in the communities in which it operates. This included direct financial support of $19.4 million (2009: $20.3 million), and indirect contributions, which comprise employee time; the donation of non-monetary goods and funds raised by our employees of $23.4 million (2009: $13.3 million).

**Employees**

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

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

**Risk management**

The risk management objectives of the Group and Company including the policy for hedging risk is set out in note 17. The Group and Company's exposure to market risk is set out in note 51, credit risk in note 51, liquidity risk in note 52 and currency risk in note 53 to the accounts.

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

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

### Creditor payment policy
Operating businesses are responsible for agreeing the terms and conditions with their suppliers in the economies where they conduct business. It is the Company's policy to pay creditors when the amounts fall due for payment. For Standard Chartered Bank in the United Kingdom at 31 December 2010 there were 41 days purchases outstanding.

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

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

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

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

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

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

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

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

The directors have taken all necessary steps to make themselves and KPMG Audit Plc aware of any information needed in performing the audit of the 2010 Annual Report and Accounts and as far as each of the directors is aware, there is no relevant audit information of which KPMG Audit Plc is unaware.

By order of the Court

A Durbin
Secretary
2 March 2011

# Standard Chartered Bank

# Statement of Directors' Responsibilities in respect of the Financial Statements

The directors are responsible for preparing the Director's Report and the Group and Bank financial statements in accordance with applicable law and regulations.

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

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

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

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

## Directors' responsibility statement

The directors confirm to the best of their knowledge:

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

By order of the Court

R H Meddings
Director
2 March 2011

# 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 2010 set out on pages 25 to 179. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have

**Respective responsibilities of directors and auditors**
As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

**Opinion on financial statements**
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Bank financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matters prescribed by the Companies Act 2006**
In our opinion, the information given in the Directors' Report which include information presented in the Financial Review that are cross referenced from the Report of the Directors, for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

John E Hughes

**John E Hughes**
**for and on behalf of KPMG Audit Plc, Statutory Auditor**
Chartered Accountants
London
2 March 2011

# Standard Chartered Bank
# Consolidated income statement

For the year ended 31 December 2010

| | Notes | 2010 $million | 2009 [1] $million |
|---|---|---|---|
| **Interest income** | 3 | **13,500** | 12,926 |
| Interest expense | 4 | **(4,953)** | (5,255) |
| **Net interest income** | | **8,547** | 7,671 |
| Fees and commission income | 5 | **4,556** | 3,824 |
| Fees and commission expense | 5 | **(318)** | (454) |
| Net trading income | 6 | **2,595** | 2,872 |
| Other operating income | 7 | **775** | 1,301 |
| **Non-interest income** | | **7,608** | 7,543 |
| **Operating income** | | **16,155** | 15,214 |
| Staff costs | 8 | **(5,732)** | (4,874) |
| Premises costs | 8 | **(800)** | (698) |
| General administrative expenses | 8 | **(1,899)** | (1,822) |
| Depreciation and amortisation | 9 | **(577)** | (538) |
| **Operating expenses** | | **(9,008)** | (7,932) |
| **Operating profit before impairment losses and taxation** | | **7,147** | 7,282 |
| Impairment losses on loans and advances and other credit risk provisions | 10 | **(883)** | (2,000) |
| Other impairment | 11 | **(76)** | (102) |
| Profit from associates | | **42** | 21 |
| **Profit before taxation** | | **6,230** | 5,201 |
| Taxation | 12 | **(1,724)** | (1,640) |
| **Profit for the year** | | **4,506** | 3,561 |
| Profit attributable to: | | | |
| Non-controlling interests | 40 | **390** | 329 |
| Parent company shareholders | | **4,116** | 3,232 |
| **Profit for the year** | | **4,506** | 3,561 |

[1] Amounts have been restated as explained in note 54

The notes on pages 32 to 179 form an integral part of these financial statements.

# Standard Chartered Bank

# Consolidated statement of comprehensive income

For the year ended 31 December 2010

| | Notes | 2010 $million | 2009[1] $million |
|---|---|---|---|
| **Profit for the year** | | **4,506** | 3,561 |
| **Other comprehensive income:** | | | |
| Exchange differences on translation of foreign operations: | | | |
| Net gains taken to equity | | **840** | 799 |
| Net losses on net investment hedges | | **(77)** | (199) |
| Reclassified to income statement on change of control | | **4** | - |
| Reclassified to equity on part disposal of subsidiary | | **16** | - |
| Actuarial gains/(losses) on retirement benefit obligations | 37 | **83** | (150) |
| Share of comprehensive (loss)/income from associates | | **(5)** | 19 |
| Available-for-sale investments: | | | |
| Net valuation gains taken to equity | | **786** | 455 |
| Reclassified to income statement | | **(284)** | (580) |
| Cash flow hedges: | | | |
| Net gains taken to equity | | **42** | 14 |
| Reclassified to income statement | | **17** | 106 |
| Taxation relating to components of other comprehensive income | 12 | **(101)** | 62 |
| Other comprehensive income for the year, net of taxation | | **1,321** | 526 |
| **Total comprehensive income for the year** | | **5,827** | 4,087 |
| **Attributable to:** | | | |
| Non-controlling interests | 40 | **399** | 348 |
| Parent company shareholders | | **5,428** | 3,739 |
| | | **5,827** | 4,087 |

[1] Amounts have been restated as explained in note 54

The notes on pages 32 to 179 form an integral part of these financial statements.

# Standard Chartered Bank
# Consolidated balance sheet

As at 31 December 2010

| | Notes | 2010 $million | 2009 $million |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | 15, 43 | **32,724** | 18,131 |
| Financial assets held at fair value through profit or loss | 15, 16 | **27,021** | 22,446 |
| Derivative financial instruments | 15, 17 | **47,949** | 38,218 |
| Loans and advances to banks | 15, 18, 22 | **52,057** | 50,884 |
| Loans and advances to customers | 15, 19, 22 | **240,358** | 198,292 |
| Investment securities | 15, 24 | **75,796** | 75,728 |
| Other assets | 15, 30 | **25,309** | 17,113 |
| Current tax assets | | **179** | 203 |
| Prepayments and accrued income | | **2,127** | 3,241 |
| Interests in associates | 25 | **631** | 514 |
| Goodwill and intangible assets | 27 | **6,659** | 6,451 |
| Property, plant and equipment | 28 | **4,507** | 4,103 |
| Deferred tax assets | 29 | **946** | 1,096 |
| **Total assets** | | **516,263** | 436,420 |
| **Liabilities** | | | |
| Deposits by banks | 15, 31 | **28,551** | 38,461 |
| Customer accounts | 15, 32 | **306,992** | 251,244 |
| Financial liabilities held at fair value through profit or loss | 15, 16 | **20,288** | 14,505 |
| Derivative financial instruments | 15, 17 | **47,574** | 36,875 |
| Debt securities in issue | 15, 33 | **23,038** | 24,502 |
| Other liabilities | 15, 34 | **21,058** | 16,084 |
| Due to parent companies | | **11,757** | 2,588 |
| Current tax liabilities | | **1,058** | 862 |
| Accruals and deferred income | | **4,380** | 3,988 |
| Subordinated liabilities and other borrowed funds | 15, 38 | **17,418** | 19,240 |
| Deferred tax liabilities | 29 | **164** | 193 |
| Provisions for liabilities and charges | 36 | **315** | 184 |
| Retirement benefit obligations | 37 | **310** | 506 |
| **Total liabilities** | | **482,903** | 409,232 |
| **Equity** | | | |
| Share capital | 39 | **11,687** | 11,246 |
| Reserves | | **18,619** | 13,659 |
| **Total parent company shareholders' equity** | | **30,306** | 24,905 |
| Non-controlling interests | 40 | **3,054** | 2,283 |
| **Total equity** | | **33,360** | 27,188 |
| **Total equity and liabilities** | | **516,263** | 436,420 |

The notes on pages 32 to 179 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 2 March 2011 and signed on its behalf by:

**P A Sands**
Director

**R H Meddings**
Director

# Standard Chartered Bank

## Consolidated statement of changes in equity

For the year ended 31 December 2010

| | 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 2009 | 8,746 | 1,796 | 40 | (5) | (83) | (1,803) | 10,346 | 19,037 | 2,021 | 21,058 |
| Profit for the year | - | - | - | - | - | - | 3,197 | 3,197 | 329 | 3,526 |
| Other comprehensive income | - | - | - | (83) | 102 | 599 | (111) [2] | 507 | 19 | 526 |
| Distributions | - | - | - | - | - | - | - | - | (87) | (87) |
| Shares issued, net of expenses | 2,500 | - | - | - | - | - | - | 2,500 | - | 2,500 |
| Taxation on share option expense | - | - | - | - | - | - | 35 | 35 | - | 35 |
| Dividends, net of scrip | - | - | - | - | - | - | (371) | (371) | - | (371) |
| Other increases | - | - | - | - | - | - | - | - | 1 | 1 |
| At 31 December 2009, as previously stated | **11,246** | **1,796** | **40** | **(88)** | **19** | **(1,204)** | **13,096** | **24,905** | **2,283** | **27,188** |
| Restatements: [3] | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 35 | 35 | - | 35 |
| Deemed capital contribution | - | - | - | - | - | - | 340 | 340 | - | 340 |
| Deemed distribution to parent | - | - | - | - | - | - | (375) | (375) | - | (375) |
| At 31 December 2009, as restated | **11,246** | **1,796** | **40** | **(88)** | **19** | **(1,204)** | **13,096** | **24,905** | **2,283** | **27,188** |
| Profit for the year | - | - | - | - | - | - | 4,116 | 4,116 | 390 | 4,506 |
| Other comprehensive income | - | - | - | 414 | 45 | 776 | 77 [4] | 1,312 | 9 | 1,321 |
| Distributions | - | - | - | - | - | - | - | - | (494) | (494) |
| Shares issued, net of expenses | 441 | - | - | - | - | - | - | 441 | - | 441 |
| Deemed capital contribution [5] | - | - | - | - | - | - | 745 | 745 | - | 745 |
| Taxation on share option expense | - | - | - | - | - | - | (20) | (20) | - | (20) |
| Dividends | - | - | - | - | - | - | (794) | (794) | - | (794) |
| Deemed distribution to parent | - | - | - | - | - | - | (390) | (390) | - | (390) |
| Other increases | - | - | - | - | - | - | (9) | (9) | 866 [6] | 857 |
| At 31 December 2010 | 11,687 | 1,796 | 40 | 326 | 64 | (428) | 16,821 | 30,306 | 3,054 | 33,360 |

1 Includes capital reserve of $5 million, capital redemption reserve of $35 million at 1 January 2009, 31 December 2009 and 2010.
2 Comprises actuarial losses, net of taxation and non-controlling interest share, of $(130) million and share of comprehensive income from associates of $19 million.
3 Amounts have been restated as explained in note 54.
4 Comprises actuarial gains, net of taxation and non-controlling interest share, of $82 million and share of comprehensive income from associates of $(5) million.
5 Comprises deemed capital contribution from parent arising from share based payment of $360 million and debt waiver of $385 million.
6 Part disposal of Group interest in its subsidiary as explained in note 56.

Note 39 includes a description of each reserve.

The notes on pages 32 to 179 form an integral part of these financial statements.

# Standard Chartered Bank
# Cash flow statement

For the year ended 31 December 2010

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2010 | 2009 [1] | 2010 | 2009 [1] |
| | Notes | $million | $million | $million | $million |
| **Cash flows from operating activities** | | | | | |
| Profit before taxation | | **6,230** | 5,201 | **3,440** | 2,570 |
| Adjustments for: | | | | | |
| Non-cash items included within income statement | 42 | **1,968** | 1,641 | **904** | 990 |
| Change in operating assets | 42 | **(61,032)** | 3,089 | **(47,270)** | 7,898 |
| Change in operating liabilities | 42 | **47,343** | (12,933) | **42,188** | (20,789) |
| Contributions to defined benefit schemes | | **(150)** | (124) | **(90)** | (38) |
| UK and overseas taxes paid, net of refund | | **(1,421)** | (1,184) | **(825)** | (577) |
| **Net cash used in operating activities** | | **(7,062)** | (4,310) | **(1,653)** | (9,946) |
| **Net cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | **(370)** | (261) | **(189)** | (117) |
| Disposal of property, plant and equipment | | **183** | 218 | **44** | 10 |
| Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired | | **(545)** | (68) | **(801)** | (1,577) |
| Disposal and redemption of investment in subsidiaries | | **-** | - | **1,695** | 565 |
| Purchase of investment securities | | **(114,076)** | (129,739) | **(39,855)** | (41,662) |
| Disposal and maturity of investment securities | | **116,658** | 126,678 | **43,310** | 43,707 |
| Dividends received from investment in subsidiaries and associates | | **22** | 11 | **603** | 273 |
| **Net cash from/(used in) investing activities** | | **1,872** | (3,161) | **4,807** | 1,199 |
| **Net cash flows from financing activities** | | | | | |
| Issue of ordinary and preference share capital, net of expenses | | **441** | 2,500 | **441** | 2,500 |
| Interest paid on subordinated liabilities | | **(678)** | (872) | **(642)** | (824) |
| Gross proceeds from issue of subordinated liabilities | | **770** | 3,863 | **-** | 3,300 |
| Repayment of subordinated liabilities | | **(2,573)** | (2,440) | **(2,245)** | (1,789) |
| Interest paid on senior debts | | **(641)** | (446) | **-** | - |
| Gross proceeds from issue of senior debts | | **10,113** | 8,109 | **226** | - |
| Repayment of senior debts | | **(10,601)** | (8,828) | **-** | - |
| Dividends paid to non-controlling interests and preference shareholders | | **(595)** | (188) | **(101)** | (101) |
| Dividends paid to ordinary shareholders | | **(693)** | (270) | **(693)** | (270) |
| **Net cash (used in)/from financing activities** | | **(4,457)** | 1,428 | **(3,014)** | 2,816 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(9,647)** | (6,043) | **140** | (5,931) |
| Cash and cash equivalents at beginning of year | | **68,071** | 73,696 | **35,415** | 41,170 |
| Effect of exchange rate movements on cash and cash equivalents | | **1,310** | 418 | **717** | 176 |
| **Cash and cash equivalents at end of year** | 43 | **59,734** | 68,071 | **36,272** | 35,415 |

[1] Amounts have been restated as explained in note 54

The notes on pages 32 to 179 form an integral part of these financial statements.

# Standard Chartered Bank

## Company balance sheet

As at 31 December 2010

| | Notes | 2010 $million | 2009 $million |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | 15, 43 | **22,782** | 11,800 |
| Financial assets held at fair value through profit or loss | 15, 16 | **16,001** | 14,974 |
| Derivative financial instruments | 15, 17 | **45,537** | 35,207 |
| Loans and advances to banks | 15, 18, 22 | **27,158** | 23,389 |
| Loans and advances to customers | 15, 19, 22 | **108,123** | 89,067 |
| Investment securities | 15, 24 | **29,122** | 31,403 |
| Other assets | 15, 30 | **14,592** | 10,075 |
| Due from subsidiary undertakings and other related parties | | **15,189** | 14,685 |
| Current tax assets | | **93** | 125 |
| Prepayments and accrued income | | **948** | 1,743 |
| Investment in subsidiary undertakings | 25 | **16,539** | 17,356 |
| Investment in joint ventures | 25 | **396** | 297 |
| Investment in associates | 25 | **53** | 53 |
| Goodwill and intangible assets | 27 | **688** | 630 |
| Property, plant and equipment | 28 | **729** | 623 |
| Deferred tax assets | 29 | **596** | 716 |
| **Total assets** | | **298,546** | 252,143 |
| **Liabilities** | | | |
| Deposits by banks | 15, 31 | **20,220** | 21,526 |
| Customer accounts | 15, 32 | **132,488** | 104,952 |
| Financial liabilities held at fair value through profit or loss | 15, 16 | **7,401** | 5,844 |
| Derivative financial instruments | 15, 17 | **45,378** | 34,605 |
| Debt securities in issue | 15, 33 | **12,736** | 11,993 |
| Other liabilities | 15, 34 | **8,213** | 6,914 |
| Due to subsidiary undertakings and other related parties | | **31,588** | 26,506 |
| Current tax liabilities | | **801** | 526 |
| Accruals and deferred income | | **2,411** | 2,430 |
| Subordinated liabilities and other borrowed funds | 15, 38 | **15,169** | 17,492 |
| Deferred tax liabilities | 29 | **28** | 20 |
| Provisions for liabilities and charges | 36 | **121** | 122 |
| Retirement benefit obligations | 37 | **193** | 393 |
| **Total liabilities** | | **276,747** | 233,323 |
| **Equity** | | | |
| Share capital | 39 | **11,687** | 11,246 |
| Reserves | | **10,112** | 7,574 |
| **Total parent company shareholders' equity** | | **21,799** | 18,820 |
| **Total equity and liabilities** | | **298,546** | 252,143 |

The notes on pages 32 to 179 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 2 March 2011 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 2010

| | 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 2009 | 8,746 | 1,796 | 40 | (222) | (118) | 20 | 4,668 | 14,930 |
| Profit for the year | - | - | - | - | - | - | 1,639 | 1,639 |
| Other comprehensive income | - | - | - | (81) | 132 | 150 | (126) | 75 |
| Shares issued, net of expenses | 2,500 | - | - | - | - | - | - | 2,500 |
| Taxation on share option expense | - | - | - | - | - | - | 47 | 47 |
| Dividends | - | - | - | - | - | - | (371) | (371) |
| At 31 December 2009, as previously stated | **11,246** | **1,796** | **40** | **(303)** | **14** | **170** | **5,857** | **18,820** |
| Restatements: [2] | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 11 | 11 |
| Deemed capital contribution | - | - | - | - | - | - | 261 | 261 |
| Deemed distribution to parent | - | - | - | - | - | - | (272) | (272) |
| At 31 December 2009, as restated | **11,246** | **1,796** | **40** | **(303)** | **14** | **170** | **5,857** | **18,820** |
| Profit for the year | - | - | - | - | - | - | 2,344 | 2,344 |
| Other comprehensive income | - | - | - | 253 | 56 | 246 | 77 | 632 |
| Shares issued, net of expenses | 441 | - | - | - | - | - | - | 441 |
| Taxation on share option expense | - | - | - | - | - | - | (20) | (20) |
| Deemed capital contribution [3] | - | - | - | - | - | - | 639 | 639 |
| Deemed distribution to parent | - | - | - | - | - | - | (263) | (263) |
| Dividends | - | - | - | - | - | - | (794) | (794) |
| At 31 December 2010 | **11,687** | **1,796** | **40** | **(50)** | **70** | **416** | **7,840** | **21,799** |

[1] Includes capital reserve of $5 million, capital redemption reserve of $35 million at 1 January 2009, 31 December 2009 and 2010

[2] Amounts have been restated as explained in note 54

[3] Comprises deemed capital distribution from parent arising from share based payments of $254 million and debt waiver of $385 million

Note 39 includes a description of each reserve.

The notes on pages 32 to 179 form an integral part of these financial statements.

# Standard Chartered Bank
# Notes to the financial statements

## 1. Accounting policies

### Statement of compliance

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

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and IFRS's Interpretation Committee (IFRIC) Interpretations as adopted by the EU (together adopted IFRS). In publishing the parent company financial statements together with the Group financial statements, the Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

### New accounting standards adopted

On 1 January 2010, the Group and Company adopted prospectively IFRS 3 (revised) 'Business Combinations' and consequential amendments to IAS 27 'Consolidated and Separate Financial Statements', IAS 28 'Investment in Associates', and IAS 31 ' Interest in Joint Ventures'.

IFRS 3 (revised) continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all acquisition-related costs are expensed and no longer capitalised as part of the cost of acquisition and all payments to acquire a business – including those that are contingent – are recorded at fair value at the acquisition date. Also, when a controlling interest in an entity is acquired, any previously held interest in that entity is effectively disposed of at its fair value – with any gain or loss when compared to its carrying value recognised in the income statement – and re-acquired in aggregate with the controlling stake acquired. In addition, whilst the determination of fair value has not changed, IFRS 3 (revised) requires that assets acquired with uncertain cash flows – such as loans and advances – be recorded at the fair value of expected cash flows and accordingly no impairment provisions are recognised as at the date of acquisition, although the disclosure of the gross contractual cash flows not expected to be collected are set out in note 26. The revised standard has also changed certain terminology with minority interests now incorporated within non-controlling interests.

The amendments to IAS 27 (revised) require the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The amendments also specify the accounting when control is lost, with any remaining interest in the entity re-measured to fair value, and a gain or loss is recognised in the income statement.

On 1 January 2010, the Group and Company adopted improvements to IFRS (2009), a collection of amendments to a number of IFRSs. The amendments to IFRS 2, IFRS 8, IAS 1, IAS 7, IAS 18, IAS 39 and IFRIC 16 were applied on a retrospective basis and amendments to IFRS 5, IAS 36, IAS 38 and IFRIC 9 were applied on a prospective basis. None of these amendments had a material impact on the Group's or Company's financial statements.

On 1 January 2010 the Group and Company retrospectively adopted an amendment to IFRS 2. This amendment requires the Group and Company to measure all share options granted to the employees of the Group and Company by Standard Chartered PLC ( the ultimate parent company of the Group and Company) as equity settled regardless of the parent's ultimate settlement with the employees. The services received by the Group and Company from its employees in relation to the share options granted by the parent are considered to be a deemed capital contribution from the parent offset by a concurrent distribution to the parent.

### Prior period restatements

Details of prior period restatements are set out in note 54.

### Basis of preparation

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

The preparation of financial statements in conformity with adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

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

### Consolidation

#### Subsidiaries

Subsidiaries are all entities, including special purpose entities (SPEs), over which the Group has the power to directly or indirectly govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases.

SPEs are consolidated when the substance of the relationship between the Group and its entity indicates control by the Group. Potential indicators of control include amongst others, an assessment of risks and benefits in respect of the SPE's activities.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with management's best estimate 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. 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

### 1. Accounting policies continued

**Consolidation** continued

acquisition date (measurement period adjustment). 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.

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

**Associates**

Associates are all entities over which the Group has the ability to significantly influence, but not control, the financial and operating policies and procedures generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

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

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

**Joint ventures**

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

**Investment in subsidiaries, associates and joint ventures**

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

**Foreign currency translation**

Both the parent company financial statements and the Group financial statements are presented in US dollars, which is the presentation currency of the Group and the functional and presentation currency of the Company.

**Transactions and balances**

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

**Group companies**

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

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

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

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

**Intangible assets**

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries 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. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments (as set out in note 2) as the Group views its reportable segments on a global basis. Note 27 sets out the major cash-generating units to which goodwill has been allocated.

**Acquired intangibles**

At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

## 1. Accounting policies continued

**Intangible assets** continued
**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 | 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.

**Leases**
**Where a Group company is the lessee**
The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Group is a lessee under finance leases, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

**Where a Group company is the lessor**
When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax cash flows.

Assets leased to customers under operating leases are included within Property, plant and equipment and depreciated over their useful lives. Rental income on these leased assets is recognised in the income statement on a straight-line basis unless another systematic basis is more representative.

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

**Provisions**
Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

**Employee benefits**
**Pension obligations**
The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight-line basis. Current service costs and any past service costs, together with the unwinding of the discount on plan liabilities, offset by the expected return on plan assets where applicable, are charged to operating expenses.

## 1. Accounting policies continued

**Employee benefits** continued

**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.

**Taxation**

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted as at the balance sheet date, and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits is based on the applicable tax law in each jurisdiction and is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

**Borrowings held at amortised cost**

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income'.

**Share capital**

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares and preference shares classified as equity are recognised in equity in the period in which they are declared.

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

**Fiduciary activities**

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

**Financial assets and liabilities (excluding derivatives)**

The Group classifies its financial assets into the following measurement categories: a) financial assets held at fair value through profit or loss; b) loans and receivables; c) held-to-maturity and 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 appropriate, at the time of reclassification.

**(a) Financial assets and liabilities held at fair value through profit or loss**

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

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

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis; or
- 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

## 1. Accounting policies continued

**Financial assets and liabilities (excluding derivatives)** continued

**(b) Loans and receivables**

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

**(c) Held-to-maturity**

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

**(d) Available-for-sale**

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

Further details on the application of these policies is set out in note 15.

**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 trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers. Financial assets and financial liabilities are initially recognised at fair value plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated.

**Subsequent measurement**

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the income statement.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to a separate component of equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

The fair values of quoted financial assets or financial liabilities in active markets are based on current prices. If the market for a financial asset or financial liability is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

**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.

**Renegotiated loans**

Loans whose original terms have been modified are considered renegotiated loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

**Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement. Financial liabilities are derecognised when they are extinguished.

**Income recognition**

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

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

## 1. Accounting policies continued

### Income recognition continued

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

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

### Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The following factors are considered in assessing objective evidence of impairment:

- whether the counterparty is in default of principal or interest payments
- a counterparty files for bankruptcy protection (or the local equivalent) where this would avoid or delay repayment of its obligation
- the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation
- the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments
- the Group sells a credit obligation at a material credit-related economic loss; or
- there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets

### Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, 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 notes 23 and 51.

### Available-for-sale assets

A significant or prolonged decline in the fair value of an equity security below its cost is considered, amongst other factors in assessing objective evidence of impairment for equity securities. Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

## 1. Accounting policies continued

**Derivative financial instruments and hedge accounting**
Derivatives are categorised as trading unless they are designated as hedging instruments.

Derivative contracts are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Further details of these techniques are set out in note 17. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or (3) hedges of the net investment of a foreign operation (net investment hedges). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group and Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

**(a) Fair value hedge**
Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity or derecognition.

**(b) Cash flow hedge**
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

**(c) Net investment hedge**
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

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 instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

**Offsetting financial instruments**
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Sale and repurchase agreements**
Securities sold subject to repurchase agreements (repos) remain on the balance sheet; the counterparty liability is included in deposits by banks, or customer accounts, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

**Interest income and expense**
Interest income and expense is recognised in the income statement using the effective interest method.

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

### 1. Accounting policies continued

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

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

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

**Fees and commissions**

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

## 2. Segmental Information

The Group is organised on a worldwide basis for management and reporting purposes into two main business segments: Consumer Banking and Wholesale Banking. The products offered by these segments are summarised under 'Income by product' below. The businesses' focus is on broadening and deepening the relationship with customers, rather than maximising a particular product line. Hence the Group evaluates segmental performance based on overall profit or loss before taxation (excluding corporate items not allocated) and not individual product profitability. Product revenue information is used as a way of assessing customer needs and trends in the market place. The strategies adopted by Consumer Banking and Wholesale Banking need to be adapted to local market and regulatory requirements, which is the responsibility of country management teams. While not the primary driver of the business, country performance is an important part of the Group's matrix structure and is also used to evaluate performance and reward staff. Corporate items not allocated are not aggregated into the businesses because of the one-off nature of these items.

The Group's entity-wide disclosure comprises geographic areas, classified by the location of the customer except for Financial Markets 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 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**

| | 2010 | | | | | 2009[4] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | (28) | 28 | - | - | - | (55) | 55 | - | - | - |
| Net interest income | 4,111 | 4,436 | 8,547 | - | 8,547 | 3,889 | 3,782 | 7,671 | - | 7,671 |
| Other income | 2,025 | 5,579 | 7,604 | 4 | 7,608 | 1,802 | 5,477 | 7,279 | 264 | 7,543 |
| **Operating income** | 6,108 | 10,043 | 16,151 | 4 | 16,155 | 5,636 | 9,314 | 14,950 | 264 | 15,214 |
| **Operating expenses** | (4,168) | (4,833) | (9,001) | (7) | (9,008) | (3,697) | (4,177) | (7,874) | (58) | (7,932) |
| **Operating profit before impairment losses and taxation** | 1,940 | 5,210 | 7,150 | (3) | 7,147 | 1,939 | 5,137 | 7,076 | 206 | 7,282 |
| Impairment losses on loans and advances and other credit risk provisions | (578) | (305) | (883) | - | (883) | (1,052) | (948) | (2,000) | - | (2,000) |
| Other impairment | (13) | (63) | (76) | - | (76) | (1) | (82) | (83) | (19) | (102) |
| Profit from associates | - | - | - | 42 | 42 | - | - | - | 21 | 21 |
| **Profit before taxation** | 1,349 | 4,842 | 6,191 | 39 | 6,230 | 886 | 4,107 | 4,993 | 208 | 5,201 |
| **Total assets employed** | 125,521 | 388,986 | 514,507 | 1,756 | 516,263 | 103,479 | 331,128 | 434,607 | 1,813 | 436,420 |
| **Total liabilities employed** | 162,731 | 318,950 | 481,681 | 1,222 | 482,903 | 144,322 | 263,855 | 408,177 | 1,055 | 409,232 |
| Other segment items: | | | | | | | | | | |
| Capital expenditure[1] | 249 | 816 | 1,065 | - | 1,065 | 160 | 901 | 1,061 | - | 1,061 |
| Depreciation | 163 | 166 | 329 | - | 329 | 161 | 151 | 312 | - | 312 |
| Investment in associates | - | - | - | 631 | 631 | - | - | - | 514 | 514 |
| Amortisation of intangible assets | 89 | 159 | 248 | - | 248 | 77 | 149 | 226 | - | 226 |

1. Includes capital expenditure in Wholesale Banking of $498 million in respect of operating lease assets (31 December 2009: $630 million).
2. Relates to UK payroll tax, gain arising on change of control and the Group's share of profit from associates.
3. Relates to gain on buy-back of subordinated debt, disposal of businesses, UK payroll tax, impairment of associates and other strategic investments and the Group's share of profit from associates.
4. Amounts have been restated as explained in note 54.

# Standard Chartered Bank

## Notes to the financial statements continued

### 2. Segmental Information continued

The following table details entity-wide operating income by product:

| | 2010 $million | 2009 $million |
|---|---|---|
| **Consumer Banking** | | |
| Cards, Personal Loans and Unsecured Lending | 2,055 | 1,994 |
| Wealth Management | 1,140 | 922 |
| Deposits | 1,204 | 1,313 |
| Mortgage and Auto Finance | 1,526 | 1,246 |
| Other | 183 | 161 |
| **Total operating income by product** | 6,108 | 5,636 |
| **Wholesale Banking** | | |
| Lending and Portfolio Management | 874 | 851 |
| Transaction Banking | | |
| Trade | 1,476 | 1,292 |
| Cash management and custody | 1,311 | 1,251 |
| | 2,787 | 2,543 |
| Global Markets | | |
| Financial Markets | 3,324 | 3,319 |
| Asset and Liability Management (ALM) | 918 | 965 |
| Corporate Finance | 1,721 | 1,297 |
| Principal Finance | 419 | 339 |
| | 6,382 | 5,920 |
| **Total operating income by product** | 10,043 | 9,314 |

**Entity-wide information**
**By geographic area**

The Group manages its reportable business segments on a global basis. The operations are based in eight main geographic areas. The UK is the home country of the company.

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe[1] $million | Total $million |
| Internal income | 5 | (47) | (49) | 64 | 349 | 2 | 82 | (406) | - |
| Net interest income | 1,239 | 915 | 1,167 | 1,847 | 773 | 1,155 | 521 | 930 | 8,547 |
| Fees and commissions income, net | 701 | 401 | 233 | 737 | 464 | 587 | 359 | 756 | 4,238 |
| Net trading income | 523 | 369 | 295 | 343 | 268 | 345 | 265 | 187 | 2,595 |
| Other operating income | 45 | 110 | 62 | 191 | 185 | 88 | 25 | 69 | 775 |
| **Operating income** | 2,513 | 1,748 | 1,708 | 3,182 | 2,039 | 2,177 | 1,252 | 1,536 | 16,155 |
| **Operating expenses** | (1,358) | (988) | (1,070) | (1,968) | (749) | (996) | (652) | (1,227) | (9,008) |
| **Operating profit before impairment losses and taxation** | 1,155 | 760 | 638 | 1,214 | 1,290 | 1,181 | 600 | 309 | 7,147 |
| Impairment losses on loans and advances and other credit risk provisions | (43) | (33) | (226) | (152) | (79) | (302) | (24) | (24) | (883) |
| Other impairment | - | (1) | (5) | (2) | (3) | (29) | (10) | (26) | (76) |
| Profit from associates | - | - | - | 42 | - | - | - | - | 42 |
| **Profit before taxation** | 1,112 | 726 | 407 | 1,102 | 1,208 | 850 | 566 | 259 | 6,230 |
| **Capital expenditure[2]** | 23 | 286 | 60 | 74 | 38 | 18 | 57 | 509 | 1,065 |

1 Americas UK & Europe includes operating income of $739 million in respect of the UK, the Company's country of domicile.

2 Includes capital expenditure in Americas, UK and Europe of $498 million in respect of operating lease assets. Capital expenditure comprises additions to property and equipment (note 28) and software related intangibles (note 27) including any post-acquisition additions made by the acquired entities.

# Standard Chartered Bank

## Notes to the financial statements continued

### 2. Segmental Information continued

| | 2009[3] | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong | Singapore | Korea | Other Asia Pacific | India | Middle East & Other S Asia | Africa | Americas UK & Europe[1] | Total |
| | $million | $million | $million | $million | $million | $million | $million | $million | $million |
| Internal income | 14 | (18) | (62) | 43 | 195 | (42) | 39 | (169) | - |
| Net interest income | 1,315 | 788 | 915 | 1,514 | 729 | 1,132 | 494 | 784 | 7,671 |
| Fees and commissions income, net | 541 | 290 | 186 | 500 | 545 | 503 | 319 | 486 | 3,370 |
| Net trading income | 454 | 355 | 320 | 499 | 257 | 353 | 221 | 413 | 2,872 |
| Other operating income | 50 | 180 | 199 | 336 | 91 | 136 | 18 | 291 | 1,301 |
| **Operating income** | 2,374 | 1,595 | 1,558 | 2,892 | 1,817 | 2,082 | 1,091 | 1,805 | 15,214 |
| **Operating expenses** | (1,170) | (802) | (943) | (1,773) | (572) | (893) | (552) | (1,227) | (7,932) |
| **Operating profit before impairment losses and taxation** | 1,204 | 793 | 615 | 1,119 | 1,245 | 1,189 | 539 | 578 | 7,282 |
| Impairment losses on loans and advances and other credit risk provisions | (145) | (37) | (278) | (395) | (201) | (811) | (54) | (79) | (2,000) |
| Other impairment | 10 | (40) | (1) | 26 | 17 | (10) | - | (104) | (102) |
| (Loss)/profit from associates | (5) | - | - | 29 | - | - | - | (3) | 21 |
| **Profit before taxation** | 1,064 | 716 | 336 | 779 | 1,061 | 368 | 485 | 392 | 5,201 |
| **Capital expenditure [2]** | 24 | 164 | 63 | 32 | 49 | 22 | 37 | 662 | 1,053 |

1 Americas UK & Europe includes operating income of $967 in respect of the UK, Company's country of domicile.

2 Includes capital expenditure in Americas, UK and Europe of $630 million in respect of operating lease assets. Capital expenditure comprises additions to property and equipment (note 28) and software related intangibles (note 27) including any post-acquisition additions made by the acquired entities.

3 Amounts have been restated as explained in note 54.

# Standard Chartered Bank

# Notes to the financial statements continued

## 2. Segmental Information continued

### Net interest margin and yield

| | 2010 $million | 2009 $million |
|---|---|---|
| Net interest margin (%) | **2.2** | 2.3 |
| Net interest yield (%) | **2.1** | 2.2 |
| Average interest earning assets | **383,359** | 328,688 |
| Average interest bearing liabilities | **347,023** | 301,434 |

### Net interest margin by geography

| | 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe[1] $million | Intra-group/ tax assets $million | Total $million |
| Total assets employed | **102,960** | **82,235** | **64,114** | **102,199** | **39,741** | **48,162** | **15,988** | **118,245** | **(57,381)** | **516,263** |
| Average interest-earning assets | **81,975** | **55,530** | **55,504** | **79,634** | **28,798** | **31,318** | **12,543** | **76,775** | **(38,718)** | **383,359** |
| Net interest income | **1,272** | **821** | **1,099** | **1,885** | **965** | **1,172** | **598** | **735** | | **8,547** |
| Net interest margin (%) | **1.6** | **1.5** | **2.0** | **2.4** | **3.4** | **3.7** | **4.8** | **1.0** | | **2.2** |

[1] Americas UK & Europe includes total assets employed of $77,761 million in respect of the UK, the Company's country of domicile.

| | 2009 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe[1] $million | Intra-group/ tax assets $million | Total $million |
| Total assets employed | 91,739 | 62,137 | 63,222 | 83,191 | 31,719 | 44,275 | 13,633 | 90,916 | (44,412) | 436,420 |
| Average interest-earning assets | 75,844 | 44,739 | 46,898 | 65,602 | 23,375 | 29,717 | 11,099 | 63,950 | (32,536) | 328,688 |
| Net interest income | 1,341 | 742 | 841 | 1,539 | 899 | 1,114 | 532 | 663 | | 7,671 |
| Net interest margin (%) | 1.8 | 1.7 | 1.8 | 2.3 | 3.8 | 3.7 | 4.8 | 1.0 | - | 2.3 |

[1] Americas UK & Europe includes total assets employed of $74,458 million in respect of the UK, the Company's country of domicile.

## 3. Interest income

| | 2010 $million | 2009 $million |
|---|---|---|
| Balances at central banks | **17** | 6 |
| Treasury bills | **674** | 656 |
| Loans and advances to banks | **764** | 755 |
| Loans and advances to customers | **9,964** | 9,370 |
| Listed debt securities | **882** | 885 |
| Unlisted debt securities | **1,137** | 1,196 |
| Accrued on impaired assets (discount unwind) | **62** | 58 |
| | **13,500** | 12,926 |
| Of which from financial instruments held at : | | |
| Amortised cost | **10,442** | 9,980[1] |
| Available-for-sale | **1,914** | 2,093 |
| Held at fair value through profit or loss | **1,144** | 853[1] |

[1] Amounts have been reclassified from held at fair value to amortised cost

# Standard Chartered Bank

## Notes to the financial statements continued

### 4. Interest expense

| | 2010 $million | 2009 $million |
|---|---|---|
| Deposits by banks | **486** | 854 |
| Customer accounts: | | |
| Interest bearing current accounts and savings deposits | **1,021** | 785 |
| Time deposits | **2,342** | 2,396 |
| Debt securities in issue | **568** | 650 |
| Subordinated liabilities and other borrowed funds: | | |
| Wholly repayable within five years | **24** | 37 |
| Other | **512** | 533 |
| | **4,953** | 5,255 |

| | | |
|---|---|---|
| Of which from financial instruments held at : | | |
| Amortised cost | **4,458** | 4,824 [1] |
| Held at fair value through profit or loss | **495** | 431 [1] |

[1] Amounts have been reclassified from held at fair value through profit or loss to amortised cost

### 5. Fees and commissions

| | 2010 $million | 2009 $million |
|---|---|---|
| **Consumer Banking** | | |
| Cards, Personal Loans and Unsecured Lending | **392** | 366 |
| Wealth Management and Deposits | **1,021** | 769 |
| Mortgages and Auto Finance | **86** | 65 |
| Others | **62** | 60 |
| | **1,561** | 1,260 |
| **Wholesale Banking** | | |
| Lending and Portfolio Management | **89** | 84 |
| Transaction Banking | **1,338** | 1,150 |
| Financial Markets | **392** | 280 |
| Corporate Finance | **852** | 604 |
| Others | **6** | (8) |
| | **2,677** | 2,110 |
| **Net fee and commission income** | **4,238** | 3,370 |

Total fee income arising from financial instruments that are not fair valued through profit or loss $1,468 million (2009: $1,480 million) and arising from trust and other fiduciary activities $198 million (2009: $80 million)

Total fee expense arising from financial instruments that are not fair valued through profit or loss $183 million (2009: $142 million) and arising from trust and other fiduciary activities $16 million (2009: $15 million)

# Standard Chartered Bank

# Notes to the financial statements continued

## 6. Net trading income

| | 2010 $million | 2009 $million |
|---|---|---|
| Gains less losses on instruments held for trading: | | |
| Foreign currency [1] | **1,678** | 1,834 |
| Trading securities | **350** | 329 |
| Interest rate derivatives | **339** | 576 |
| Credit and other derivatives | **38** | 35 |
| | **2,405** | 2,774 |
| Gains less losses from fair value hedging | | |
| Gains less losses from fair value hedged items | **(101)** | 403 |
| Gains less losses from fair value hedged instruments | **133** | (433) |
| | **32** | (30) |
| Gains less losses on instruments designated at fair value: | | |
| Financial assets designated at fair value through profit or loss | **201** | 22 |
| Financial liabilities designated at fair value through profit or loss | **(14)** | 70 |
| Derivatives managed with financial instruments designated at fair value through profit or loss | **(29)** | 36 |
| | **158** | 128 |
| | **2,595** | 2,872 |

[1] Includes foreign currency gains and losses arising on the translation of foreign currency monetary assets and liabilities.

## 7. Other operating income

| | 2010 $million | 2009 $million |
|---|---|---|
| Other operating income includes: | | |
| Gains less losses on available-for-sale and loan and receivable financial assets: | | |
| On disposal | **300** | 592 |
| Writedowns on asset backed securities | **-** | (4) |
| Dividend income | **53** | 109 |
| Gains arising on repurchase of subordinated liabilities | **-** | 264 |
| Gains arising on assets fair valued at acquisition[1] | **29** | 43 |
| Rental income from operating lease assets | **213** | 156 |
| Profit on sale of property, plant and equipment | **65** | 40 |
| Gain arising on change of control | **4** | - |
| Loss on sale of businesses | **-** | (2) |

[1] Relates to acquisition relates to acquisitions prior to 1 January 2010, primarily consist of recoveries of fair value adjustments on loans and advances.

## 8. Operating expenses

| | 2010 $million | 2009 $million |
|---|---|---|
| Staff costs: | | |
| Wages and salaries | **4,462** | 3,634 |
| Social security costs | **124** | 98 |
| Other pension costs (note 37) | **182** | 138 |
| Share based payment (note 41) | **360** | 340 [1] |
| Other staff costs | **604** | 664 |
| | **5,732** | 4,874 |
| Premises and equipment expenses: | | |
| Rental of premises | **387** | 338 |
| Other premises and equipment costs | **386** | 341 |
| Rental of computers and equipment | **27** | 19 |
| | **800** | 698 |
| General administrative expenses | **1,899** | 1,822 |

[1] Amounts have been restated as explained in note 54.

The following tables summarise the number of employees as at 31 December 2010 and 31 December 2009 respectively.

### Group

| | 2010 | | | |
|---|---|---|---|---|
| | Consumer Banking | Wholesale Banking | Support Services | Total |
| At 31 December | **53,382** | **18,869** | **12,980** | **85,231** |
| Average for the period | **51,367** | **18,022** | **13,270** | **82,659** |

| | 2009 [1] | | | |
|---|---|---|---|---|
| | Consumer Banking | Wholesale Banking | Support Services | Total |
| At 31 December | 48,690 | 17,379 | 12,425 | 78,494 |
| Average for the period | 48,957 | 16,612 | 13,196 | 78,765 |

[1] The period-end number of employees in Consumer Banking for 2009 has been restated primarily due to the inclusion of fixed-term contract workers as employees in line with the definition under the Companies Act 2006.

### Company

| | 2010 | | | |
|---|---|---|---|---|
| | Consumer Banking | Wholesale Banking | Support Services | Total |
| At 31 December | **14,587** | **8,514** | **3,950** | **27,051** |
| Average for the period | **14,369** | **8,219** | **3,767** | **26,355** |

| | 2009 | | | |
|---|---|---|---|---|
| | Consumer Banking | Wholesale Banking | Support Services | Total |
| At 31 December | 13,617 | 7,908 | 3,583 | 25,108 |
| Average for the period | 13,369 | 7,525 | 3,989 | 24,883 |

### 8. Operating expenses continued

**Directors' emoluments**

Details of directors' pay and benefits and interests in shares are disclosed in note 14.

Transactions with directors, officers and other related parties are disclosed in the related parties note 56.

**Auditor's remuneration**

Auditor's remuneration in relation to the Group statutory audit amounts to $3.7 million (2009: $4.1 million). The following fees were payable by the Group to their principal auditor, KPMG Audit Plc and its associates (together 'KPMG'):

| | 2010 $million | 2009 $million |
|---|---|---|
| Audit fees for the Group statutory audit: | | |
| Fees relating to the current year | **3.7** | 4.1 |
| 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 | **10.1** | 9.1 |
| Total audit and audit related fees | **13.8** | 13.2 |
| Other services pursuant to legislation | **2.4** | 3.4 |
| Tax services | **1.0** | 1.6 |
| Services relating to corporate finance transactions | **0.1** | 0.3 |
| All other services | **1.9** | 1.2 |
| Total fees payable | **19.2** | 19.7 |

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG Audit Plc for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered Bank. It excludes amounts payable for the audit of Standard Chartered Bank's subsidiaries and amounts payable to KPMG Audit Plc's associates. These amounts have been included in 'Fees payable to KPMG for other services provided to the Group'.
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings, including comfort letters and interim reviews.
- Tax services include tax compliance services and tax advisory services.
- Services relating to information technology include advice on IT security and business continuity, and performing agreed upon IT testing procedures.
- Services related to corporate finance transactions include fees payable to KPMG for transaction related work irrespective of whether the Group is vendor or purchaser, such as acquisition due diligence and long-form reports.
- All other services include other assurance and advisory services such as translation services, ad-hoc accounting advice, reporting accountants work on capital raising and review of financial models.

Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

In addition to the above, KPMG estimate they have been paid fees of $0.3 million (2009: $0.3 million) by parties other than the Group but where the Group is connected with the contracting party and therefore may be involved in appointing KPMG. These fees arise from services such as the audit of the Group's pension schemes.

Fees payable to KPMG for non-audit services for Standard Chartered Bank are not separately disclosed because such fees are disclosed on a consolidated basis for the Group.

## 9. Depreciation and amortisation

| | 2010 $million | 2009 $million |
|---|---|---|
| Premises | 118 | 119 |
| Equipment: | | |
| Operating lease assets | 71 | 54 |
| Other equipment | 140 | 139 |
| Intangibles: | | |
| Software | 168 | 139 |
| Acquired on business combinations | 80 | 87 |
| | 577 | 538 |

## 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:

| | 2010 $million | 2009 $million |
|---|---|---|
| Net charge/(release) against profit on loans and advances: | | |
| Individual impairment | 1,002 | 1,799 |
| Portfolio impairment | (130) | 196 |
| | 872 | 1,995 |
| Provisions/(releases) related to credit commitments | 9 | (2) |
| Impairment charges relating to debt securities classified as loans and receivables | 2 | 7 |
| Total impairment losses and other credit risk provisions | 883 | 2,000 |

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

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

| | 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Gross impairment charge | 139 | 64 | 200 | 424 | 163 | 256 | 31 | 33 | 1,310 |
| Recoveries/provisions no longer required | (38) | (20) | (21) | (150) | (26) | (39) | (11) | (7) | (312) |
| Net individual impairment charge | 101 | 44 | 179 | 274 | 137 | 217 | 20 | 26 | 998 |
| Portfolio impairment provision charge | | | | | | | | | 54 |
| Net impairment charge | | | | | | | | | 1,052 |

## 10. Impairment losses on loans and advances and other credit risk provisions continued

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

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Gross impairment charge | 12 | - | 92 | 55 | 26 | 199 | 14 | 30 | 428 |
| Recoveries/provisions no longer required | (14) | - | (7) | (23) | (8) | (7) | (4) | (15) | (78) |
| Net individual impairment charge | (2) | - | 85 | 32 | 18 | 192 | 10 | 15 | 350 |
| Portfolio impairment provision credit | | | | | | | | | (45) |
| Net impairment charge | | | | | | | | | 305 |

| | 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Gross impairment charge | 52 | 3 | 111 | 194 | 55 | 394 | 15 | 58 | 882 |
| Recoveries/provisions no longer required | (8) | (5) | (18) | (23) | (6) | (6) | (3) | (7) | (76) |
| Net individual impairment charge/(credit) | 44 | (2) | 93 | 171 | 49 | 388 | 12 | 51 | 806 |
| Portfolio impairment provision charge | | | | | | | | | 142 |
| Net impairment charge | | | | | | | | | 948 |

## 11. Other impairment

| | 2010 $million | 2009 $million |
|---|---|---|
| Impairment losses on available-for-sale financial assets: | | |
| - Asset backed securities | 22 | 66 |
| - Other debt securities | - | 8 |
| - Equity shares | 10 | 49 |
| | 32 | 123 |
| Impairment of investment in associates | - | 19 |
| Other | 45 | 17 |
| | 77 | 159 |
| Recovery of impairment on disposal of equity instruments | (1) | (57) |
| | 76 | 102 |

Recoveries of impairments of $1 million (2009: $57 million) are in respect of private and strategic equity investments sold during the period which had impairment provisions raised against them in previous periods.

# Standard Chartered Bank

# Notes to the financial statements continued

## 12. Taxation

Analysis of taxation charge in the year:

| | 2010 $million | 2009 $million |
|---|---|---|
| The charge for taxation based upon the profits for the year comprises: | | |
| **Current tax:** | | |
| United Kingdom corporation tax at 28 per cent (2009: 28 per cent): | | |
| Current tax on income for the year | **881** | 889 |
| Adjustments in respect of prior periods (including double taxation relief) | **6** | 368 |
| Double taxation relief | **(697)** | (623) |
| Foreign tax: | | |
| Current tax on income for the year | **1,310** | 1,309 |
| Adjustments in respect of prior periods | **36** | 48 |
| | **1,536** | 1,991 |
| **Deferred tax:** | | |
| Origination/reversal of temporary differences | **303** | (192) |
| Adjustments in respect of prior periods | **(115)** | (159) |
| | **188** | (351) |
| Tax on profits on ordinary activities | **1,724** | 1,640 |
| Effective tax rate | **27.7%** | 31.5% |

The taxation charge for the year is lower than the standard rate of corporation tax in the United Kingdom, 28 per cent.

The differences are explained below:

| | 2010 $million | 2009 $million |
|---|---|---|
| Profit on ordinary activities before taxation | **6,230** | 5,201 [1] |
| Tax at 28 per cent (2009: 28 per cent) | **1,744** | 1,456 |
| Effects of: | | |
| Tax free income | **(164)** | (179) |
| Lower tax rates on overseas earnings | **(196)** | (119) |
| Higher tax rates on overseas earnings | **321** | 216 |
| Adjustments to tax charge in respect of previous periods | **(73)** | 257 [2] |
| Other items | **92** | 9 |
| Tax on profits on ordinary activities | **1,724** | 1,640 |

[1] Amounts have been restated as explained in note 54.

[2] 2009 adjustments to the tax charge in respect of previous periods includes a $165 million one-off tax charge resulting from a collaborative exercise with the UK tax authority, HM Revenue & Customs, to settle the UK tax position relating to the period from 1990 to 2006.

The UK Corporation tax rate has been changed from 28 per cent to 27 per cent with an effective date of 1 April 2011. This rate has been substantively enacted at the balance sheet and has reduced the UK deferred tax asset as it impacts the reversal of temporary differences from 1 April 2011 onwards.

## 12. Taxation continued

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | 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 | (76) | 9 | (67) | 52 | (6) | 46 |
| Cash flow hedges | - | (17) | (17) | - | (21) | (21) |
| Retirement benefit obligations | - | (17) | (17) | - | 37 | 37 |
| Other | - | - | - | (22) | 22 | - |
| | (76) | (25) | (101) | 30 | 32 | 62 |
| Other tax recognised in equity | | | | | | |
| Share based payments | 15 | (33) | (18) | - | 35 | 35 |
| | 15 | (33) | (18) | - | 35 | 35 |
| Total tax (charge)/credit recognised in equity | (61) | (58) | (119) | 30 | 67 | 97 |

## 13. Dividends

| Ordinary equity shares | 2010 | 2009 |
|---|---|---|
| Dividend per ordinary share (cents) | 5.93 | 2.40 |
| Interim dividends declared and paid during the period ($million) | 693 | 270 |

| Preference shares | 2010 $million | 2009 $million |
|---|---|---|
| Non-cumulative redeemable preference shares: | | |
| - 8.125 per cent preference shares of $5 each[1] | 75 | 76 |
| - 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:

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Salary $000 | Bonus (a) $000 | Benefits (b) $000 | Total $000 | Salary $000 | Bonus (a) $000 | Benefits (b) $000 | Total $000 |
| P A Sands | 1,544 | 3,500 | 115 | 5,159 | 1,444 | 3,200 | 97 | 4,741 |
| S P Bertamini (c) | 1,113 | 1,700 | 712 | 3,525 | 1,113 | 1,400 | 772 | 3,285 |
| J S Bindra | 772 | 1,700 | 799 | 3,271 | 656 | 1,400 | 210 | 2,266 |
| G R Bullock | 772 | 375 | 68 | 1,215 | 781 | 1,400 | 65 | 2,246 |
| V Shankar | 713 | 4,000 | 342 | 5,055 | 475 | 6,250 | 51 | 6,776 |
| R H Meddings | 1,158 | 2,400 | 78 | 3,636 | 1,054 | 2,200 | 69 | 3,323 |
| T J Miller | 772 | 1,350 | 43 | 2,165 | 703 | 1,350 | 41 | 2,094 |
| A M G Rees | 926 | 11,000 | 78 | 12,004 | 625 | 11,000 | 37 | 11,662 |
| | 7,770 | 26,025 | 2,235 | 36,030 | 6,851 | 28,200 | 1,342 | 36,393 |

(a) The annual performance award shown here for 2010 is inclusive of cash bonus and deferred shares. The value is determined in US dollars and shown as such in the table. Jaspal Bindra waived $434,788 of his 2009 annual bonus amount (2010:$nil) into his pension arrangement. No other waivers were made from the directors' annual bonus amounts in 2010 or 2009.

(b) The benefits column includes amounts relating to car allowances and medical and life insurance benefits. Steve Bertamini and Jaspal Bindra carry out duties overseas and their remuneration was adjusted to take local living costs into account. This adjustment was to put them in a position, after taxation differentials, where he would be no worse off as a result of carrying out his duties overseas. The benefits column for both Steve and Jaspal includes additional benefits, such as allowances for working overseas, the provision of accommodation or education of children

(c) Steve Bertamini, received cash allowances of $315,000 (2009: 315,000) in lieu of his participation in any pension plan and this is reflected in the table above as part of salary/fees.

(d) The other entries are calculated using the average exchange rates for 2010 (£1:$1.5439) and 2009 (£1:$1.5613).

## 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) will vest in three tranches unless he resigns or is terminated for cause: $3,000,000 after the second, $2,000,000 after the fourth and $1,500,000 after the sixth anniversary of joining. No further awards are planned.

The first vesting date was reached during the year and $3,583,077 (before tax) was paid to Mr Bertamini. The table below shows the value of the residual assets held in the arrangement.

| | Grant date | Allocation | Value as at 31 December 2010 | Vested | Value as at 31 December 2009 | Vesting period |
|---|---|---|---|---|---|---|
| S P Bertamini | 19 May 2008 | $3,500,000 | **$4,599,122** | - | $7,756,150 | 2012-2014 |

### Retirement Benefits of Directors

Retirement benefits are provided through a combination of approved and/or unapproved defined benefit and cash structures depending upon when an executive director joined Standard Chartered and his geographical location. Executive directors are given the opportunity to waive a proportion of the cash element of any potential annual performance award and a portion of their annual base salary to enhance their unfunded unapproved retirement benefits. Any amounts waived in respect of this year are shown on page 52; our actuary has calculated the additional pension benefits using assumptions adopted for IAS 19 reporting as explained in note 37.

The defined benefit plans comprise a combination of the Standard Chartered Pension Fund, an approved non-contributory scheme, and an unapproved retirement benefit scheme. The unapproved scheme is unfunded but the benefits are secured by a charge, in the name of an independent trustee, over specific assets. The unapproved unfunded retirement benefit scheme provides that part of the executive's benefit which 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, pension benefits are available to a spouse and dependent children in a lump sum.

Base salary is the only element of remuneration that is pensionable.

| | | Accrued pension $000 (b) | | | Transfer value of accrued pension $000 (c) | | | | Increase in accrued pension (net of inflation and waiver) during 2009 $000 (e) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Age | At 1 January 2010 | Increase during the year | At 31 December 2010 | At 1 January 2010 | Increase/ (decrease) during the year net of waiver | At 31 December 2010 | 2010 waiver $000 (d) | Annual pension | Transfer value |
| P A Sands | 49 | 350 | 78 | 418 | 5,809 | 600 | 6,223 | - | 63 | 942 |
| G R Bullock | 57 | 332 | 39 | 373 | 6,698 | - | 6,709 | 170 | 10 | 184 |
| R H Meddings | 52 | 347 | 71 | 408 | 6,127 | 662 | 6,593 | - | 55 | 823 |
| T J Miller | 53 | 192 | 45 | 231 | 3,311 | 549 | 3,756 | - | 37 | 607 |
| A M G Rees | 55 | 230 | 135 | 359 | 3,999 | 2,248 | 6,138 | - | 125 | 2,204 |
| V Shankar (f) | 53 | - | - | - | - | - | - | - | - | - |
| J S Bindra (g) | 50 | 67 | 76 | 142 | 1,169 | 438 | 2,156 | 596 | 35 | 531 |

Notes:

(a) Mr Bertamini received cash supplements and does not participate, like the other directors, in the defined benefit plans set out above.

(b) The accrued pension amounts include benefits arising from transfer payments received in respect of service with previous employers.

(c) The transfer values in respect of benefits under the unapproved unfunded retirement benefits scheme have been calculated using the Group's pension accounting methodology and assumptions.

(d) Directors are given the opportunity to waive a proportion of any potential bonus and/or salary to enhance their unfunded unapproved retirement benefits. The amounts waived in respect of 2010 are shown in the table above.

(e) 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 2009 increased by an allowance for inflation of 4.7 per cent (2009: 0.3 per cent) and the accrued pension at the end of 2010 excluding any waiver in 2010.

(f) Mr Shankar's pension arrangement is a defined contribution plan. During the year during the year $337,951 was transferred by way of contributions to this plan.

(g) Mr Bindra waived $nil (2009: $434,788) of his bonus and $589,223 (2009: $nil) of his 2010 base salary into his pension arrangements.

(h) In addition to the amounts identified in the table above the Group paid $441,989 (2009: $449,612) in retirement benefits to former directors and their dependants.

(i) The amounts included in the table above as at 1 January and 31 December 2010 are calculated using the exchange rates at the end of 2009 (£1:$1.6142) and 2010 (£1:$1.5605) respectively.

## 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 | 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 | - | - | - | - | **32,724** | - | - | **32,724** |
| **Financial assets held at fair value through profit or loss** | | | | | | | | |
| Loans and advances to banks | **1,206** | - | - | - | - | - | - | **1,206** |
| Loans and advances to customers | **5,651** | - | **395** | - | - | - | - | **6,046** |
| Treasury bills and other eligible bills | **5,933** | - | **265** | - | - | - | - | **6,198** |
| Debt securities | **11,781** | - | **36** | - | - | - | - | **11,817** |
| Equity shares | **1,329** | - | **425** | - | - | - | - | **1,754** |
| | **25,900** | - | **1,121** | - | - | - | - | **27,021** |
| Derivative financial instruments | **46,787** | **1,162** | - | - | - | - | - | **47,949** |
| Loans and advances to banks | - | - | - | - | **52,057** | - | - | **52,057** |
| Loans and advances to customers | - | - | - | - | **240,358** | - | - | **240,358** |
| **Investment securities** | | | | | | | | |
| Treasury bills and other eligible bills | - | - | - | **17,895** | - | - | - | **17,895** |
| Debt securities | - | - | - | **50,555** | **4,804** | **25** | - | **55,384** |
| Equity shares | - | - | - | **2,517** | - | - | - | **2,517** |
| | - | - | - | **70,967** | **4,804** | **25** | - | **75,796** |
| Other assets | - | - | - | - | **19,628** | - | **5,681** | **25,309** |
| Total at 31 December 2010 | **72,687** | **1,162** | **1,121** | **70,967** | **349,571** | **25** | **5,681** | **501,214** |
| | | | | | | | | |
| Cash and balances at central banks | - | - | - | - | 18,131 | - | - | 18,131 |
| **Financial assets held at fair value through profit or loss** | | | | | | | | |
| Loans and advances to banks | 1,947 | - | 101 | - | - | - | - | 2,048 |
| Loans and advances to customers | 3,373 | - | 138 | - | - | - | - | 3,511 |
| Treasury bills and other eligible bills | 5,319 | - | 240 | - | - | - | - | 5,559 |
| Debt securities | 9,941 | - | 170 | - | - | - | - | 10,111 |
| Equity shares | 633 | - | 584 | - | - | - | - | 1,217 |
| | 21,213 | - | 1,233 | - | - | - | - | 22,446 |
| Derivative financial instruments | 37,174 | 1,044 | - | - | - | - | - | 38,218 |
| Loans and advances to banks | - | - | - | - | 50,884 | - | - | 50,884 |
| Loans and advances to customers | - | - | - | - | 198,292 | - | - | 198,292 |
| **Investment securities** | | | | | | | | |
| Treasury bills and other eligible bills | - | - | - | 18,958 | - | - | - | 18,958 |
| Debt securities | - | - | - | 48,433 | 6,657 | 31 | - | 55,121 |
| Equity shares | - | - | - | 1,649 | - | - | - | 1,649 |
| | - | - | - | 69,040 | 6,657 | 31 | - | 75,728 |
| Other assets | - | - | - | - | 12,670 [1] | - | 4,443 | 17,113 |
| Total at 31 December 2009 | 58,387 | 1,044 | 1,233 | 69,040 | 286,634 | 31 | 4,443 | 420,812 |

[1] Includes unsettled trades and other financial assets previously included within non-financial assets.

# Standard Chartered Bank

## Notes to the financial statements continued

### 15. Financial instruments continued

**Classification** continued

**Group**

| Liabilities | Trading $million | Derivatives held for hedging $million | Designated at fair value through profit or loss $million | Amortised cost $million | Non-financial liabilities $million | Total $million |
|---|---|---|---|---|---|---|
| | Liabilities at fair value | | | | | |
| **Financial liabilities held at fair value through profit or loss** | | | | | | |
| Deposits by banks | 885 | - | 38 | - | - | 923 |
| Customer accounts | 2,307 | - | 7,203 | - | - | 9,510 |
| Debt securities in issue | 2,256 | - | 1,054 | - | - | 3,310 |
| Short positions | 6,545 | - | - | - | - | 6,545 |
| | 11,993 | - | 8,295 | - | - | 20,288 |
| Derivative financial instruments | 46,723 | 851 | - | - | - | 47,574 |
| Deposits by banks | - | - | - | 28,551 | - | 28,551 |
| Customer accounts | - | - | - | 306,992 | - | 306,992 |
| Debt securities in issue | - | - | - | 23,038 | - | 23,038 |
| Other liabilities | - | - | - | 15,890 | 5,168 | 21,058 |
| Subordinated liabilities and other borrowed funds | - | - | - | 17,418 | - | 17,418 |
| Total at 31 December 2010 | 58,716 | 851 | 8,295 | 391,889 | 5,168 | 464,919 |
| | | | | | | |
| **Financial liabilities held at fair value through profit or loss** | | | | | | |
| Deposits by banks | 432 | - | 50 | - | - | 482 |
| Customer accounts | 1,886 | - | 3,616 | - | - | 5,502 |
| Debt securities in issue | 2,618 | - | 1,369 | - | - | 3,987 |
| Short positions | 4,534 | - | - | - | - | 4,534 |
| | 9,470 | - | 5,035 | - | - | 14,505 |
| Derivative financial instruments | 36,323 | 552 | - | - | - | 36,875 |
| Deposits by banks | - | - | - | 38,461 | - | 38,461 |
| Customer accounts | - | - | - | 251,244 | - | 251,244 |
| Debt securities in issue | - | - | - | 24,502 | - | 24,502 |
| Other liabilities | - | - | - | 11,051 [1] | 5,033 | 16,084 |
| Subordinated liabilities and other borrowed funds | - | - | - | 19,240 | - | 19,240 |
| Total at 31 December 2009 | 45,793 | 552 | 5,035 | 344,498 | 5,033 | 400,911 |

[1] Includes unsettled trades and other financial liabilities previously included within non-financial liabilities.

## 15. Financial instruments continued

### Classification continued

### Company

| Assets | Assets at fair value: Trading $million | Assets at fair value: Derivatives held for hedging $million | Assets at fair value: Designated at fair value through profit or loss $million | 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 | - | - | - | - | 22,782 | - | - | 22,782 |
| **Financial assets held at fair value through profit or loss** | | | | | | | | |
| Loans and advances to banks | 1,163 | - | - | - | - | - | - | 1,163 |
| Loans and advances to customers | 5,502 | - | 66 | - | - | - | - | 5,568 |
| Treasury bills and other eligible bills | 1,356 | - | - | - | - | - | - | 1,356 |
| Debt securities | 6,633 | - | 36 | - | - | - | - | 6,669 |
| Equity shares | 1,245 | - | - | - | - | - | - | 1,245 |
| | 15,899 | - | 102 | - | - | - | - | 16,001 |
| Derivative financial instruments | 44,388 | 1,149 | - | - | - | - | - | 45,537 |
| Loans and advances to banks | - | - | - | - | 27,158 | - | - | 27,158 |
| Loans and advances to customers | - | - | - | - | 108,123 | - | - | 108,123 |
| Treasury bills and other eligible bills | - | - | - | 3,501 | - | - | - | 3,501 |
| Debt securities | - | - | - | 22,416 | 2,463 | - | - | 24,879 |
| Equity shares | - | - | - | 742 | - | - | - | 742 |
| | - | - | - | 26,659 | 2,463 | - | - | 29,122 |
| Other assets | - | - | - | - | 10,596 | - | 3,996 | 14,592 |
| Total at 31 December 2010 | 60,287 | 1,149 | 102 | 26,659 | 171,122 | - | 3,996 | 263,315 |
| Cash and balances at central banks | - | - | - | - | 11,800 | - | - | 11,800 |
| **Financial assets held at fair value through profit or loss** | | | | | | | | |
| Loans and advances to banks | 1,942 | - | 101 | - | - | - | - | 2,043 |
| Loans and advances to customers | 3,355 | - | 15 | - | - | - | - | 3,370 |
| Treasury bills and other eligible bills | 1,844 | - | - | - | - | - | - | 1,844 |
| Debt securities | 7,082 | - | 46 | - | - | - | - | 7,128 |
| Equity shares | 589 | - | - | - | - | - | - | 589 |
| | 14,812 | - | 162 | - | - | - | - | 14,974 |
| Derivative financial instruments | 34,208 | 999 | - | - | - | - | - | 35,207 |
| Loans and advances to banks | - | - | - | - | 23,389 | - | - | 23,389 |
| Loans and advances to customers | - | - | - | - | 89,067 | - | - | 89,067 |
| Treasury bills and other eligible bills | - | - | - | 3,668 | - | - | - | 3,668 |
| Debt securities | - | - | - | 23,726 | 3,871 | - | - | 27,597 |
| Equity shares | - | - | - | 138 | - | - | - | 138 |
| | - | - | - | 27,532 | 3,871 | - | - | 31,403 |
| Other assets | - | - | - | - | 6,585 [1] | - | 3,490 | 10,075 |
| Total at 31 December 2009 | 49,020 | 999 | 162 | 27,532 | 134,712 | - | 3,490 | 215,915 |

[1] Includes unsettled trades and other financial assets previously included in non-financial assets.

## 15. Financial instruments continued

### Classification continued

### Company

| Liabilities | Liabilities at fair value: Trading $million | Liabilities at fair value: Derivatives held for hedging $million | Liabilities at fair value: Designated at fair value through profit or loss $million | Amortised cost $million | Non-financial liabilities $million | Total $million |
|---|---|---|---|---|---|---|
| **Financial liabilities held at fair value through profit or loss** | | | | | | |
| Deposits by banks | 885 | - | 38 | - | - | 923 |
| Customer accounts | 2,290 | - | 290 | - | - | 2,580 |
| Debt securities in issue | 2,020 | - | - | - | - | 2,020 |
| Short positions | 1,878 | - | - | - | - | 1,878 |
| | 7,073 | - | 328 | - | - | 7,401 |
| Derivative financial instruments | 44,626 | 752 | - | - | - | 45,378 |
| Deposits by banks | - | - | - | 20,220 | - | 20,220 |
| Customer accounts | - | - | - | 132,488 | - | 132,488 |
| Debt securities in issue | - | - | - | 12,736 | - | 12,736 |
| Other liabilities | - | - | - | 6,081 | 2,132 | 8,213 |
| Subordinated liabilities and other borrowed funds | - | - | - | 15,169 | - | 15,169 |
| Total at 31 December 2010 | 51,699 | 752 | 328 | 186,694 | 2,132 | 241,605 |
| | | | | | | |
| **Financial liabilities held at fair value through profit or loss** | | | | | | |
| Deposits by banks | 432 | - | 34 | - | - | 466 |
| Customer accounts | 1,859 | - | 121 | - | - | 1,980 |
| Debt securities in issue | 2,525 | - | - | - | - | 2,525 |
| Short positions | 873 | - | - | - | - | 873 |
| | 5,689 | - | 155 | - | - | 5,844 |
| Derivative financial instruments | 34,162 | 443 | - | - | - | 34,605 |
| Deposits by banks | - | - | - | 21,526 | - | 21,526 |
| Customer accounts | - | - | - | 104,952 | - | 104,952 |
| Debt securities in issue | - | - | - | 11,993 | - | 11,993 |
| Other liabilities | - | - | - | 5,160 [1] | 1,754 | 6,914 |
| Subordinated liabilities and other borrowed funds | - | - | - | 17,492 | - | 17,492 |
| Total at 31 December 2009 | 39,851 | 443 | 155 | 161,123 | 1,754 | 203,326 |

[1] Includes unsettled trades and other financial liabilities previously included in non-financial liabilities.

### Valuation of financial instruments

### Instruments held at fair value

Valuation of financial assets and liabilities held at fair value are subject to a review independent of the business by Valuation Control. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices or market observable pricing inputs to valuation model, an assessment is made against external market data and consensus services. Financial instruments held at fair value in the balance sheet have been classified into a valuation hierarchy that reflects the significance of the inputs used in the fair value measurements.

Wherever possible, Valuation Control utilises multiple independent market data sources. Market data sources are assessed for relevance and reliability. A market data source is relevant and reliable if there is a high probability that a third party transaction can be executed based on this data. Market data reliability is assessed with respect to the following considerations:

1. methodology used by data provider to generate data (eg. identity of contributors, basis of data collection/processing)
2. degree of activity in the market or extent of market coverage represented by the data source
3. integrity and reputation of the data provider
4. comparisons with other similar or alternative data sources and whether or not it is regarded within the range of acceptable quotes (on the basis of a current and historical consideration).

## 15. Financial instruments continued

### Valuation of financial instruments continued

### Instruments held at fair value continued

Where a range of market price sources are utilised, Valuation Control documents the process by which the average or consensus price is determined. If Valuation Control chooses to adopt a pricing hierarchy (a scheme in which prices from more reliable sources are used preferentially to prices less reliable), any prices not used are reviewed for a body of contradictory evidence. Valuation Control assesses all available market data before selecting the market data sources that will form the basis of the Price Testing process. Market data utilised by Valuation Control is independent of the Front Office. Market data that is not fully independent receives a zero weighting.

**Control framework**

A Product Valuation Control Committee exists for each business where there is a material valuation risk. The Committees meet monthly and comprise representatives from Front Office, Group market risk, Product control and Valuation control. The Committees are responsible for reviewing the results of the valuation control process.

**Valuation hierarchy**

The valuation hierarchy, and the types of instruments classified into each level within that hierarchy, is set out below:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Fair value determined using: | Unadjusted quoted prices in an active market for identical assets and liabilities | Valuation models with directly or indirectly market observable inputs | Valuation models using significant non-market observable inputs |
| Types of financial assets: | Actively traded government and agency securities<br>Listed equities<br>Listed derivative instruments<br>Investments in publicly traded mutual funds with listed market prices | Corporate and other government bonds and loans<br>Over-the-counter (OTC) derivatives<br>Asset backed securities<br>Private equity investments | Asset backed securities<br>Private equity investments<br>Highly structured OTC derivatives with unobservable parameters<br>Corporate bonds in illiquid markets |
| Types of financial liabilities: | Listed derivative instruments | OTC derivatives<br>Structured deposits<br>Credit structured debt securities in issue | Highly structured OTC derivatives with unobservable parameters<br>Illiquid or highly structured debt securities in issue |

**Level 1 portfolio**

Level 1 assets and liabilities are typically exchange traded positions and some government bonds traded in active markets. These positions are valued using quoted prices in active markets.

**Level 2 portfolio**

Where instruments are not quoted in an active market the Group utilises a number of valuation techniques to determine fair value. These valuation techniques include discounted cash flow analysis models, option pricing models, simulation models and other standard models commonly used by market participants. There is no distinction made by the Group in discounting between collateralised and uncollateralised trades. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as Level 2.

The Group makes a credit valuation adjustment (CVA) against derivative products, which represents an estimate of the adjustment to fair value that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions. For CVA, 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

All fair value positions in non–derivative financial instruments are valued at bid (for long positions) or offer (for short positions). Fair value of derivative positions is initially derived by calculating at mid-market levels. These are then adjusted through bid-offer valuation adjustments to effectively reflect the long positions at bid and short positions at offer.

In calculating the bid-offer valuation adjustment, reference is usually made to the risk contained within a similar bucket, for example the interest rate risk is divided in time buckets and a separate bid-offer valuation adjustment calculated for each one of these. The rationale for following this methodology is to take account of the different risks that exist for each of the time buckets and the different hedge transactions that would need to be executed to insulate the gross risk in those buckets, should the need arise.

## 15. Financial instruments continued

### Valuation of financial instruments continued

**Level 3 portfolio**
The primary products classified as Level 3 are as follows:

**Debt securities – Asset backed securities**
Due to the severe lack of liquidity in the market and the prolonged period of time under which many securities have not traded, obtaining external prices is not a strong enough measure to determine whether an asset has an observable price or not. Therefore, once external pricing has been verified, an assessment is made whether each security is traded in a liquid manner based on its credit rating and sector. If a security is of low credit rating and/or is traded in a less liquid sector, it will be classified as Level 3. Where third party pricing is not available, the valuation of the security will be estimated from market standard cash flow models with input parameter assumptions which include prepayment speeds and default rates. These input parameter assumptions are estimated with reference to factors such as underlying collateral performance, prices of comparable securities and sector spreads. These securities are also classified as Level 3.

**Debt Securities - Non Asset backed securities**
These debt securities include certain convertible bonds, corporate bonds, credit and equity structured notes where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product. Debt securities are valued using available prices provided through pricing vendors, brokers or trading activities. Where such liquid external prices are not available, valuation of these cash securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

**Equity shares - Private equity**
Private equity investments are generally valued based on earning multiples - Price-to-Earnings (P/E) or Enterprise Value to Earning Before Income Tax, Depreciation and Amortisation (EV/EBITDA) ratios - of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. In circumstances where an investment doesn't have direct comparables or where the multiples for the comparable companies can not 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 discounted cash flow (DCF) 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 tables below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2010

**Group**

| Assets | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Loans and advances to banks | 406 | 800 | - | 1,206 |
| Loans and advances to customers | 19 | 6,027 | - | 6,046 |
| Treasury bills and other eligible bills | 6,055 | 143 | - | 6,198 |
| Debt securities | 7,257 | 4,333 | 227 | 11,817 |
| Equity shares | 1,434 | 19 | 301 | 1,754 |
| | 15,171 | 11,322 | 528 | 27,021 |
| Derivative financial instruments | 223 | 47,539 | 187 | 47,949 |
| **Investment securities** | | | | |
| Treasury bills and other eligible bills | 15,335 | 2,560 | - | 17,895 |
| Debt securities | 20,631 | 29,342 | 582 | 50,555 |
| Equity shares | 1,020 | 446 | 1,051 | 2,517 |
| | 36,986 | 32,348 | 1,633 | 70,967 |
| At 31 December 2010 | 52,380 | 91,209 | 2,348 | 145,937 |

| Liabilities | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Deposit by banks | 320 | 603 | - | 923 |
| Customer accounts | - | 9,510 | - | 9,510 |
| Debt securities in issues | - | 2,999 | 311 | 3,310 |
| Short positions | 6,072 | 473 | - | 6,545 |
| | 6,392 | 13,585 | 311 | 20,288 |
| Derivative financial instruments | 546 | 46,746 | 282 | 47,574 |
| At 31 December 2010 | 6,938 | 60,331 | 593 | 67,862 |

There were no significant transfers between Level 1 and Level 2 in 2010.

# Standard Chartered Bank

# Notes to the financial statements continued

## 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 2009

**Group**

| Assets | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Loans and advances to banks | 372 | 1,676 | - | 2,048 |
| Loans and advances to customers | 170 | 3,341 | - | 3,511 |
| Treasury bills and other eligible bills | 4,537 | 1,022 | - | 5,559 |
| Debt securities | 5,250 | 4,732 | 129 | 10,111 |
| Equity shares | 604 | 37 | 576 | 1,217 |
| | 10,933 | 10,808 | 705 | 22,446 |
| Derivative financial instruments | 648 | 37,432 | 138 | 38,218 |
| **Investment securities** | | | | |
| Treasury bills and other eligible bills | 17,987 [1] | 971 | - | 18,958 |
| Debt securities | 16,366 | 31,630 | 437 | 48,433 |
| Equity shares | 595 | 298 | 756 | 1,649 |
| | 34,948 | 32,899 | 1,193 | 69,040 |
| At 31 December 2009 | 46,529 | 81,139 | 2,036 | 129,704 |

| Liabilities | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Deposit by banks | - | 482 | - | 482 |
| Customer accounts | 39 | 5,463 | - | 5,502 |
| Debt securities in issues | - | 3,987 | - | 3,987 |
| Short positions | 4,302 | 232 | - | 4,534 |
| | 4,341 | 10,164 | - | 14,505 |
| Derivative financial instruments | 869 | 35,856 | 150 | 36,875 |
| At 31 December 2009 | 5,210 | 46,020 | 150 | 51,380 |

[1] Certain government securities amounting to $5,193 million were initially classified within Level 2 as at 31 December 2009. These have been re-presented as Level 1 as they are actively traded and market quotes are available.

There were no significant transfers between Level 1 and Level 2 in 2009.

## 15. Financial instruments continued

### Valuation of financial instruments continued

**Company**

| Assets | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Loans and advances to banks | 406 | 757 | - | 1,163 |
| Loans and advances to customers | 19 | 5,549 | - | 5,568 |
| Treasury bills and other eligible bills | 1,351 | 5 | - | 1,356 |
| Debt securities | 3,128 | 3,336 | 205 | 6,669 |
| Equity shares | 1,226 | 19 | - | 1,245 |
| | 6,130 | 9,666 | 205 | 16,001 |
| Derivative financial instruments | 124 | 45,159 | 254 | 45,537 |
| **Investment securities** | | | | |
| Treasury bills and other eligible bills | 2,112 | 1,389 | - | 3,501 |
| Debt securities | 8,303 | 13,463 | 650 | 22,416 |
| Equity shares | 678 | 9 | 55 | 742 |
| | 11,093 | 14,861 | 705 | 26,659 |
| At 31 December 2010 | 17,347 | 69,686 | 1,164 | 88,197 |

| Liabilities | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Deposit by banks | 320 | 603 | - | 923 |
| Customer accounts | - | 2,580 | - | 2,580 |
| Debt securities in issues | - | 1,750 | 270 | 2,020 |
| Short positions | 1,413 | 465 | - | 1,878 |
| | 1,733 | 5,398 | 270 | 7,401 |
| Derivative financial instruments | 110 | 45,111 | 157 | 45,378 |
| At 31 December 2010 | 1,843 | 50,509 | 427 | 52,779 |

There were no significant transfers between Level 1 and Level 2 in 2010.

## 15. **Financial instruments** continued

**Valuation of financial instruments** continued

**Company**

| **Assets** | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Loans and advances to banks | 372 | 1,671 | - | 2,043 |
| Loans and advances to customers | 170 | 3,200 | - | 3,370 |
| Treasury bills and other eligible bills | 1,789 | 55 | - | 1,844 |
| Debt securities | 2,628 | 4,371 | 129 | 7,128 |
| Equity shares | 552 | 37 | - | 589 |
| | 5,511 | 9,334 | 129 | 14,974 |
| Derivative financial instruments | 612 | 34,517 | 78 | 35,207 |
| **Investment securities** | | | | |
| Treasury bills and other eligible bills | 3,125 | 543 | - | 3,668 |
| Debt securities | 7,099 | 16,247 | 380 | 23,726 |
| Equity shares | 71 | 13 | 54 | 138 |
| | 10,295 | 16,803 | 434 | 27,532 |
| At 31 December 2009 | 16,418 | 60,654 | 641 | 77,713 |

| **Liabilities** | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Deposit by banks | - | 466 | - | 466 |
| Customer accounts | 39 | 1,941 | - | 1,980 |
| Debt securities in issues | - | 2,525 | - | 2,525 |
| Short positions | 642 | 231 | - | 873 |
| | 681 | 5,163 | - | 5,844 |
| Derivative financial instruments | 586 | 33,959 | 60 | 34,605 |
| At 31 December 2009 | 1,267 | 39,122 | 60 | 40,449 |

There were no significant transfers between Level 1 and Level 2 in 2009.

# Standard Chartered Bank

# Notes to the financial statements continued

## 15. Financial instruments continued

### Level 3 movement tables

### Financial assets

### Group

| Assets | Held at fair value through profit or loss: Debt securities $million | Held at fair value through profit or loss: Equity shares $million | Derivative financial instruments $million | Investment securities: Debt securities $million | Investment securities: Equity shares $million | Total $million |
|---|---|---|---|---|---|---|
| At 1 January 2010 | 129 | 576 | 138 | 437 | 756 | 2,036 |
| Total (losses)/gains recognised in income statement | (3) | 170 | 39 | - | (15) | 191 |
| Total gains recognised in other comprehensive income | - | - | - | 103 | 146 | 249 |
| Purchases | 107 | 135 | - | 156 | 225 | 623 |
| Sales | (80) | (574) | - | (147) | (1) | (802) |
| Settlements | (63) | (6) | - | - | (50) | (119) |
| Transfers out | (23) | - | (24) | - | (12) | (59) |
| Transfers in | 160 | - | 34 | 33 | 2 | 229 |
| At 31 December 2010 | 227 | 301 | 187 | 582 | 1,051 | 2,348 |
| Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2010 | (6) | 50 | 130 | - | (1) | 173 |

Transfers in during the year primarily relate to markets for certain debt securities becoming illiquid or where the valuation parameters became unobservable during the year.

| Assets | Held at fair value through profit or loss: Debt securities $million | Held at fair value through profit or loss: Equity shares $million | Derivative financial instruments $million | Investment securities: Debt securities $million | Investment securities: Equity shares $million | Total $million |
|---|---|---|---|---|---|---|
| At 1 January 2009 | 141 | 415 | 260 | 332 | 563 | 1,711 |
| Total (losses)/gains recognised in income statement | (10) | 32 | (142) | (1) | (41) | (162) |
| Total gains recognised in other comprehensive income | - | 1 | 12 | 14 | 74 | 101 |
| Purchases | - | 128 | 3 | 307 | 165 | 603 |
| Sales | - | - | (1) | (193) | (5) | (199) |
| Transfers out | (2) | - | - | (22) | - | (24) |
| Transfers in | - | - | 6 | - | - | 6 |
| At 31 December 2009 | 129 | 576 | 138 | 437 | 756 | 2,036 |
| Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2009 | (5) | 28 | 39 | 6 | (31) | 37 |

There were no significant transfers into or out of Level 3 fair value hierarchy in 2009.

## 15. **Financial instruments** continued

**Level 3 movement tables** continued

**Company**

| | Held at fair value through profit or loss | | Investment securities | | |
|---|---|---|---|---|---|
| | Debt securities | Derivative financial instruments | Debt securities | Equity shares | Total |
| **Assets** | $million | $million | $million | $million | $million |
| At 1 January 2010 | 129 | 380 | 380 | 54 | 943 |
| Total losses recognised in income statement | (1) | (132) | - | - | (133) |
| Total gains recognised in other comprehensive income | - | - | 97 | 1 | 98 |
| Purchases | 49 | - | 285 | - | 334 |
| Sales | (88) | - | (117) | - | (205) |
| Settlements | (3) | - | - | - | (3) |
| Transfers out | (23) | (24) | - | - | (47) |
| Transfers in | 142 | 30 | 5 | - | 177 |
| At 31 December 2010 | 205 | 254 | 650 | 55 | 1,164 |
| Total losses recognised in the income statement relating to assets held at 31 December 2010 | (10) | (61) | - | - | (71) |

Transfers in during the year primarily relate to markets for certain debt securities becoming illiquid or where the valuation parameters became unobservable during the year.

| | Held at fair value through profit or loss | | Investment securities | | |
|---|---|---|---|---|---|
| | Debt securities | Derivative financial instruments | Debt securities | Equity shares | Total |
| **Assets** | $million | $million | $million | $million | $million |
| At 1 January 2009 | 141 | 142 | 277 | 62 | 622 |
| Total losses recognised in income statement | (10) | (97) | (1) | (6) | (114) |
| Total gains recognised in other comprehensive income | - | 5 | 14 | 1 | 20 |
| Purchases | - | 1 | 304 | - | 305 |
| Sales | - | (1) | (193) | (3) | (197) |
| Settlements | - | 28 | - | - | 28 |
| Transfers out | (2) | - | (21) | - | (23) |
| At 31 December 2009 | 129 | 78 | 380 | 54 | 641 |
| Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2009 | (5) | 23 | 4 | - | 22 |

There were no significant transfers into or out of Level 3 fair value hierarchy in 2009.

### 15. **Financial instruments** continued

**Level 3 movement tables** continued

**Financial liabilities**

**Group**

| | 2010 | | | 2009 | |
|---|---|---|---|---|---|
| **Liabilities** | Debt securities in issue $million | Derivative financial instruments $million | Total $million | Derivative financial instruments $million | Total $million |
| At 1 January | - | 150 | 150 | 181 | 181 |
| Total losses/(gains) recognised in income statement | 32 | 93 | 125 | (70) | (70) |
| Total losses recognised in other comprehensive income | - | - | - | 16 | 16 |
| Issues | 69 | 33 | 102 | - | - |
| Settlements | (2) | - | (2) | 23 | 23 |
| Transfers out | - | (23) | (23) | - | - |
| Transfers in | 212 | 29 | 241 | - | - |
| At 31 December | 311 | 282 | 593 | 150 | 150 |
| Total losses recognised in the income statement relating to liabilities held at 31 December | 32 | 163 | 195 | 31 | 31 |

Transfers in during the year primarily relate to certain debt securities in issue where valuation parameters became unobservable during the year.

**Company**

| | 2010 | | | 2009 | |
|---|---|---|---|---|---|
| **Liabilities** | Debt securities in issue $million | Derivative financial instruments $million | Total $million | Derivative financial instruments $million | Total $million |
| At 1 January | - | 60 | 60 | 91 | 91 |
| Total losses/(gains) recognised in income statement | 26 | 91 | 117 | (37) | (37) |
| Total gains recognised in other comprehensive income | - | - | - | 1 | 1 |
| Issues | 51 | - | 51 | - | - |
| Settlements | (2) | - | (2) | 5 | 5 |
| Transfers out | - | (23) | (23) | - | - |
| Transfers in | 195 | 29 | 224 | - | - |
| At 31 December | 270 | 157 | 427 | 60 | 60 |
| Total (losses)/gains recognised in the income statement relating to liabilities held at 31 December | 27 | 151 | 178 | 40 | 40 |

Transfers in during the year primarily relate to certain debt securities in issue where valuation parameters became unobservable during the year.

### 15. Financial instruments continued

**Sensitivities in respect of the fair values of Level 3 assets and liabilities**

**Group**

| | Held at fair value through profit or loss | | | Investment securities | | |
|---|---|---|---|---|---|---|
| | Net exposure | Favourable Changes | Unfavourable Changes | Net exposure | Favourable Changes | Unfavourable Changes |
| **At 31 December 2010** | $million | $million | $million | $million | $million | $million |
| **Financial instruments held at fair value through profit or loss** | | | | | | |
| Debt securities | 227 | 234 | 220 | - | - | - |
| Equity shares | 301 | 331 | 271 | - | - | - |
| Derivative financial instruments | (95) | (80) | (109) | - | - | - |
| Debt securities in issue | (311) | (310) | (312) | - | - | - |
| **Investment securities** | | | | | | |
| Debt securities | - | - | - | 582 | 590 | 576 |
| Equity shares | - | - | - | 1,051 | 1,167 | 935 |
| Total | 122 | 175 | 70 | 1,633 | 1,757 | 1,511 |

| | Held at fair value through profit or loss | | | Investment securities | | |
|---|---|---|---|---|---|---|
| | Net exposure | Favourable Changes | Unfavourable Changes | Net exposure | Favourable Changes | Unfavourable Changes |
| **At 31 December 2009** | $million | $million | $million | $million | $million | $million |
| **Financial instruments held at fair value through profit or loss** | | | | | | |
| Debt securities | 129 | 130 | 126 | - | - | - |
| Equity shares | 576 | 634 | 518 | - | - | - |
| Derivative financial instruments | (12) | 2 | (14) | - | - | - |
| **Investment securities** | | | | | | |
| Debt securities | - | - | - | 437 | 452 | 427 |
| Equity shares | - | - | - | 756 | 835 | 676 |
| Total | 693 | 766 | 630 | 1,193 | 1,287 | 1,103 |

### 15. Financial instruments continued

**Sensitivities in respect of the fair values of level 3 assets and liabilities** continued

**Company**

| | Held at fair value through profit or loss | | | Investment securities | | |
|---|---|---|---|---|---|---|
| **At 31 December 2010** | Net exposure $million | Favourable Changes $million | Unfavourable Changes $million | Net exposure $million | Favourable Changes $million | Unfavourable Changes $million |
| **Financial instruments held at fair value through profit or loss** | | | | | | |
| Debt securities | 205 | 212 | 198 | - | - | - |
| Equity shares | - | - | - | - | - | - |
| Derivative financial instruments | 97 | 101 | 94 | - | - | - |
| Debt securities in issue | (270) | (269) | (271) | - | - | - |
| **Investment securities** | | | | | | |
| Debt securities | - | - | - | 650 | 655 | 646 |
| Equity shares | - | - | - | 55 | 66 | 44 |
| Total | 32 | 44 | 21 | 705 | 721 | 690 |

| | Held at fair value through profit or loss | | | Investment securities | | |
|---|---|---|---|---|---|---|
| **At 31 December 2009** | Net exposure $million | Favourable Changes $million | Unfavourable Changes $million | Net exposure $million | Favourable Changes $million | Unfavourable Changes $million |
| **Financial instruments held at fair value through profit or loss** | | | | | | |
| Debt securities | 129 | 131 | 128 | - | - | - |
| Derivative financial instruments | 18 | 32 | 16 | - | - | - |
| **Investment securities** | | | | | | |
| Debt securities | - | - | - | 380 | 392 | 369 |
| Equity shares | - | - | - | 54 | 62 | 46 |
| Total | 147 | 163 | 144 | 434 | 454 | 415 |

Where the fair value of financial instruments are measured using valuation techniques that incorporate one or more significant inputs which are based on unobservable market data, we apply stresses on these unobservable parameter inputs, such as a 10 per cent increase or decrease in correlation and credit sensitivities, to generate a range of reasonably possible alternative valuations. As of 31 December 2010, these stresses could have increased fair values of financial instruments held at fair value through profit or loss by $53 million (2009: $73 million) and available-for-sale by $124 million (2009: $94 million), or decreased fair values of financial instruments held at fair value through profit or loss by $52 million (2009: $63 million) and available-for-sale by $122 million (2009: $90 million). For the Company, these stresses could have increased fair values of financial instruments held at fair value through profit or loss by $12 million (2009: $16 million) and available-for-sale by $16 million (2009: $20 million), or decreased fair values of financial instruments held at fair value through profit or loss by $11 million (2009: $3 million) and available-for-sale by $15 million (2009: $19 million).

## 15. Financial instruments continued

### Instruments carried at amortised cost

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. The fair values in the table below are stated at a particular date and may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument.

### Group

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Book amount $million | Fair value $million | Book amount $million | Fair value $million |
| **Assets** | | | | |
| Cash and balances at central banks | **32,724** | **32,724** | 18,131 | 18,131 |
| Loans and advances to banks | **52,057** | **51,941** | 50,884 | 50,905 |
| Loans and advances to customers | **240,358** | **239,446** | 198,292 | 199,739 |
| Investment securities | **4,829** | **4,765** | 6,688 | 6,556 |
| Other assets | **19,628** | **19,628** [1] | 12,670 | 12,670 [1] |
| **Liabilities** | | | | |
| Deposits by banks | **28,551** | **28,501** | 38,461 | 38,169 |
| Customer accounts | **306,992** | **305,560** | 251,244 | 249,548 |
| Debt securities in issue | **23,038** | **22,367** | 24,502 | 22,490 |
| Subordinated liabilities and other borrowed funds | **17,418** | **17,738** | 19,240 | 18,692 |
| Other liabilities | **15,890** | **15,890** [1] | 11,051 | 11,051 [1] |

[1] Includes unsettled trades and other financial assets and liabilities previously included within non-financial assets and liabilities.

### Company

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Book amount $million | Fair value $million | Book amount $million | Fair value $million |
| **Assets** | | | | |
| Cash and balances at central banks | **22,782** | **22,782** | 11,800 | 11,799 |
| Loans and advances to banks | **27,158** | **26,969** | 23,389 | 23,402 |
| Loans and advances to customers | **108,123** | **106,937** | 89,067 | 90,271 |
| Investment securities | **2,463** | **2,414** | 3,871 | 3,743 |
| Other assets | **10,596** | **10,596** [1] | 6,585 | 6,585 [1] |
| **Liabilities** | | | | |
| Deposits by banks | **20,220** | **20,217** | 21,526 | 21,522 |
| Customer accounts | **132,488** | **132,451** | 104,952 | 104,975 |
| Debt securities in issue | **12,736** | **12,718** | 11,993 | 11,973 |
| Subordinated liabilities and other borrowed funds | **15,169** | **15,381** | 17,492 | 16,965 |
| Other liabilities | **6,081** | **6,081** [1] | 5,160 | 5,160 [1] |

[1] Includes unsettled trades and other financial assets and liabilities previously included within non-financial assets and liabilities.

### 15. Financial instruments continued

**Instruments carried at amortised cost** continued

The following sets out the Group and Company'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 and is in markets that have had little contagion from the turmoil brought about by the sub-prime mortgage crisis in the United States. Approximately one-third of the portfolio reprices within one month, and approximately half reprices within 12 months. The fair value of loans and advances to customers with a residual maturity of less than one year is their carrying value. Loans and advances are presented net of provisions for impairment. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, where appropriate, credit spreads. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

**Investment securities**
For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using inputs proxied from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or inputs proxied from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxied as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relate to asset backed securities. The fair value for such instruments is usually proxied from internal assessments of the underlying cash flows. The Group has a wide range of individual investments within the unlisted debt securities portfolio. Given the number of instruments involved, providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

**Deposits and borrowings**
The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

**Debt securities in issue, subordinated liabilities and other borrowed funds**
The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity.

## 15. Financial instruments continued

### Reclassification of financial assets

In 2008 the Group and Company reclassified certain non-derivative financial assets classified as held for trading into the available-for-sale ('AFS') category as these were no longer considered to be held for the purpose of selling or repurchasing in the near term. At the time of transfer, the Group identified the rare circumstances permitting such a transfer as the impact of the ongoing 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 were no reclassifications during 2010 or 2009.

The following tables provide details of the remaining balance of assets reclassified during 2008 as at 31 December 2010 and 31 December 2009:

**Group**

| | | | If assets had not been reclassified, fair value gain from 1 January to 31 December 2010 which would have been recognised within | | | | |
|---|---|---|---|---|---|---|---|
| **For assets reclassified:** | Carrying amount at 31 December 2010 $million | Fair value at 31 December 2010 $million | Income $million | AFS reserve $million | Income recognised in income statement in 2010 $million | Effective interest rate at date of reclassification % | Estimated amounts of expected cash flows $million |
| From trading to AFS | 339 | 339 | 40 [1] | - | 23 | 5.2 | 416 |
| From trading to loans and receivables | 1,562 | 1,490 | 80 | - | 73 | 5.6 | 1,686 |
| From AFS to loans and receivables | 1,090 | 1,052 | - | 75 | 35 | 5.4 | 1,132 |
| | 2,991 | 2,881 | 120 | 75 | 131 | | |
| Of which asset backed securities: | | | | | | | |
| reclassified to available-for-sale | 122 | 122 | 35 [1] | - | 8 | | |
| reclassified to loans and receivables | 1,725 | 1,648 | 42 | 75 | 53 | | |

[1] Post-reclassification, this is recognised within the available-for-sale reserve.

| | | | If assets had not been reclassified, fair value (loss)/gain from 1 January to 31 December 2009 which would have been recognised within | | | | |
|---|---|---|---|---|---|---|---|
| **For assets reclassified:** | Carrying amount at 31 December 2009 $million | Fair value at 31 December 2009 $million | Income $million | AFS reserve $million | Income recognised in income statement in 2009 $million | Effective interest rate at date of reclassification % | Estimated amounts of expected cash flows $million |
| From trading to AFS | 593 | 593 | (20) [1] | - | 23 | 6.2 | 771 |
| From trading to loans and receivables | 2,213 | 2,049 | 127 | - | 95 | 5.8 | 2,352 |
| From AFS to loans and receivables | 1,362 | 1,216 | - | 145 | 49 | 5.3 | 1,416 |
| | 4,168 | 3,858 | 107 | 145 | 167 | | |
| Of which asset backed securities: | | | | | | | |
| reclassified to available-for-sale | 148 | 148 | (17) [1] | - | (36) | | |
| reclassified to loans and receivables | 2,231 | 2,002 | 21 | 145 | 76 | | |

[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 2010 $million | Fair value at 31 December 2010 $million | If assets had not been reclassified, fair value gain from 1 January to 31 December 2010 which would have been recognised within: Income $million | AFS reserve $million | Income recognised in income statement in 2010 $million | Effective interest rate at date of reclassification % | Estimated amounts of expected cash flows $million |
|---|---|---|---|---|---|---|---|
| From trading to AFS | 283 | 283 | 40 [1] | - | 19 | 5.0 | 341 |
| From trading to loans and receivables | 1,223 | 1,165 | 59 | - | 59 | 5.6 | 1,257 |
| From AFS to loans and receivables | 573 | 559 | - | 46 | 24 | 5.5 | 588 |
| | 2,079 | 2,007 | 99 | 46 | 102 | | |
| Of which asset backed securities: | | | | | | | |
| reclassified to available-for-sale | 122 | 122 | 35 [1] | - | 8 | | |
| reclassified to loans and receivables | 874 | 835 | 46 | 21 | 33 | | |

[1] Post-reclassification, this is recognised within the available-for-sale reserve.

| For assets reclassified: | Carrying amount at 31 December 2009 $million | Fair value at 31 December 2009 $million | If assets had not been reclassified, fair value (loss)/gain from 1 January to 31 December 2009 which would have been recognised within: Income $million | AFS reserve $million | Income recognised in income statement in 2009 $million | Effective interest rate at date of reclassification % | Estimated amounts of expected cash flows $million |
|---|---|---|---|---|---|---|---|
| From trading to AFS | 501 | 501 | (20) [1] | - | 3 | 6.5 | 543 |
| From trading to loans and receivables | 2,104 | 1,942 | 128 | - | 92 | 5.8 | 1,626 |
| From AFS to loans and receivables | 1,362 | 1,216 | - | 145 | 49 | 5.3 | 703 |
| | 3,967 | 3,659 | 108 | 145 | 144 | | |
| Of which asset backed securities: | | | | | | | |
| reclassified to available-for-sale | 148 | 148 | (17) [1] | - | (36) | | |
| reclassified to loans and receivables | 2,231 | 2,002 | 21 | 145 | 76 | | |

[1] Post-reclassification, this is recognised within the available-for-sale reserve.

## 16. Financial instruments held at fair value through profit or loss

### Financial assets held at fair value through profit and loss

Financial assets held at fair value through profit and loss comprises of assets held for trading and those financial assets designated as being held at fair value through profit or loss.

For certain loans and advances and debt securities with fixed rates of interest, interest rate swaps have been acquired with the intention of significantly reducing interest rate risk. Derivatives are recorded at fair value whereas loans and advances are usually recorded at amortised cost. To significantly reduce the accounting mismatch between fair value and amortised cost, these loans and advances and debt securities have been designated at fair value through profit or loss. The Group ensures the criteria under IAS 39 are met by matching the principal terms of interest rate swaps to the corresponding loans and debt securities.

The changes in fair value of both the underlying loans and advances, and debt securities, and interest rate swaps are monitored in a similar manner to trading book portfolios.

Loans and advances held at fair value through profit and loss
The maximum exposure to credit risk for loans designated at fair value through profit or loss was $395 million (2009: $239 million) for the Group and $66 million (2009: $116 million) for the Company.

The net fair value gain on loans and advances to customers designated at fair value through profit or loss was $7 million (2009: loss of $6 million). Of this, $nil million (2009: $nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was $3 million (2009: $3 million).

The changes in fair value attributable to credit risk has been determined by comparing fair value movements in risk-free bonds with similar maturities to the changes in fair value of loans designated at fair value through profit or loss.

For certain loans and advances designated at fair value through profit or loss, the difference arising between the fair value at initial recognition and the amount that would have arisen had the valuation techniques used for subsequent measurement been used at initial recognition, is amortised to the income statement until the inputs become observable or the transaction matures or is terminated. The table below sets out a reconciliation of amounts deferred:

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 $million | 2009 $million | 2010 $million | 2009 $million |
| At 1 January | 4 | 8 | - | - |
| Additional amount deferred | - | - | - | - |
| Recognised in income | (2) | (4) | - | - |
| At 31 December | 2 | 4 | - | - |

Changing one or more of the assumptions to reasonably possible alternatives would not significantly change the fair value.

### 16. Financial instruments held at fair value through profit or loss continued

**Financial assets held at fair value through profit and loss** continued

**Debt securities, equity shares and treasury bills held at fair value through profit or loss**

**Group**

| | 2010 | | | |
|---|---|---|---|---|
| | Debt Securities $million | Equity Shares $million | Treasury bills $million | Total $million |
| Issued by public bodies: | | | | |
| Government securities | 7,156 | | | |
| Other public sector securities | 120 | | | |
| | 7,276 | | | |
| Issued by banks: | | | | |
| Certificates of deposit | 151 | | | |
| Other debt securities | 1,302 | | | |
| | 1,453 | | | |
| Issued by corporate entities and other issuers: | | | | |
| Other debt securities | 3,088 | | | |
| Total debt securities | 11,817 | | | |
| Of which: | | | | |
| Listed on a recognised UK exchange | 180 | - | - | 180 |
| Listed elsewhere | 5,865 | 1,453 | 769 | 8,087 |
| Unlisted | 5,772 | 301 | 5,429 | 11,502 |
| | 11,817 | 1,754 | 6,198 | 19,769 |
| Market value of listed securities | 6,045 | 1,453 | 769 | 8,267 |
| Trading securities pledged subject to sale and repurchase transactions | 739 | - | 108 | 847 |

| | 2009 | | | |
|---|---|---|---|---|
| | Debt Securities $million | Equity Shares $million | Treasury bills $million | Total $million |
| Issued by public bodies: | | | | |
| Government securities | 5,568 | | | |
| Other public sector securities | 18 | | | |
| | 5,586 | | | |
| Issued by banks: | | | | |
| Certificates of deposit | 628 | | | |
| Other debt securities | 968 | | | |
| | 1,596 | | | |
| Issued by corporate entities and other issuers: | | | | |
| Other debt securities | 2,929 | | | |
| Total debt securities | 10,111 | | | |
| Of which: | | | | |
| Listed on a recognised UK exchange | 440 | - | - | 440 |
| Listed elsewhere | 4,835 | 604 | 1,516 | 6,955 |
| Unlisted | 4,836 | 613 | 4,043 | 9,492 |
| | 10,111 | 1,217 | 5,559 | 16,887 |
| Market value of listed securities | 5,275 | 604 | 1,516 | 7,395 |
| Trading securities pledged subject to sale and repurchase transactions | 240 | - | - | 240 |

## 16. Financial instruments held at fair value through profit or loss continued

### Financial assets held at fair value through profit and loss continued

### Company

| | 2010 | | | |
|---|---|---|---|---|
| | Debt Securities $million | Equity Shares $million | Treasury bills $million | Total $million |
| Issued by public bodies: | | | | |
| Government securities | 2,867 | | | |
| Other public sector securities | 71 | | | |
| | 2,938 | | | |
| Issued by banks: | | | | |
| Certificates of deposit | 103 | | | |
| Other debt securities | 1,154 | | | |
| | 1,257 | | | |
| Issued by corporate entities and other issuers: | | | | |
| Other debt securities | 2,474 | | | |
| Total debt securities | 6,669 | | | |
| Of which: | | | | |
| Listed on a recognised UK exchange | 180 | - | - | 180 |
| Listed elsewhere | 1,778 | 1,245 | 289 | 3,312 |
| Unlisted | 4,711 | - | 1,067 | 5,778 |
| | 6,669 | 1,245 | 1,356 | 9,270 |
| Market value of listed securities | 1,958 | 1,245 | 289 | 3,492 |
| Trading securities pledged subject to sale and repurchase transactions | 709 | - | 106 | 815 |

| | 2009 | | | |
|---|---|---|---|---|
| | Debt Securities $million | Equity Shares $million | Treasury bills $million | Total $million |
| Issued by public bodies: | | | | |
| Government securities | 2,841 | | | |
| Other public sector securities | 13 | | | |
| | 2,854 | | | |
| Issued by banks: | | | | |
| Certificates of deposit | 469 | | | |
| Other debt securities | 1,327 | | | |
| | 1,796 | | | |
| Issued by corporate entities and other issuers: | | | | |
| Other debt securities | 2,478 | | | |
| Total debt securities | 7,128 | | | |
| Of which: | | | | |
| Listed on a recognised UK exchange | 440 | - | - | 440 |
| Listed elsewhere | 2,669 | 552 | 558 | 3,779 |
| Unlisted | 4,019 | 37 | 1,286 | 5,342 |
| | 7,128 | 589 | 1,844 | 9,561 |
| Market value of listed securities | 3,109 | 552 | 558 | 4,219 |
| Trading securities pledged subject to sale and repurchase transactions | 240 | - | - | 240 |

### 16. Financial instruments held at fair value through profit or loss continued

**Financial liabilities held at fair value through profit and loss** continued

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

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

Derivatives are recorded at fair value whereas non-trading financial liabilities (unless designated at fair value) are recorded at amortised cost. Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost expense recognition (a criterion of IAS 39). The Group ensures the criteria under IAS 39 are met by matching the principal terms of derivatives to the corresponding liabilities, either individually or on a portfolio basis.

The changes in fair value of both the underlying liabilities and derivatives are monitored in a similar manner to trading book portfolios.

The net fair value loss on liabilities designated at fair value through profit or loss was $14 million for the year (2009: net gain of $70 million). Of this, a loss of $nil million (2009: gain of $6 million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was a loss of $10 million (2009: $10 million).

As at 31 December 2010, the amount the Group is contractually obliged to pay at maturity to the holders of these obligations was $447 million higher (2009: $505 million) than the carrying amount at fair value.

As at 31 December 2010, the amount the Company is contractually obliged to pay at maturity to the holders of these obligations was $1,207 million higher (2009: $791 million) than the carrying amount at fair value.

### 17. Derivative financial instruments

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 an important risk management tool for banks and their customers because they can be used to manage market price risk. The market risk of derivatives is managed in essentially the same way as other traded products.

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

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

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

The credit risk arising from all financial derivatives is managed as part of the overall lending limits to financial institutions and corporate customers.

## 17. Derivative financial instruments continued

The types of derivatives used by the Group and Company are set out below. All derivatives are classified as trading and 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).

The tables below analyse the notional principal amounts and the positive and negative fair values of the Group's and Company's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

The Group and Company limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are not presented net in these accounts as in the ordinary course of business they are not intended to be settled net. Details of the amounts available for offset can be found in note 51 under maximum exposure to credit risk.

### Group

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| **Total derivatives** | **Notional principal amounts $million** | **Assets $million** | **Liabilities $million** | Notional principal amounts $million | Assets $million | Liabilities $million |
| **Foreign exchange derivative contracts:** | | | | | | |
| Forward foreign exchange contracts | **994,786** | **12,593** | **12,677** | 704,691 | 9,052 | 8,211 |
| Currency swaps and options | **566,291** | **11,343** | **11,712** | 448,615 | 9,753 | 9,621 |
| Exchange traded futures and options | **855** | **-** | **-** | 774 | - | - |
| | **1,561,932** | **23,936** | **24,389** | 1,154,080 | 18,805 | 17,832 |
| **Interest rate derivative contracts:** | | | | | | |
| Swaps | **1,745,286** | **17,487** | **17,001** | 1,211,971 | 14,255 | 13,946 |
| Forward rate agreements and options | **234,926** | **1,010** | **1,029** | 233,769 | 2,498 | 2,472 |
| Exchange traded futures and options | **619,859** | **350** | **346** | 252,625 | 83 | 84 |
| | **2,600,071** | **18,847** | **18,376** | 1,698,365 | 16,836 | 16,502 |
| **Credit derivative contracts** | **65,986** | **1,602** | **1,679** | 35,133 | 835 | 845 |
| **Equity and stock index options** | **8,842** | **479** | **757** | 3,208 | 470 | 613 |
| **Commodity derivative contracts** | **36,524** | **3,085** | **2,373** | 19,066 | 1,272 | 1,083 |
| **Total derivatives** | **4,273,355** | **47,949** | **47,574** | 2,909,852 | 38,218 | 36,875 |

### Company

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| **Total derivatives** | **Notional principal amounts $million** | **Assets $million** | **Liabilities $million** | Notional principal amounts $million | Assets $million | Liabilities $million |
| **Foreign exchange derivative contracts:** | | | | | | |
| Forward foreign exchange contracts | **925,972** | **13,154** | **13,578** | 700,838 | 7,661 | 8,347 |
| Currency swaps and options | **512,413** | **8,869** | **9,431** | 389,475 | 7,052 | 6,741 |
| | **1,438,385** | **22,023** | **23,009** | 1,090,313 | 14,713 | 15,088 |
| **Interest rate derivative contracts:** | | | | | | |
| Swaps | **1,592,953** | **17,128** | **16,288** | 1,121,835 | 15,401 | 14,555 |
| Forward rate agreements and options | **220,121** | **893** | **906** | 219,633 | 2385 | 2326 |
| Exchange traded futures and options | **614,796** | **350** | **346** | 246,334 | 83 | 84 |
| | **2,427,870** | **18,371** | **17,540** | 1,587,802 | 17,869 | 16,965 |
| **Credit derivative contracts** | **66,495** | **1,605** | **1,706** | 35,628 | 840 | 850 |
| **Equity and stock index options** | **10,749** | **447** | **744** | 7,575 | 477 | 598 |
| **Commodity derivative contracts** | **35,579** | **3,091** | **2,379** | 19,787 | 1308 | 1104 |
| **Total derivatives** | **3,979,078** | **45,537** | **45,378** | 2,741,105 | 35,207 | 34,605 |

### 17. Derivative financial instruments continued

#### Derivatives held for hedging

Hedge accounting is applied to derivatives and hedged items when the criteria under IAS 39 have been met. The tables below list the types of derivatives that the Group and Company hold for hedge accounting.

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

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

The use of interest rate swaps for the purposes of fair value and cash flow hedging for the Group increased in 2010 compared to 2009, as we continued to focus on liquidity management together with a more active balance sheet hedging strategy. Interest rate swaps used for cash flow hedges increased significantly compared to 2009, primarily to hedge floating rate mortgage exposures in Taiwan, and the increase in fair value hedges largely reflected the growth of fixed deposits and bonds in Hong Kong. Currency swaps for fair value hedging increased primarily to hedge the increased level of Medium term note issuances in the UK. Forward Foreign exchange contracts held for fair value hedging increased in line with the strategy to grow the Credit Trading business. Currency swaps held for cash flow hedges increased as a largely as a result of more active management of our mortgage book exposures in Korea.

We may also, under certain individually approved circumstances, enter into economic hedges which do not qualify for IAS 39 hedge accounting treatment, and which are accordingly marked to market through the profit and loss account, thereby creating an accounting asymmetry. These are entered into primarily to ensure that residual interest rate and foreign exchange risks are being effectively managed.

#### Group

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Notional principal amounts $million | Assets $million | Liabilities $million | Notional principal amounts $million | Assets $million | Liabilities $million |
| **Derivatives designated as fair value hedges:** | | | | | | |
| Interest rate swaps | 25,109 | 983 | 562 | 24,867 | 956 | 415 |
| Currency swaps | 3,178 | 46 | 172 | 607 | 14 | 9 |
| Forward foreign exchange contracts | 1,650 | 28 | 11 | 825 | - | 1 |
| | 29,937 | 1,057 | 745 | 26,299 | 970 | 425 |
| **Derivatives designated as cash flow hedges:** | | | | | | |
| Interest rate swaps | 18,591 | 20 | 23 | 14,673 | 46 | 23 |
| Options | 950 | 54 | - | 898 | 23 | - |
| Forward foreign exchange contracts | 148 | 22 | 6 | 410 | - | 37 |
| Currency swaps | 1,751 | 9 | 1 | 218 | - | 1 |
| | 21,440 | 105 | 30 | 16,199 | 69 | 61 |
| **Derivatives designated as net investment hedges:** | | | | | | |
| Forward foreign exchange contracts | 803 | - | 76 | 738 | 5 | 66 |
| **Total derivatives held for hedging** | 52,180 | 1,162 | 851 | 43,236 | 1,044 | 552 |

#### Company

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Notional principal amounts $million | Assets $million | Liabilities $million | Notional principal amounts $million | Assets $million | Liabilities $million |
| **Derivatives designated as fair value hedges:** | | | | | | |
| Interest rate swaps | 20,697 | 979 | 559 | 19,865 | 938 | 390 |
| Currency swaps | 3,178 | 46 | 172 | 607 | 14 | 9 |
| Forward foreign exchange contracts | 1,650 | 28 | 11 | 825 | - | 1 |
| | 25,525 | 1,053 | 742 | 21,297 | 952 | 400 |
| **Derivatives designated as cash flow hedges:** | | | | | | |
| Interest rate swaps | 3,334 | 11 | 3 | 4,454 | 24 | 5 |
| Options | 950 | 54 | - | 898 | 23 | - |
| Forward foreign exchange contracts | 148 | 22 | 6 | 410 | - | 37 |
| Currency swaps | 1,751 | 9 | 1 | 218 | - | 1 |
| | 6,183 | 96 | 10 | 5,980 | 47 | 43 |
| **Total derivatives held for hedging** | 31,708 | 1,149 | 752 | 27,277 | 999 | 443 |

## 17. Derivative financial instruments continued

### Fair value hedges

The swaps exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange fixed rates on assets to match the floating rates paid on funding.

For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss. In respect of fair value hedges, gains arising on the hedging instruments during the year were $133 million (2009: losses of $433 million) compared to losses arising on the hedged items of $101 million (2009: gains of $403 million). For the Company, gains arising on fair value hedging instruments were $258 million (2009: losses of $398 million) compared to losses arising on the hedged items of $219 million (2009: gains of $365 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, $2 million (2009: $4 million) was recognised by the Group in the income statement in respect of ineffectiveness arising on cash flow hedges. During the year, net losses of $17 million (2009: $106 million) for the Group were reclassified to profit and loss from the cash flow hedge reserve, of which, losses of $30 million (2009: $123 million) were recognised within operating costs and gains of $13 million (2009: $17 million) recognised within net interest income.

During the year, net losses of $19 million (2009: $115 million) for the company were reclassified to profit and loss from the cash flow hedge reserve, of which, losses of $30 million (2009: $123 million) were recognised within operating costs and gains of $11 million (2009: $8 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:

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than one year $million | One to two years $million | Two to three years $million | Three to four years $million | Four to five years $million | Over five years $million | Total $million |
| Forecast receivable cash flows | **769** | **190** | **181** | **129** | **79** | **-** | **1,348** |
| Forecast payable cash flows | **(1,432)** | **(170)** | **(170)** | **(124)** | **(79)** | **-** | **(1,975)** |
| | **(663)** | **20** | **11** | **5** | **-** | **-** | **(627)** |

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than one year $million | One to two years $million | Two to three years $million | Three to four years $million | Four to five years $million | Over five years $million | Total $million |
| Forecast receivable cash flows | 500 | 274 | 179 | 161 | 150 | - | 1,264 |
| Forecast payable cash flows | (2,043) | (246) | (155) | (136) | (132) | - | (2,712) |
| | (1,543) | 28 | 24 | 25 | 18 | - | (1,448) |

The Company has hedged the following cash flows which are expected to impact the income statement in the following periods:

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than one year $million | One to two years $million | Two to three years $million | Three to four years $million | Four to five years $million | Over five years $million | Total $million |
| Forecast receivable cash flows | **39** | **23** | **6** | **3** | **79** | **-** | **150** |
| Forecast payable cash flows | **(755)** | **(15)** | **(9)** | **(7)** | **(79)** | **-** | **(865)** |
| | **(716)** | **8** | **(3)** | **(4)** | **-** | **-** | **(715)** |

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than one year $million | One to two years $million | Two to three years $million | Three to four years $million | Four to five years $million | Over five years $million | Total $million |
| Forecast receivable cash flows | 82 | 20 | 6 | 7 | 7 | - | 122 |
| Forecast payable cash flows | (1,671) | (21) | (7) | - | - | - | (1,699) |
| | (1,589) | (1) | (1) | 7 | 7 | - | (1,577) |

### 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 (2009: $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 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $million | $million | $million | $million |
| Loans and advances to banks | **53,358** | 53,066 | **28,337** | 25,487 |
| Individual impairment provision (note 22) | **(93)** | (132) | **(15)** | (54) |
| Portfolio impairment provision (note 22) | **(2)** | (2) | **(1)** | (1) |
| | **53,263** | 52,932 | **28,321** | 25,432 |
| Of which: loans and advances held at fair value through profit or loss (note 15) | **(1,206)** | (2,048) | **(1,163)** | (2,043) |
| | **52,057** | 50,884 | **27,158** | 23,389 |

## 19. Loans and advances to customers

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $million | $million | $million | $million |
| Loans and advances to customers | **248,988** | 204,530 | **114,902** | 93,541 |
| Individual impairment provision (note 22) | **(1,824)** | (1,853) | **(850)** | (666) |
| Portfolio impairment provision (note 22) | **(760)** | (874) | **(361)** | (438) |
| | **246,404** | 201,803 | **113,691** | 92,437 |
| Of which: loans and advances held at fair value through profit or loss (note 15) | **(6,046)** | (3,511) | **(5,568)** | (3,370) |
| | **240,358** | 198,292 | **108,123** | 89,067 |
| Loans and advances pledged subject to sale and repurchase transactions | **39** | 231 | **15** | 3 |

## 20. Structure of loan portfolio

### Loan portfolio - Group

Loans and advances to customers have grown by $44.6 billion since 2009 to $246.4 billion.

Compared to 2009, the Consumer Banking portfolio had grown by $22.6 billion or 24 per cent, mainly due to increased mortgage lending.

The proportion of mortgages in the Consumer Banking Portfolio is maintained at 60 per cent. As property markets have strengthened across geographies in the Group's footprint we have been able to capture market share and grow the secured portfolio.

SME Lending has grown by $4.3 billion or 32 per cent.

Compared to 2009, growth in the Wholesale Banking customer portfolio was $21.9 billion, or 20 per cent. Whilst spread across geographies and customer segments, the majority of the increase was concentrated in Americas, UK and Europe ($10.2 billion), Hong Kong ($8.2 billion) and Singapore ($3.5 billion). The increase in Americas, UK and Europe was due to growth in the syndications and commodities businesses with customers in our footprint countries booked within our offshore banking unit. The growth in Hong Kong and Singapore has been broad based across industry driven mainly by strong demand in trade finance and corporate term loans.

Exposures to bank counterparties was largely flat at $53.3 billion. We remain highly liquid and a net lender to the interbank money market.

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

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

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

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong | Singapore | Korea | Other Asia Pacific | India | Middle East & Other S Asia | Africa | Americas UK & Europe | Total |
| | $million | $million | $million | $million | $million | $million | $million | $million | $million |
| Loans to individuals | | | | | | | | | |
| Mortgages | 18,245 | 10,689 | 23,061 | 14,679 | 2,124 | 1,331 | 194 | 339 | 70,662 |
| Other | 4,237 | 6,306 | 5,549 | 6,034 | 721 | 2,593 | 774 | 2,699 | 28,913 |
| Small and medium enterprises | 2,314 | 2,944 | 4,568 | 4,938 | 2,102 | 575 | 132 | 2 | 17,575 |
| Consumer Banking | 24,796 | 19,939 | 33,178 | 25,651 | 4,947 | 4,499 | 1,100 | 3,040 | 117,150 |
| Agriculture, forestry and fishing | 320 | 360 | 36 | 708 | 186 | 110 | 879 | 1,278 | 3,877 |
| Construction | 193 | 119 | 356 | 389 | 387 | 764 | 67 | 179 | 2,454 |
| Commerce | 3,975 | 5,852 | 780 | 4,382 | 570 | 4,186 | 575 | 6,227 | 26,547 |
| Electricity, gas and water | 406 | 347 | 119 | 949 | 5 | 279 | 177 | 1,378 | 3,660 |
| Financing, insurance and business services | 4,359 | 3,363 | 385 | 3,611 | 984 | 3,135 | 174 | 7,479 | 23,490 |
| Governments | - | 1,542 | 3 | 572 | 2 | 293 | 70 | 1,971 | 4,453 |
| Mining and quarrying | 554 | 884 | - | 571 | 225 | 197 | 266 | 6,390 | 9,087 |
| Manufacturing | 4,965 | 1,468 | 3,426 | 8,975 | 2,598 | 2,858 | 1,128 | 6,895 | 32,313 |
| Commercial real estate | 2,365 | 2,775 | 1,314 | 967 | 675 | 819 | 1 | 472 | 9,388 |
| Transport, storage and communication | 1,462 | 2,362 | 409 | 1,063 | 762 | 763 | 391 | 5,944 | 13,156 |
| Other | 182 | 369 | 179 | 328 | 6 | 253 | 87 | 185 | 1,589 |
| Wholesale Banking | 18,781 | 19,441 | 7,007 | 22,515 | 6,400 | 13,657 | 3,815 | 38,398 | 130,014 |
| Portfolio impairment provision | (61) | (41) | (114) | (199) | (54) | (207) | (39) | (45) | (760) |
| Total loans and advances to customers | 43,516 | 39,339 | 40,071 | 47,967 | 11,293 | 17,949 | 4,876 | 41,393 | 246,404 |
| Total loans and advances to banks | 14,591 | 7,215 | 3,193 | 8,648 | 523 | 1,478 | 420 | 17,195 | 53,263 |

Total loans and advances to customers include $6,046 million held at fair value through profit or loss. Total loans and advances to banks include $1,206 million held at fair value through profit or loss.

## 20. Structure of loan portfolio continued

### Loan portfolio - Group continued

| | 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Loans to individuals | | | | | | | | | |
| Mortgages | 14,816 | 8,149 | 20,460 | 11,016 | 1,685 | 1,128 | 212 | 171 | 57,637 |
| Other | 2,971 | 4,957 | 4,951 | 5,012 | 772 | 2,396 | 678 | 1,909 | 23,646 |
| Small and medium enterprises | 1,641 | 2,370 | 4,024 | 3,258 | 1,255 | 636 | 113 | 3 | 13,300 |
| Consumer Banking | 19,428 | 15,476 | 29,435 | 19,286 | 3,712 | 4,160 | 1,003 | 2,083 | 94,583 |
| Agriculture, forestry and fishing | 16 | 81 | 25 | 351 | 75 | 150 | 613 | 630 | 1,941 |
| Construction | 274 | 49 | 370 | 350 | 342 | 788 | 116 | 234 | 2,523 |
| Commerce | 2,508 | 4,819 | 939 | 3,612 | 861 | 4,959 | 765 | 4,576 | 23,039 |
| Electricity, gas and water | 538 | 53 | 188 | 523 | 31 | 371 | 239 | 1,395 | 3,338 |
| Financing, insurance and | 2,319 | 4,150 | 668 | 4,515 | 543 | 4,036 | 174 | 5,406 | 21,811 |
| Governments | - | 966 | 344 | 3,256 | 1 | 250 | 34 | 366 | 5,217 |
| Mining and quarrying | 120 | 569 | 3 | 280 | 139 | 185 | 172 | 4,941 | 6,409 |
| Manufacturing | 2,586 | 1,061 | 3,369 | 7,794 | 2,485 | 1,857 | 685 | 5,735 | 25,572 |
| Commercial real estate | 1,274 | 2,275 | 997 | 908 | 360 | 672 | 4 | 518 | 7,008 |
| Transport, storage and communication | 579 | 1,438 | 310 | 1,024 | 399 | 1,115 | 258 | 4,323 | 9,446 |
| Other | 397 | 507 | 268 | 296 | 6 | 234 | 21 | 61 | 1,790 |
| Wholesale Banking | 10,611 | 15,968 | 7,481 | 22,909 | 5,242 | 14,617 | 3,081 | 28,185 | 108,094 |
| Portfolio impairment provision | (66) | (45) | (112) | (203) | (88) | (293) | (55) | (12) | (874) |
| Total loans and advances to customers | 29,973 | 31,399 | 36,804 | 41,992 | 8,866 | 18,484 | 4,029 | 30,256 | 201,803 |
| Total loans and advances to banks | 19,453 | 5,085 | 2,780 | 7,232 | 511 | 1,864 | 300 | 15,707 | 52,932 |

Total loans and advances to customers include $3,511 million held at fair value through profit or loss. Total loans and advances to banks include $2,048 million held at fair value through profit or loss.

## 20. **Structure of loan portfolio** continued

### Loan portfolio - Company

Loans and advances to customers have grown by $21.3 billion since 2009 to $113.7 billion.

Compared to 2009, the Consumer Banking Portfolio has grown by $7.3 billion or 29 per cent, mainly due to increased mortgage lending.

The proportion of mortgages in the Company Banking Portfolio is lower than then the Group proportion at 43 per cent.

SME Lending has grown by $1.4 billion or 35 per cent.

Growth in the Wholesale Banking customer portfolio was $13.9 billion or 21 per cent, since 2009. Whilst spread across the geographies and customer segments, the majority of the increase was concentrated in UK & Americas ($10.2 billion), Singapore ($3.5 billion) and India ($1.2 billion). The increase in the UK & Americas was due to growth in the syndications and commodities businesses with customers in our footprint countries. The growth in Hong Kong and Singapore has been broad based across industry driven mainly by strong demand in trade finance and corporate term loans.

Exposure to bank counterparties has grown by $2.9 billion since 2009 to $28.3 billion. We remain highly liquid and a net lender to the interbank money market.

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

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | |
| | Singapore $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Loans to individuals | | | | | | | |
| Mortgages | 10,689 | 104 | 2,057 | 1,264 | 27 | 33 | 14,174 |
| Other | 6,306 | 1,007 | 650 | 2,404 | - | 2,425 | 12,792 |
| Small and medium enterprises | 2,944 | 179 | 2,092 | 357 | - | 2 | 5,574 |
| Consumer Banking | 19,939 | 1,290 | 4,799 | 4,025 | 27 | 2,460 | 32,540 |
| Agriculture, forestry and fishing | 360 | 371 | 186 | 110 | 605 | 1,278 | 2,910 |
| Construction | 119 | 132 | 386 | 763 | 2 | 179 | 1,581 |
| Commerce | 5,852 | 422 | 543 | 4,213 | 194 | 6,228 | 17,452 |
| Electricity, gas and water | 347 | 430 | 5 | 55 | 37 | 1,378 | 2,252 |
| Financing, insurance and business services | 3,363 | 603 | 953 | 3,123 | 54 | 7,434 | 15,530 |
| Governments | 1,542 | 95 | - | 293 | - | 1,971 | 3,901 |
| Mining and quarrying | 884 | 198 | 225 | 193 | 98 | 6,390 | 7,988 |
| Manufacturing | 1,468 | 1,428 | 2,512 | 1,938 | 235 | 6,896 | 14,477 |
| Commercial real estate | 2,775 | 15 | 659 | 819 | - | 472 | 4,740 |
| Transport, storage and communication | 2,362 | 328 | 759 | 645 | 86 | 5,629 | 9,809 |
| Other | 369 | 84 | 2 | 232 | 1 | 184 | 872 |
| Wholesale Banking | 19,441 | 4,106 | 6,230 | 12,384 | 1,312 | 38,039 | 81,512 |
| Portfolio impairment provision | (41) | (30) | (53) | (190) | (2) | (45) | (361) |
| Total loans and advances to customers | 39,339 | 5,366 | 10,991 | 16,269 | 1,337 | 40,389 | 113,691 |
| Total loans and advances to banks | 7,215 | 2,248 | 436 | 1,360 | 1 | 17,061 | 28,321 |

Total loans and advances to customers include $5,568 million held at fair value through profit or loss. Total loans and advances to banks include $1,163 million held at fair value through profit or loss.

## 20. Structure of loan portfolio continued

### Loan portfolio - Company continued

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | |
| | Singapore $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Loans to individuals | | | | | | | |
| Mortgages | 8,149 | 80 | 1,629 | 1,051 | 33 | 26 | 10,968 |
| Other | 4,957 | 955 | 706 | 2,150 | - | 1,369 | 10,137 |
| Small and medium enterprises | 2,370 | 118 | 1,252 | 400 | - | 2 | 4,142 |
| Consumer Banking | 15,476 | 1,153 | 3,587 | 3,601 | 33 | 1,397 | 25,247 |
| Agriculture, forestry and fishing | 81 | 147 | 75 | 150 | 467 | 630 | 1,550 |
| Construction | 49 | 106 | 341 | 787 | 70 | 234 | 1,587 |
| Commerce | 4,819 | 360 | 837 | 4,946 | 135 | 4,576 | 15,673 |
| Electricity, gas and water | 53 | 366 | 26 | 69 | 44 | 1,395 | 1,953 |
| Financing, insurance and | 4,150 | 683 | 507 | 3,954 | 77 | 5,406 | 14,777 |
| Governments | 966 | 616 | - | 248 | - | 366 | 2,196 |
| Mining and quarrying | 569 | 140 | 139 | 175 | 98 | 4,941 | 6,062 |
| Manufacturing | 1,061 | 1,493 | 2,409 | 1,360 | 86 | 5,734 | 12,143 |
| Commercial real estate | 2,275 | 1 | 341 | 672 | - | 518 | 3,807 |
| Transport, storage and communication | 1,438 | 357 | 387 | 986 | 20 | 3,884 | 7,072 |
| Other | 507 | 22 | 2 | 211 | 1 | 65 | 808 |
| Wholesale Banking | 15,968 | 4,291 | 5,064 | 13,558 | 998 | 27,749 | 67,628 |
| Portfolio impairment provision | (45) | (30) | (87) | (212) | (3) | (61) | (438) |
| Total loans and advances to customers | 31,399 | 5,414 | 8,564 | 16,947 | 1,028 | 29,085 | 92,437 |
| Total loans and advances to banks | 5,085 | 2,473 | 437 | 1,811 | 1 | 15,625 | 25,432 |

Total loans and advances to customers include $3,370 million held at fair value through profit or loss. Total loans and advances to banks include $2,043 million held at fair value through profit or loss.

## 20. Structure of loan portfolio continued

**Maturity analysis - Group**

Approximately half of the Groups' 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 67 per cent of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 60 per cent of the portfolio is in the mortgage book,, which is traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer terms in the normal course of business.

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

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

| | 2009 | | | |
|---|---|---|---|---|
| | One year or less $million | One to five years $million | Over five years $million | Total $million |
| Loans to individuals | | | | |
| Mortgages | 2,455 | 7,818 | 47,364 | 57,637 |
| Other | 14,266 | 7,158 | 2,222 | 23,646 |
| Small and medium enterprises | 7,110 | 3,054 | 3,136 | 13,300 |
| Consumer Banking | 23,831 | 18,030 | 52,722 | 94,583 |
| Agriculture, forestry and fishing | 1,515 | 348 | 78 | 1,941 |
| Construction | 1,921 | 482 | 120 | 2,523 |
| Commerce | 19,981 | 2,919 | 139 | 23,039 |
| Electricity, gas and water | 1,056 | 825 | 1,457 | 3,338 |
| Financing, insurance and business services | 15,282 | 6,484 | 45 | 21,811 |
| Governments | 4,754 | 398 | 65 | 5,217 |
| Mining and quarrying | 3,296 | 1,531 | 1,582 | 6,409 |
| Manufacturing | 18,979 | 5,286 | 1,307 | 25,572 |
| Commercial real estate | 3,325 | 3,523 | 160 | 7,008 |
| Transport, storage and communication | 3,665 | 4,312 | 1,469 | 9,446 |
| Other | 1,369 | 268 | 153 | 1,790 |
| Wholesale Banking | 75,143 | 26,376 | 6,575 | 108,094 |
| Portfolio impairment provision | | | | (874) |
| | | | | 201,803 |

## 20. Structure of loan Portfolio continued

### Maturity Analysis - Company

Approximately 58 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 64 per cent of loans and advances having a contractual maturity of one year or less. In Consumer Banking 44 per cent of the portfolio is in the mortgage book, which is traditionally longer term in nature and well secured. Whilst the Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer term in the normal course of business.

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

| | 2010 | | | |
|---|---|---|---|---|
| | One year or less $million | One to five years $million | Over five years $million | Total $million |
| Loans to individuals | | | | |
| Mortgages | 354 | 1,220 | 12,600 | 14,174 |
| Other | 10,484 | 1,677 | 631 | 12,792 |
| Small and medium enterprises | 2,433 | 884 | 2,257 | 5,574 |
| Consumer Banking | 13,271 | 3,781 | 15,488 | 32,540 |
| Agriculture, forestry and fishing | 2,377 | 448 | 85 | 2,910 |
| Construction | 1,101 | 452 | 28 | 1,581 |
| Commerce | 14,997 | 2,289 | 166 | 17,452 |
| Electricity, gas and water | 512 | 519 | 1,221 | 2,252 |
| Financing, insurance and business services | 10,213 | 5,276 | 41 | 15,530 |
| Governments | 2,608 | 1,223 | 70 | 3,901 |
| Mining and quarrying | 3,708 | 2,622 | 1,658 | 7,988 |
| Manufacturing | 9,028 | 4,497 | 952 | 14,477 |
| Commercial real estate | 2,490 | 2,210 | 40 | 4,740 |
| Transport, storage and communication | 4,757 | 3,224 | 1,828 | 9,809 |
| Other | 770 | 99 | 3 | 872 |
| Wholesale Banking | 52,561 | 22,859 | 6,092 | 81,512 |
| Portfolio impairment provision | | | | (361) |
| | | | | 113,691 |

| | 2009 | | | |
|---|---|---|---|---|
| | One year or less $million | One to five years $million | Over five years $million | Total $million |
| Loans to individuals | | | | |
| Mortgages | 349 | 1,013 | 9,606 | 10,968 |
| Other | 7,626 | 1,976 | 535 | 10,137 |
| Small and medium enterprises | 1,661 | 993 | 1,488 | 4,142 |
| Consumer Banking | 9,636 | 3,982 | 11,629 | 25,247 |
| Agriculture, forestry and fishing | 1,276 | 226 | 48 | 1,550 |
| Construction | 1,199 | 284 | 104 | 1,587 |
| Commerce | 14,111 | 1,504 | 58 | 15,673 |
| Electricity, gas and water | 300 | 295 | 1,358 | 1,953 |
| Financing, insurance and business services | 9,954 | 4,815 | 8 | 14,777 |
| Governments | 1,733 | 398 | 65 | 2,196 |
| Mining and quarrying | 3,120 | 1,377 | 1,565 | 6,062 |
| Manufacturing | 8,453 | 2,709 | 981 | 12,143 |
| Commercial real estate | 1,785 | 1,952 | 70 | 3,807 |
| Transport, storage and communication | 2,847 | 2,912 | 1,313 | 7,072 |
| Other | 669 | 108 | 31 | 808 |
| Wholesale Banking | 45,447 | 16,580 | 5,601 | 67,628 |
| Portfolio impairment provision | | | | (438) |
| | | | | 92,437 |

## 21. Assets leased to customers

### Finance leases and instalment credit

| | Group 2010 $million | Group 2009 $million | Company 2010 $million | Company 2009 $million |
|---|---|---|---|---|
| Finance leases | **508** | 399 | **42** | - |
| Instalment credit agreements | **790** | 706 | **758** | 706 |
| | **1,298** | 1,105 | **800** | 706 |

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 $131 million (2009: $228 million) for the Group and $nil million (2009: $145 million) for the Company.

| | Group 2010 $million | Group 2009 $million | Company 2010 $million | Company 2009 $million |
|---|---|---|---|---|
| Minimum lease receivables under finance leases falling due: | | | | |
| Within one year | **282** | 52 | **8** | - |
| Later than one year and less than five years | **244** | 389 | **18** | - |
| After five years | **41** | - | **41** | - |
| | **567** | 441 | **67** | - |
| Interest income relating to future periods | **(59)** | (42) | **(25)** | - |
| Present value of finance lease receivables | **508** | 399 | **42** | - |
| Of which: | | | | |
| Falls due within one year | **261** | 35 | **4** | - |
| Falls due later than one year and less than five years | **219** | 364 | **10** | - |
| Falls due after five years | **28** | - | **28** | - |

### Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft which are included within property, plant and equipment in note 28. At 31 December 2010, these assets had a net book value of $2,033 million (2009: $1,606 million) in the Group.

| | Group 2010 $million | Group 2009 $million |
|---|---|---|
| Minimum lease receivables under operating leases falling due: | | |
| Within one year | **196** | 175 |
| Later than one year and less than five years | **575** | 679 |
| After five years | **713** | 386 |
| | **1,484** | 1,240 |

The Company had no operating lease assets in 2010 and 2009.

### 22. Impairment provisions on loans and advances

**Group**

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Individual impairment provisions $million | Portfolio impairment provision $million | Total $million | Individual impairment provisions $million | Portfolio impairment provision $million | Total $million |
| At 1 January | 1,985 | 876 | 2,861 | 1,324 | 657 | 1,981 |
| Exchange translation differences | 36 | 16 | 52 | 49 | 21 | 70 |
| Amounts written off | (1,252) | - | (1,252) | (1,329) | (3) | (1,332) |
| Recoveries of acquisition fair values | (27) | - | (27) | (40) | 1 | (39) |
| Recoveries of amounts previously written off | 236 | - | 236 | 193 | (2) | 191 |
| Discount unwind | (62) | - | (62) | (59) | 1 | (58) |
| Other | (1) | - | (1) | 48 | 5 | 53 |
| New provisions | 1,418 | 110 | 1,528 | 2,187 | 426 | 2,613 |
| Recoveries/provisions no longer required | (416) | (240) | (656) | (388) | (230) | (618) |
| Net charge/(release) against profit | 1,002 | (130) | 872 | 1,799 | 196 | 1,995 |
| Provisions held at 31 December | 1,917 | 762 | 2,679 | 1,985 | 876 | 2,861 |

**Company**

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Individual impairment provisions $million | Portfolio impairment provision $million | Total $million | Individual impairment provisions $million | Portfolio impairment provision $million | Total $million |
| At 1 January | 720 | 439 | 1,159 | 307 | 239 | 546 |
| Exchange translation differences | 17 | 8 | 25 | 18 | 9 | 27 |
| Amounts written off | (470) | - | (470) | (433) | - | (433) |
| Recoveries of amounts previously written off | 68 | - | 68 | 53 | - | 53 |
| Discount unwind | (28) | - | (28) | (18) | - | (18) |
| Other | - | - | - | 11 | 9 | 20 |
| New provisions | 691 | 75 | 766 | 880 | 295 | 1,175 |
| Recoveries/provisions no longer required | (133) | (160) | (293) | (98) | (113) | (211) |
| Net charge/(release) against profit | 558 | (85) | 473 | 782 | 182 | 964 |
| Provisions held at 31 December | 865 | 362 | 1,227 | 720 | 439 | 1,159 |

### 23. Non-performing loans and advances

**Problem credit management and provisioning**

**Consumer Banking**

In Consumer Banking, where there are large numbers of small value loans, a primary indicator of potential impairment is delinquency. 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.

A non performing loan is any loan that is more than 90 days past due or is otherwise individually impaired, and excludes:

- loans renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; and
- 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.

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

For the main unsecured products and loans secured by automobiles, the entire outstanding amount is generally written off at 150 days past due. Unsecured consumer finance loans are similarly written off at 90 days past due. For secured loans (other than those secured by automobiles) individual impairment provisions (IIP) 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 IIP 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, fraud and death. Write off and IIP is accelerated for all restructured accounts to 90 days past due (unsecured and automobile finance) and 120 days past due (secured) respectively.

Individually impaired loans for Consumer Banking will therefore not equate to those reported as non-performing on pages 90 and 91, because non-performing loans include all those over 90 days past due. This difference reflects the fact that, while experience shows that an element of delinquent loans are impaired it is not possible to identify which individual loans the impairment relates to until the delinquency is sufficiently prolonged that loss is almost certain, which, in the Group's experience, is generally around 150 days in Consumer.Banking. Up to that point the inherent impairment is captured by portfolio impairment provisions (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 experiences 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 enterprises in the SME segment of Consumer Banking are similar to those adopted in Wholesale Banking.

Consumer Banking has seen improvements in the level of non-performing loans in 2010, particularly in Taiwan, Korea, and Hong Kong due to strengthening macroeconomic conditions in those markets, as well as de-risking actions taken and intensified collections activities. This has been partially offset by an increase in the Middle East.

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

The total net impairment charge in Consumer Banking in 2010 improved by $474 million or 45 per cent over 31 December 2009. The lower individual impairment in 2010 compared to 2009 is visible across all of our major markets, particularly in India, Hong Kong, and Other Asia Pacific.

There was a portfolio impairment release of $85 million in 2010 (compared to a charge of $54 million in 2009) as a direct result of the improvement in portfolio performance indicators as macroeconomic conditions strengthened in our markets

## 23. Non-performing loans and advances continued

**Wholesale Banking**

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

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

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

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

Gross non-performing loans in Wholesale Banking have increased by $698 million (or 25 per cent) since December 2009, Company non-performing loans have increased by $1,010 million (or 75 per cent). This is largely due to the downgrade of three significant accounts which are under restructuring within the MESA region. Excluding the MESA region gross non-performing loans have reduced by 8 per cent since December 2009. The cover ratio reflects the extent to which gross non-performing loans are covered by individual and portfolio impairment provisions. The cover ratio decreased from 65 per cent as at 31 December 2009 to 50 per cent as at 31 December 2010 as a result of the downgrade of the three accounts referred to above. The Company cover ratio decreased from 61 per cent to 38 per cent. The balance uncovered by individual impairment provisions represents the value of collateral held and the Group's estimate of the net outcome of any work-out strategy.

The total Group net individual impairment charge of $350 million in 2010 was significantly lower than the charge in 2009 ($806 million) reflecting the improved credit environment.

The PIP balance has reduced by $46 million (Company $26 million) since December 2009. This is partly contributed by improving portfolio quality indicators and macro-economic conditions, and partly by a better visibility around areas of concern in the MESA region, which resulted in the release of some of the additional portfolio impairment provision created in 2009.

## 23. Non-performing loans and advances continued

**Consumer Banking**

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

**Group**

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Loans and advances | | | | | | | | | |
| Gross non-performing | 50 | 47 | 145 | 395 | 76 | 342 | 29 | 89 | 1,173 |
| Individual impairment provision | (20) | (20) | (57) | (160) | (32) | (141) | (16) | (60) | (506) |
| Non-performing loans net of individual impairment provision | 30 | 27 | 88 | 235 | 44 | 201 | 13 | 29 | 667 |
| Portfolio impairment provision | | | | | | | | | (451) |
| Net non-performing loans and advances | | | | | | | | | 216 |
| Cover ratio | | | | | | | | | 82% |

| | 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Loans and advances | | | | | | | | | |
| Gross non-performing | 80 | 47 | 190 | 482 | 65 | 263 | 28 | 97 | 1,252 |
| Individual impairment provision | (64) | (20) | (63) | (212) | (17) | (91) | (10) | (61) | (538) |
| Non-performing loans net of individual impairment provision | 16 | 27 | 127 | 270 | 48 | 172 | 18 | 36 | 714 |
| Portfolio impairment provision | | | | | | | | | (519) |
| Net non-performing loans and advances | | | | | | | | | 195 |
| Cover ratio | | | | | | | | | 84% |

## 23. Non-performing loans and advances continued

### Company

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | |
| | Singapore $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Loans and advances | | | | | | | |
| Gross non-performing | 41 | 23 | 75 | 218 | 6 | 21 | 384 |
| Individual impairment provision | (20) | (4) | (32) | (97) | (5) | (21) | (179) |
| Non-performing loans net of individual impairment provision | 21 | 19 | 43 | 121 | 1 | - | 205 |
| Portfolio impairment provision | | | | | | | (162) |
| Net non-performing loans and advances | | | | | | | 43 |
| Cover ratio | | | | | | | 89% |

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | |
| | Singapore $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Loans and advances | | | | | | | |
| Gross non-performing | 47 | 22 | 64 | 148 | 7 | 20 | 308 |
| Individual impairment provision | (20) | (3) | (17) | (61) | (4) | (21) | (126) |
| Non-performing loans net of individual impairment provision | 27 | 19 | 47 | 87 | 3 | (1) | 182 |
| Portfolio impairment provision | | | | | | | (213) |
| Net non-performing loans and advances | | | | | | | (31) |
| Cover ratio | | | | | | | 110% |

## 23. Non-performing loans and advances continued

### Wholesale Banking

The following table sets out the total non-performing portfolio in Wholesale Banking:

**Group**

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Loans and advances | | | | | | | | | |
| Gross non-performing | 111 | 21 | 305 | 817 | 272 | 1,707 | 103 | 122 | 3,458 |
| Individual impairment provision | (82) | (5) | (136) | (347) | (80) | (641) | (44) | (76) | (1,411) |
| Non-performing loans net of individual impairment provision | 29 | 16 | 169 | 470 | 192 | 1,066 | 59 | 46 | 2,047 |
| Portfolio impairment provision | | | | | | | | | (311) |
| Net non-performing loans and advances | | | | | | | | | 1,736 |
| Cover ratio | | | | | | | | | 50% |

| | 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Loans and advances | | | | | | | | | |
| Gross non-performing | 207 | 10 | 352 | 780 | 207 | 855 | 160 | 189 | 2,760 |
| Individual impairment provision | (117) | (7) | (204) | (408) | (74) | (469) | (53) | (115) | (1,447) |
| Non-performing loans net of individual impairment provision | 90 | 3 | 148 | 372 | 133 | 386 | 107 | 74 | 1,313 |
| Portfolio impairment provision | | | | | | | | | (357) |
| Net non-performing loans and advances | | | | | | | | | 956 |
| Cover ratio | | | | | | | | | 65% |

## 23. Non-performing loans and advances continued

### Company

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | |
| | Singapore $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Americas UK & Europe $million | Total $million |
| Loans and advances | | | | | | |
| Gross non-performing | 21 | 246 | 270 | 1,532 | 281 | 2,350 |
| Individual impairment provision | (5) | (118) | (79) | (407) | (77) | (686) |
| Non-performing loans net of individual impairment provision | 16 | 128 | 191 | 1,125 | 204 | 1,664 |
| Portfolio impairment provision | | | | | | (200) |
| Net non-performing loans and advances | | | | | | 1,464 |
| Cover ratio | | | | | | 38% |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | |
| | Singapore $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Americas UK & Europe $million | Total $million |
| Loans and advances | | | | | | |
| Gross non-performing | 10 | 249 | 207 | 687 | 187 | 1,340 |
| Individual impairment provision | (7) | (144) | (74) | (254) | (115) | (594) |
| Non-performing loans net of individual impairment provision | 3 | 105 | 133 | 433 | 72 | 746 |
| Portfolio impairment provision | | | | | | (226) |
| Net non-performing loans and advances | | | | | | 520 |
| Cover ratio | | | | | | 61% |

Collateral held as security against impaired loans primarily relates to property and equipment. Where the fair value of collateral held exceeds the outstanding loan, any excess is paid back to the customers and is not available for offset against other loans.

## 24. Investment securities

### Group

| 2010 | Debt securities: Held-to-maturity $million | Debt securities: Available-for-sale $million | Debt securities: Loans and receivables $million [1] | Equity shares $million | Treasury bills $million | Total $million |
|---|---|---|---|---|---|---|
| Issued by public bodies: | | | | | | |
| Government securities | 25 | 20,776 | 388 | | | |
| Other public sector securities | - | 629 | - | | | |
| | 25 | 21,405 | 388 | | | |
| Issued by banks: | | | | | | |
| Certificates of deposit | - | 4,670 | 44 | | | |
| Other debt securities | - | 15,135 | 864 | | | |
| | - | 19,805 | 908 | | | |
| Issued by corporate entities and other issuers: | | | | | | |
| Other debt securities | - | 9,345 | 3,508 | | | |
| Total debt securities | 25 | 50,555 | 4,804 | | | |
| Of which: | | | | | | |
| Listed on a recognised UK exchange | - | 1,443 | 285 | 140 | - | 1,868 |
| Listed elsewhere | 25 | 14,937 | 1,081 | 830 | 6,574 | 23,447 |
| Unlisted | - | 34,175 | 3,438 | 1,547 | 11,321 | 50,481 |
| | 25 | 50,555 | 4,804 | 2,517 | 17,895 | 75,796 |
| Market value of listed securities | 25 | 16,380 | 1,348 | 970 | 6,574 | 25,297 |
| Investment securities pledged subject to sale and repurchase transactions | - | 430 | 73 | - | 1,090 | 1,593 |

[1] These debt securities listed or registered on a recognised UK exchange or elsewhere, thinly traded or the markets for these securities is illiquid.

| 2009 | Debt securities: Held-to-maturity $million | Debt securities: Available-for-sale $million | Debt securities: Loans and receivables $million [1] | Equity shares $million | Treasury bills $million | Total $million |
|---|---|---|---|---|---|---|
| Issued by public bodies: | | | | | | |
| Government securities | 31 | 16,825 | 392 | | | |
| Other public sector securities | - | 1,530 | 18 | | | |
| | 31 | 18,355 | 410 | | | |
| Issued by banks: | | | | | | |
| Certificates of deposit | - | 5,875 | 1,795 | | | |
| Other debt securities | - | 17,445 | 1,852 | | | |
| | - | 23,320 | 3,647 | | | |
| Issued by corporate entities and other issuers: | | | | | | |
| Other debt securities | - | 6,758 | 2,600 | | | |
| Total debt securities | 31 | 48,433 | 6,657 | | | |
| Of which: | | | | | | |
| Listed on a recognised UK exchange | - | 5,180 | 374 [2] | 105 | - | 5,659 |
| Listed elsewhere | 29 | 17,451 | 913 [2] | 289 | 5,241 | 23,923 |
| Unlisted | 2 | 25,802 | 5,370 | 1,255 | 13,717 | 46,146 |
| | 31 | 48,433 | 6,657 | 1,649 | 18,958 | 75,728 |
| Market value of listed securities | 29 | 22,631 | 1,270 | 394 | 5,241 | 29,565 |
| Investment securities pledged subject to sale and repurchase transactions | - | 618 | - | 72 | 547 | 1,237 |

[1] These debt securities listed or registered on a recognised UK exchange or elsewhere, thinly traded or the markets for these securities is illiquid.

[2] Amounts have been reclassified as set out in note 54.

Equity shares largely comprise investments in corporates.

## 24. Investment securities continued

### Company

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Debt securities | | | | |
| | Available-for-sale $million | Loans and receivables[1] $million | Equity shares $million | Treasury bills $million | Total $million |
| Issued by public bodies: | | | | | |
| Government securities | 9,384 | 387 | | | |
| Other public sector securities | 83 | - | | | |
| | 9,467 | 387 | | | |
| Issued by banks: | | | | | |
| Certificates of deposit | 1,924 | - | | | |
| Other debt securities | 5,866 | 608 | | | |
| | 7,790 | 608 | | | |
| Issued by corporate entities and other issuers: | | | | | |
| Other debt securities | 5,159 | 1,468 | | | |
| Total debt securities | 22,416 | 2,463 | | | |
| Of which: | | | | | |
| Listed on a recognised UK exchange | 828 | 79 | 12 | - | 919 |
| Listed elsewhere | 5,159 | 867 | 646 | 226 | 6,898 |
| Unlisted | 16,429 | 1,517 | 84 | 3,275 | 21,305 |
| | 22,416 | 2,463 | 742 | 3,501 | 29,122 |
| Market value of listed securities | 5,987 | 927 | 658 | 226 | 7,798 |
| Investment securities pledged subject to sale and repurchase transactions | 100 | 73 | - | 707 | 880 |

[1] These debt securities listed or registered on a recognised UK exchange or elsewhere, thinly traded or the markets for these securities is illiquid.

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Debt securities | | | | |
| | Available-for-sale $million | Loans and receivables[1] $million | Equity shares $million | Treasury bills $million | Total $million |
| Issued by public bodies: | | | | | |
| Government securities | 8,714 | 392 | | | |
| Other public sector securities | 1,104 | 18 | | | |
| | 9,818 | 410 | | | |
| Issued by banks: | | | | | |
| Certificates of deposit | 3,640 | - | | | |
| Other debt securities | 7,377 | 1,602 | | | |
| | 11,017 | 1,602 | | | |
| Issued by corporate entities and other issuers: | | | | | |
| Other debt securities | 2,891 | 1,859 | | | |
| Total debt securities | 23,726 | 3,871 | | | |
| Of which: | | | | | |
| Listed on a recognised UK exchange | 4,197 | 374[2] | 9 | - | 4,580 |
| Listed elsewhere | 10,077 | (918)[2] | 43 | 5 | 9,207 |
| Unlisted | 9,452 | 4,415 | 86 | 3,663 | 17,616 |
| | 23,726 | 3,871 | 138 | 3,668 | 31,403 |
| Market value of listed securities | 14,274 | 1,264 | 52 | 5 | 15,595 |
| Investment securities pledged subject to sale and repurchase transactions | 557 | - | - | - | 557 |

[1] These debt securities listed or registered on a recognised UK exchange or elsewhere, thinly traded or the markets for these securities is illiquid.

[2] Amounts have been restated as set out in note 54.

Equity shares largely comprise investments in corporates.

## 24. Investment securities continued

The change in the carrying amount of investment securities comprised:

**Group**

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Debt securities $million | Equity shares $million | Treasury bills $million | Total $million | Debt securities $million | Equity shares $million | Treasury bills $million | Total $million |
| At 1 January | 55,121 | 1,649 | 18,958 | 75,728 | 51,036 | 1,593 | 16,713 | 69,342 |
| Exchange translation differences | 1,403 | 10 | 483 | 1,896 | 1,635 | 20 | 539 | 2,194 |
| Acquisitions | - | - | - | - | - | 1 | - | 1 |
| Additions | 78,225 | 757 | 35,094 | 114,076 | 86,712 | 369 | 42,658 | 129,739 |
| Maturities and disposals | (79,595) | (279) | (36,784) | (116,658) | (84,857) | (807) | (41,014) | (126,678) |
| Impairment, net of recoveries on disposals | (24) | (9) | - | (33) | (81) | 8 | - | (73) |
| Changes in fair value (including the effect of fair value hedging) | 355 | 389 | 46 | 790 | 29 | 465 | (53) | 441 |
| Amortisation of discounts and premiums | (101) | - | 98 | (3) | 647 | - | 115 | 762 |
| At 31 December | 55,384 | 2,517 | 17,895 | 75,796 | 55,121 | 1,649 | 18,958 | 75,728 |

At 31 December 2010, unamortised premiums on debt securities held for investment purposes amounted to $430 million (2009: $669 million) and unamortised discounts amounted to $397 million (2009: $725 million).

Income from listed equity shares amounted to $8 million (2009: $12 million) and income from unlisted equity shares amounted to $45 million (2009: $97 million).

**Company**

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Debt securities $million | Equity shares $million | Treasury bills $million | Total $million | Debt securities $million | Equity shares $million | Treasury bills $million | Total $million |
| At 1 January | 27,597 | 138 | 3,668 | 31,403 | 27,973 | 126 | 4,142 | 32,241 |
| Exchange translation differences | 681 | 4 | 217 | 902 | 661 | 1 | 97 | 759 |
| Additions | 27,277 | 520 | 12,058 | 39,855 | 28,185 | 127 | 13,350 | 41,662 |
| Maturities and disposals | (30,801) | (25) | (12,484) | (43,310) | (29,588) | (134) | (13,985) | (43,707) |
| Impairment, net of recoveries on disposals | (23) | (5) | - | (28) | (81) | (10) | - | (91) |
| Changes in fair value (including the effect of fair value hedging) | 312 | 110 | (7) | 415 | (39) | 28 | (3) | (14) |
| Amortisation of discounts and premiums | (164) | - | 49 | (115) | 486 | - | 67 | 553 |
| At 31 December | 24,879 | 742 | 3,501 | 29,122 | 27,597 | 138 | 3,668 | 31,403 |

At 31 December 2010, unamortised premiums on debt securities held for investment purposes amounted to $351 million (2009: $579 million) and unamortised discounts amounted to $259 million (2009: $514 million).

Income from listed equity shares amounted to $1 million (2009: $5 million) and income from unlisted equity shares amounted to $4 million (2009: $1 million).

## 24. Investment securities continued

The change in impairment provisions is as follows:

### Group

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 191 | 236 | - | 427 | 158 | 311 | 1 | 470 |
| Exchange translation differences | 1 | 1 | - | 2 | 1 | 1 | - | 2 |
| Amounts written off | (36) | (7) | - | (43) | (49) | (68) | (1) | (118) |
| Impairment, net of recoveries on disposals [1] | 24 | 9 | - | 33 | 81 | (8) | - | 73 |
| At 31 December | 180 | 239 | - | 419 | 191 | 236 | - | 427 |

[1] Impairment charge includes recoveries of impaiment on disposal of equity investment of $1 million (2009: $57 million). Of the new provisions raised of $34 million (2009: $124 million), $2 million (2009: $7 million) relates to debt securities measured as loans and receivables and is included with impairment losses on loans and advances and other credit provisions, with the balance of $32 million ( 2009: $123 million) reported within 'Other Impairment'.

### Company

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 187 | 50 | - | 237 | 153 | 41 | - | 194 |
| Exchange translation differences | 1 | - | - | 1 | 2 | (1) | - | 1 |
| Amounts written off | (37) | (4) | - | (41) | (49) | - | - | (49) |
| Impairment, net of recoveries on disposals | 23 | 5 | - | 28 | 81 | 10 | - | 91 |
| At 31 December | 174 | 51 | - | 225 | 187 | 50 | - | 237 |

## 25. Investments in subsidiary undertakings, joint ventures and associates

### Investment in subsidiary undertakings

| | 2010<br>$million | 2009<br>$million |
|---|---|---|
| At 1 January | **17,356** | 16,790 |
| Additions | **600** | 1,577 |
| Redemption of capital | **(885)** | (565) |
| Disposals and liquidation | **(532)** | - |
| Impairment | **-** | (446) |
| At 31 December | **16,539** | 17,356 |

At 31 December 2010, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

| Country and place of incorporation or registration | Main areas of operation | Group interest in ordinary share capital % |
|---|---|---|
| Standard Chartered First Bank Korea Limited, Korea | 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 | 100 |
| Standard Chartered Bank Kenya Limited | 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.

## 25. Investments in subsidiary undertakings, joint ventures and associates continued

### Joint ventures

The Group and Company have a 44.51 per cent interest through a joint venture company which holds a majority investment in PT Bank Permata Tbk (Permata), in Indonesia.

The Group proportionately consolidates its share of the assets, liabilities, income and expense of these joint ventures on a line by line basis. Contingent liabilities set out in note 46, include $175 million (2009: $102 million) relating to these joint venture arrangements. These mainly comprise banking guarantees and irrevocable letters of credit. There are no capital commitments related to the Group's investments in these joint ventures. Related party transactions are disclosed in note 56.

On 1 October 2010 the Group purchased 25.1 per cent interest in Standard Chartered STCI Capital Markets (STCI) that it did not already hold. On that date, STCI became a wholly owned subsidiary of the Group and joint control ceased.

The following amounts have been included in the consolidated accounts of the Group:

| | 2010<br>$million | 2009<br>$million |
|---|---|---|
| Current assets | 1,878 | 1,094 |
| Long-term assets | 1,905 | 1,759 |
| Total assets | 3,783 | 2,853 |
| Current liabilities | (2,968) | (2,183) |
| Long-term liabilities | (190) | (151) |
| Total liabilities | (3,158) | (2,334) |
| Net assets | 625 | 519 |
| Income | 227 | 168 |
| Expenses | (132) | (113) |
| Impairment | (20) | (20) |
| Operating profit | 75 | 35 |
| Tax | (15) | (13) |
| Share of post tax result from joint ventures | 60 | 22 |

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.

| | 2010<br>$million | 2009<br>$million |
|---|---|---|
| At 1 January | 297 | 297 |
| Additions | 99 | - |
| At 31 December | 396 | 297 |

## 25. Investments in subsidiary undertakings, joint ventures and associates continued

### Interests in associates

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 $million | 2009 $million | 2010 $million | 2009 $million |
| At 1 January | **514** | 511 | **53** | 70 |
| Translation | **-** | (2) | **-** | - |
| Additions | **139** | 41 | **-** | 2 |
| Dividends received | **(22)** | (11) | **-** | - |
| Disposals | **-** | (6) | **-** | - |
| Less: Impairment | **-** | (19) | **-** | (19) |
| At 31 December | **631** | 514 | **53** | 53 |

The Company accounts for its investments in associates at cost.

The following amounts represent the total profit, assets and liabilities of the Group's associated undertakings.

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 $million | 2009 $million | 2010 $million | 2009 $million |
| Profit for the year | **270** | 163 | **-** | (5) |
| Total assets | **47,344** | 25,324 | **6,124** | 70 |
| Total liabilities | **(45,368)** | (23,954) | **(5,433)** | (31) |
| Net assets | **1,976** | 1,370 | **691** | 39 |

| Associate | Main areas of operation | Group interest in ordinary share capital % |
|---|---|---|
| China Bohai Bank | China | 19.9 |
| Fleming Family & Partners | Asia | 20.0 |
| Merchant Solutions Limited | Hong Kong | 44.0 |
| Asia Commercial Bank | Vietnam | 15.0 |

The fair value of the investment in Asia Commerical Bank ("ACB") at 31 December 2010 is $157 million (2009: $236 million). The investments in ACB and China Bohai Bank are less than 20 per cent but both ACB and China Bohai Bank are considered to be associates because of the significant influence the Group is able to exercise over the management of these companies and their financial and operating policies. Significant influence is evidenced largely through the inter change of management personnel and the provision of expertise. The reporting dates of these associates are within three months of the Group's reporting date.

## 26. Business Combinations

### 2010 acquisitions

**Group**

On 12 April 2010, the Group acquired 100 per cent of the consumer finance business of GE Capital (Hong Kong) Limited, a Hong Kong (restricted licence) banking company. The Group purchased this interest for $144 million recognising goodwill of $3 million.

On 2 August 2010, the Group acquired 100 per cent of the consumer finance business of GE Commercial Financing (Singapore) Limited in Singapore. The businesses were acquired for $70 million and goodwill of $14 million was recognised.

On 1 October 2010 the Group purchased the remaining 25.1 per cent interest in Standard Chartered STCI Capital Markets (STCI) for $18 million. By virtue of this transaction STCI became a subsidiary of the Group. The fair value of the 74.9 per cent interest held by the Group at 1 October 2010, which is included in the purchase consideration was $55 million. As required by IFRS 3 – 'Business Combinations', the Group recognised a gain (net of foreign exchange) of $4 million within 'other operating income' from remeasuring the 74.9 per cent interest held by the Group to fair value. Following this transaction, goodwill related to STCI increased to $75 million.

Between 31 October 2010 and 5 December 2010 the Group acquired the custody business of Barclays Bank PLC across various locations in Africa. The business was acquired for $130 million and goodwill of $21 million was recognised.

If the acquisitions had occurred on 1 January 2010, the operating income of the Group would have been approximately $16,099 million and profit before taxation would have been approximately $6,135 million.

The assets and liabilities arising from the acquisition are as follows:

| | Fair value $million | Acquiree's carrying amount $million |
|---|---|---|
| Cash and balances at central banks | 20 | 20 |
| Loans and advances to banks | 6 | 6 |
| Loans and advances to customers | 894 | 901 |
| Investment securities | 2 | 2 |
| Intangibles other than goodwill | 112 | - |
| Deferred tax assets | 4 | 12 |
| Other assets | 16 | 26 |
| Total assets | 1,054 | 967 |
| Other liabilities | 737 | 736 |
| Accruals and deferred income | 11 | 11 |
| Total liabilities | 748 | 747 |
| Net assets acquired | 306 | 220 |
| Purchase consideration settled in cash | (364) | |
| Cash and cash equivalents in subsidiary acquired | 20 | |
| Cash outflow on acquisition | (344) | |
| Purchase consideration: | | |
| Cash paid | 364 | |
| Fair value of interest held prior to change in control | 55 | |
| Fair value of net assets acquired | (306) | |
| Goodwill | 113 | |
| Intangible assets acquired: | | |
| Customer relationships | 112 | |
| Total | 112 | |
| Contribution from acquisition to 31 December 2010 | | |
| Operating income | 22 | |
| Profit before taxation | 8 | |

The fair value amounts contain some provisional balances which will be finalised within 12 months of the acquisition date.

As part of the business combinations $7 million of intercompany liabilities were acquired and deemed to be settled. Acquisition related costs of $1 million are included within operating expenses.

The fair value of loans to banks is $6 million. The gross contractual amount due is $6 million, all of which are to be collected.

The fair value of loans to customers is $894 million. The gross contractual amount due is $907 million, of which $15 million is the best estimate of the contractual cash flows not expected to be collected.

Goodwill arising on the acquisitions is attributable to the synergies expected to arise from their integration with the Group and to those intangibles which are not recognised separately, such as the acquired workforce.

## 26. **Business Combinations** continued

### **2010 acquisitions** continued

**Company**

On 2 August the Company acquired 100 per cent of the consumer finance businesses of GE Commercial Financing Limited and GE Capital Services PTE Limited in Singapore. The businesses were acquired for $70 million and goodwill of $14 million was recognised.

Between 31 October 2010 and 5 December 2010 the Company acquired the franchise in respect of the custody business of Barclays Bank PLC across various locations in Africa. The business was acquired for $5 million and goodwill of $5 million was recognised.

The assets and liabilities arising from the acquisitions are as follows:

| | Fair value $million | Acquiree's carrying amount $million |
|---|---|---|
| Cash and balances at central banks | 8 | 8 |
| Loans and advances to banks | 80 | 82 |
| Total assets | 88 | 90 |
| Other liabilities | 30 | 30 |
| Accruals and deferred income | 2 | 2 |
| Total liabilities | 32 | 32 |
| Net assets acquired | 56 | 58 |
| Purchase consideration settled in cash | (75) | |
| Cash and cash equivalents in subsidiary acquired | 8 | |
| Cash outflow on acquisition | (67) | |
| Purchase consideration: | | |
| Cash paid | 75 | |
| Fair value of net assets acquired | (56) | |
| Goodwill | 19 | |
| Intangible assets acquired: | | |
| Customer relationships | - | |
| Total | - | |
| Contribution from acquisition to 31 December 2010 | | |
| Operating income | 2 | |
| Profit before taxation | - | |

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 customers is $80 million. The gross contractual amount due is $81 million, of which $1 million is the best estimate of the contractual cash flows not expected to be collected.

Acquisition related costs of $2 million are included within operating expenses.

Goodwill arising on the acquisitions is attributable to the synergies expected to arise from their integration with the Group and to those intangibles which are not recognised separately. The primary reason for the acquisitions is to enhance capability and for strategic intent.

## 26. Business Combinations continued

### 2009 acquisitions

**Group**

On 30 January 2009, the Group acquired 100 per cent of the share capital of Cazenove Asia Limited (subsequently renamed Standard Chartered Securities (Hong Kong) Limited), a leading Asian equity capital markets, corporate finance and institutional brokerage business.

On 30 June 2009, the Group acquired the remaining 75 per cent non-controlling interest in First Africa, for a consideration of $13 million. Goodwill of $5 million was recognised and $5 million of customer relationship intangibles identified.

During 2009 the Group acquired a further 2 per cent interest in its subsidiary in Ghana for an additional $8 million generating goodwill of $6 million.

At 31 December 2009, under the requirements of IFRS 3 'Business Combinations', the Group was deemed to have paid contingent consideration of $41 million in respect of its 2005 acquisition of Korea First Bank (subsequently renamed SC First Bank), and consequently additional goodwill of $41 million has been recognised.

If the acquisitions had occurred on 1 January 2009 the operating income of the Group would have been approximately $15,214 million and profit before taxation would have been approximately $5,162 million.

The assets and liabilities arising from the acquisition of Cazenove Asia were as follows:

| | Fair value $million | Acquiree's carrying amount $million |
|---|---|---|
| Loans and advances to banks | 34 | 34 |
| Investment securities | 1 | 1 |
| Intangibles other than goodwill | 9 | - |
| Property, plant and equipment | 1 | 1 |
| Other assets | 45 | 45 |
| Total assets | 90 | 81 |
| Other liabilities | 39 | 39 |
| Accruals and deferred income | 7 | 7 |
| Retirement benefit obligations | 2 | 2 |
| Total liabilities | 48 | 48 |
| Net assets acquired | 42 | 33 |
| Purchase consideration settled in cash | (73) | |
| Cash and cash equivalents in subsidiary acquired | 31 | |
| Cash inflow on acquisition | (42) | |
| Purchase consideration : | | |
| Cash paid | 73 | |
| Fair value of net assets (liabilities) acquired | (42) | |
| Goodwill | 31 | |
| Intangible assets acquired: | | |
| Customer relationships | 9 | |
| Total | 9 | |
| Contribution from acquisition to 31 December 2009: | | |
| Operating income | 39 | |
| Loss before taxation | (3) | |

Goodwill arising on the acquisitions is attributable to the synergies expected to arise from their integration with the Group and to those intangibles which are not recognised separately, such as the acquired workforce.

### 2009 acquisitions

**Company**

On 31 May 2009, the Company acquired business from its subsidiary American Express Bank (Germany) for a consideration of $218 million and recognised goodwill of $15 million.

## 27. Goodwill and intangible assets

### Group

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Goodwill $million | Acquired intangibles $million | Software $million | Total $million | Goodwill $million | Acquired intangibles $million | Software $million | Total $million |
| **Cost** | | | | | | | | |
| At 1 January | 5,738 | 750 | 651 | 7,139 | 5,467 | 866 | 595 | 6,928 |
| Exchange translation differences | 155 | 18 | 65 | 238 | 188 | 14 | 21 | 223 |
| Acquisitions | 69 | 117 | - | 186 | 83 | 14 | - | 97 |
| Additions | - | - | 197 | 197 | - | - | 173 | 173 |
| Disposals | (134) | - | - | (134) | - | (144) | (2) | (146) |
| Amounts written off | - | - | (137) | (137) | - | - | (136) | (136) |
| At 31 December | 5,828 | 885 | 776 | 7,489 | 5,738 | 750 | 651 | 7,139 |
| **Provision for amortisation** | | | | | | | | |
| At 1 January | - | 408 | 280 | 688 | - | 309 | 265 | 574 |
| Exchange translation differences | - | 11 | 19 | 30 | - | 12 | 9 | 21 |
| Amortisation for the period | - | 81 | 167 | 248 | - | 87 | 139 | 226 |
| Amounts written off | - | - | (136) | (136) | - | - | (133) | (133) |
| At 31 December | - | 500 | 330 | 830 | - | 408 | 280 | 688 |
| Net book value | 5,828 | 385 | 446 | 6,659 | 5,738 | 342 | 371 | 6,451 |

At 1 January 2009, the net book value was: goodwill, $5,467 million; acquired intangibles, $557 million; and software, $330 million. At 31 December 2010, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $69 million (2009: $89 million).

### Company

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Goodwill $million | Acquired intangibles $million | Software $million | Total $million | Goodwill $million | Acquired intangibles $million | Software $million | Total $million |
| **Cost** | | | | | | | | |
| At 1 January | 245 | 105 | 478 | 828 | 229 | 89 | 428 | 746 |
| Exchange translation differences | - | - | 45 | 45 | 1 | 2 | 12 | 15 |
| Acquisitions | 14 | - | - | 14 | 15 | 14 | - | 29 |
| Additions | - | - | 178 | 178 | - | - | 152 | 152 |
| Amounts written off | - | - | (105) | (105) | - | - | (114) | (114) |
| At 31 December | 259 | 105 | 596 | 960 | 245 | 105 | 478 | 828 |
| **Provision for amortisation** | | | | | | | | |
| At 1 January | - | 34 | 164 | 198 | - | 1 | 135 | 136 |
| Exchange translation differences | - | - | 16 | 16 | - | 1 | 4 | 5 |
| Amortisation for the period | - | 21 | 139 | 160 | - | 32 | 112 | 144 |
| Amounts written off | - | 1 | (103) | (102) | - | - | (87) | (87) |
| At 31 December | - | 56 | 216 | 272 | - | 34 | 164 | 198 |
| Net book value | 259 | 49 | 380 | 688 | 245 | 71 | 314 | 630 |

At 1 January 2009, the net book value was: goodwill, $229 million; acquired intangibles, $88 million; and software, $293 million.

## 27. Goodwill and intangible assets continued

At 31 December 2010, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $69 million (2009: $69 million).

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 $million | 2009 $million | 2010 $million | 2009 $million |
| **Acquired intangibles comprise:** | | | | |
| Core deposits | **37** | 51 | **-** | - |
| Customer relationships | **202** | 117 | **49** | 71 |
| Brand names | **141** | 168 | **-** | - |
| Licences | **5** | 6 | **-** | - |
| Net book value | **385** | 342 | **49** | 71 |

### Group

Acquired intangibles primarily comprise those recognised as part of the acquisitions of SC First Bank (SCFB), Permata, Union Bank (now amalgamated into Standard Chartered Bank (Pakistan) Limited, Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan) Limited, Pembroke, Harrison Lovegrove and 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 SCFB.

Significant items of goodwill arising on acquisitions have been allocated to the following cash generating units for the purposes of impairment testing:

| | | Goodwill | |
|---|---|---|---|
| Acquisition | Cash Generating Unit | 2010 $million | 2009 $million |
| SCFB, A Brain and Yeahreum | Korean business | **1,745** | 1,700 |
| Union Bank | Pakistan business | **307** | 312 |
| Hsinchu and Asia Trust | Taiwan business | **1,286** | 1,220 |
| Manhattan Card Business | Credit card and personal loan - Asia, India & MESA | **494** | 618 |
| Grindlays (India) and STCI | India business | **444** | 410 |
| Grindlays (MESA) | MESA business | **370** | 363 |
| Standard Chartered Bank (Thai) | Thailand business | **337** | 310 |
| Permata | Group's share of Permata (Indonesia business) | **174** | 163 |
| American Express Bank | Financial Institutions and Private Banking Business | **396** | 396 |
| Harrison Lovegrove, Pembroke, Cazenove Asia and First Africa | Corporate advisory business | **64** | 64 |
| Other | | **211** | 182 |
| | | **5,828** | 5,738 |

All recoverable amounts were measured based on value in use. The key assumptions and approach to determining value in use calculations, as set out below, are solely estimates for the purposes of assessing impairment on acquired goodwill. The calculation for each unit uses cash flow projections based on budgets and forecasts approved by management covering one year, except for Taiwan business, Korea business, Thailand business and Permata which use forecasts covering four years to 2014. Management forecasts projected revenue growth rates greater than long-term GDP rates but which are in line with past performance as adjusted to reflect the current economic climate, especially for 2009 and 2010. Cash flow projections are extrapolated forward for periods of up to a further 19 years using steady long-term forecast GDP growth rates and a terminal value determined based on long-term earning multiples. Where these rates are different from available market data on long-term rates, that fact is stated below. The cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the cash generating unit. Management believes that reasonable possible change in any of the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

### Korea businesses

SCFB, A Brain and Yeahreum were acquired in 2005, 2007 and 2008 respectively with initial goodwill recognised of $1,891 million and a further $5 million goodwill recognised in 2008 in respect of A Brain. The businesses comprise Consumer and Wholesale Banking operations in Korea.

In assessing impairment of goodwill, the Group has assumed that growth beyond 2014 will take place at a steady rate of 4.5 per cent (2009: 3.5 per cent) in line with the long-term forecast GDP growth of Korea. A pre-tax discount rate of 16.3 per cent (2009: 19.9 per cent) was used.

## 27. Goodwill and intangible assets continued

**Pakistan business**
Union Bank was acquired in September 2006 with initial goodwill recognised of $414 million. Additional goodwill of $17 million arose as a result of a share swap. Together with the Group's existing operations, the combined business comprises Consumer and Wholesale Banking operations in Pakistan.

In assessing impairment of goodwill, the Group has assumed that growth will increase at a steady rate of 5.9 per cent (2009: 4.3 per cent) in line with the long-term forecast GDP growth of Pakistan. A pre-tax discount rate of 24.7 per cent (2009: 28.4 per cent) was used.

**Taiwan businesses**
Hsinchu and Asia Trust were acquired in 2006 and 2008 respectively with initial goodwill recognised of $1,142 million and a further $34 million of goodwill recognised in 2007 in respect of Hsinchu. Together with the Group's existing operation, the combined business comprises Consumer and Wholesale Banking operations in Taiwan.

In assessing impairment of goodwill, the Group has assumed that growth beyond 2014 will increase at a steady rate of 4.9 per cent (2009: 3.4 per cent) in line with the long-term forecast GDP growth of Taiwan. A pre-tax discount rate of 16.2 per cent (2009: 16.7 per cent) was used.

**Credit card business**
Manhattan Card Business was acquired in 2000 with initial goodwill recognised of $1,061 million. This was amortised to $892 million under UK GAAP until 31 December 2003. The business comprises a credit card business and a personal loans business across Asia, India and MESA.

In assessing impairment of goodwill, the Group has assumed that growth will increase at a steady rate of 1.8 per cent (2009: 3.8 per cent) in line with the long-term forecast global GDP growth. A pre-tax discount rate of 16.7 per cent (2009: 13.9 per cent) was used.

**India businesses**
Grindlays (India) was acquired in 2000 with initial goodwill recognised of $446 million. This was amortised to $366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in India. In 2008, the Group acquired a 74.9 per cent interest in STCI, with initial goodwill recognised of $52 million. Following the acquisition of the remaining 25.1 per cent in 2010, this goodwill increased to $75 million

In assessing impairment of goodwill, the Group has assumed that growth will increase at a steady rate of 8.0 per cent (2009: 7.6 per cent) in line with the long-term forecast GDP growth of India. A pre-tax discount rate of 22.4 per cent (2009: 18.5 per cent) was used.

**MESA business**
Grindlays (MESA) was acquired in 2000 with initial goodwill recognised of $446 million. This was amortised to $366 million under UK GAAP until 31 December 2003. It comprises Consumer and Wholesale Banking operations in MESA.

In assessing impairment of goodwill, the Group has assumed that growth will increase at a steady rate of 1.8 per cent (2009: 3.8 per cent) in line with the long term forecast GDP growth of MESA. A pre-tax discount rate of 18.2 per cent (2009: 20.9 per cent) was used.

**Thailand business**
75 per cent of Standard Chartered Bank (Thai) was acquired in 1999 with initial goodwill recognised of $222 million. This was amortised to $204 million under UK GAAP until 31 December 2003. In 2005 the Group acquired the remaining 25 per cent, increasing goodwill to $272 million. The business comprises Consumer and Wholesale Banking operations in Thailand.

In assessing impairment of goodwill, the Group has assumed that growth beyond 2014 will increase at a steady rate of 5.3 per cent (2009: 4.3 per cent) in line with the long term forecast GDP growth of Thailand. A pre-tax discount rate of 25.2 per cent (2009: 17.7 per cent) was used.

**Group's share of Permata**
31.55 per cent of Permata was acquired in 2004 with initial goodwill recognised of $115 million. A further 12.96 per cent was acquired in September 2006, generating further goodwill of $57 million. This business comprises Consumer and Wholesale Banking operations in Indonesia.

In assessing impairment of goodwill, the Group has assumed that growth beyond 2014 will increase at a steady rate of 7.5 per cent (2009: 6.4 per cent) in line with the long-term forecast GDP growth of Indonesia. A pre-tax discount rate of 23.3 per cent (2009: 27.8 per cent) was used.

**Financial institution and Private Banking business**
100 per cent of AEB was acquired in February 2008 with initial goodwill recognised of $396 million. The business comprises Consumer and Wholesale Banking operations in the Americas, Europe and Asia.

In assessing impairment of goodwill, the Group has assumed that growth will remain at a steady 1.8 per cent (2009: 3.8 per cent), in line with long-term forecast global GDP growth. A pre-tax discount rate of 16.7 per cent (2009: 13.9 per cent) was used.

**Corporate advisory business**
The total goodwill of $64 million generated on the acquisition of Harrison Lovegrove and Pembroke in 2007 and Cazenove Asia and First Africa in 2009 comprises, oil and gas advisory, aircraft leasing, capital markets and corporate advisory and leverage finance advisory operations in Europe, Asia and Africa respectively.

In assessing impairment of goodwill, the Group has assumed that growth will remain at a steady 1.8 per cent (2009: 3.8 per cent), in line with long-term forecast global GDP growth. A pre-tax discount rate of 16.7 per cent (2009: 13.9 per cent) was used.

### 27. Goodwill and intangible assets continued

#### Company

Acquired intangibles primarily comprise those recognised as part of the acquisitions of American Express Bank.

Significant items of goodwill arising on acquisitions have been allocated to the following cash generating units for the purposes of impairment testing:

| | | Goodwill | |
|---|---|---|---|
| | | 2010 | 2009 |
| Acquisition | Cash Generating Unit | $million | $million |
| American Express Bank | Financial Institutions and Private Banking Business | **148** | 148 |
| Other | | **111** | 97 |
| | | **259** | 245 |

All recoverable amounts were measured based on value in use.

The key assumptions and approach to determining value in use calculations, as set out above, are solely estimates for the purposes of assessing impairment on acquired goodwill. The calculation for each unit uses cash flow projections based on budgets and forecasts approved by management covering one year. These are then extrapolated for periods of up to a further 19 years using steady long term growth forecast GDP growth rates and as terminal value determined based on long term earnings multiples.

Where these rates are different from available market data on long term rates, that fact is stated above. The cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the cash generating unit. Management believes that any reasonably possible change in the key assumptions on which recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

## 28. Property, plant and equipment

### Group

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 2,647 | 775 | 1,685 | 5,107 | 2,576 | 729 | 1,055 | 4,360 |
| Exchange translation differences | 69 | 33 | - | 102 | 82 | 23 | - | 105 |
| Additions | 240 | 130 | 498 | 868 | 134 | 125 | 630 | 889 |
| Acquisitions | - | 1 | - | 1 | - | 1 | - | 1 |
| Disposals and fully depreciated assets written off | (200) | (102) | - | (302) | (197) | (98) | - | (295) |
| Reclassification | - | - | - | - | 5 | (5) | - | - |
| Transfers from/(to) assets held for re-sale | (91) | - | - | (91) | 47 | - | - | 47 |
| At 31 December | 2,665 | 837 | 2,183 | 5,685 | 2,647 | 775 | 1,685 | 5,107 |
| **Depreciation** | | | | | | | | |
| Accumulated at 1 January | 423 | 502 | 79 | 1,004 | 327 | 422 | 25 | 774 |
| Exchange translation differences | 9 | 15 | - | 24 | 5 | 15 | - | 20 |
| Charge for the year | 118 | 140 | 71 | 329 | 119 | 139 | 54 | 312 |
| Attributable to assets sold or written off | (79) | (100) | - | (179) | (28) | (74) | - | (102) |
| Accumulated at 31 December | 471 | 557 | 150 | 1,178 | 423 | 502 | 79 | 1,004 |
| Net book amount at 31 December | 2,194 | 280 | 2,033 | 4,507 | 2,224 | 273 | 1,606 | 4,103 |

At 1 January 2009, the net book value was: premises, $2,249 million; equipment, $308 million and operating lease assets, $1,029 million.

Assets held under finance leases have the following net book amount:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Premises $million | Equipment $million | Premises $million | Equipment $million |
| Cost | 47 | 12 | 45 | 16 |
| Aggregate depreciation | (8) | (7) | (7) | (11) |
| Net book amount | 39 | 5 | 38 | 5 |

The Group's premises leases include rent review periods, renewal terms and in some cases purchase options.

| | 2010 $million | 2009 $million |
|---|---|---|
| **Minimum lease payments under finance leases falling due:** | | |
| Within one year | 3 | 3 |
| Later than one year and less than five years | 4 | 5 |
| | 7 | 8 |
| Future finance charges on finance leases | - | (1) |
| Present value of finance lease liabilities | 7 | 7 |

## 28. Property, plant and equipment continued

### Company

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Premises $million | Equipment $million | Total $million | Premises $million | Equipment $million | Total $million |
| **Cost or valuation** | | | | | | |
| At 1 January | 588 | 267 | 855 | 519 | 238 | 757 |
| Exchange translation differences | 24 | 11 | 35 | 17 | 9 | 26 |
| Additions | 116 | 71 | 187 | 61 | 56 | 117 |
| Disposals and fully depreciated assets written off | (32) | (53) | (85) | (9) | (36) | (45) |
| At 31 December | 696 | 296 | 992 | 588 | 267 | 855 |
| **Depreciation** | | | | | | |
| Accumulated at 1 January | 94 | 138 | 232 | 67 | 103 | 170 |
| Exchange translation differences | 2 | 5 | 7 | 2 | 5 | 7 |
| Charge for the year | 33 | 63 | 96 | 33 | 61 | 94 |
| Attributable to assets sold or written off | (21) | (51) | (72) | (8) | (31) | (39) |
| Accumulated at 31 December | 108 | 155 | 263 | 94 | 138 | 232 |
| Net book amount at 31 December | 588 | 141 | 729 | 494 | 129 | 623 |

At 1 January 2009, the net book value was; premises $452 million; and equipment $135 million.

Assets held under finance leases have the following net book amount:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Premises $million | Equipment $million | Premises $million | Equipment $million |
| Cost | 47 | 8 | 45 | 8 |
| Aggregate depreciation | (8) | (4) | (7) | (4) |
| Net book amount | 39 | 4 | 38 | 4 |

The Group's premises leases include rent review periods, renewal terms and in some cases purchase options.

| | 2010 $million | 2009 $million |
|---|---|---|
| **Minimum lease payments under finance leases falling due:** | | |
| Within one year | 2 | 2 |
| Later than one year and less than five years | 3 | 4 |
| | 5 | 6 |
| Future finance charges on finance leases | (1) | (1) |
| Present value of finance lease liabilities | 4 | 5 |

## 29. Deferred tax

### Group

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the reporting period:

| | At 1 January 2010 $million | Exchange & other adjustments $million | Acquisitions/ disposals $million | Charge/ (credit) to profit $million | Charge/ (credit) to equity $million | At 31 December 2010 $million |
|---|---|---|---|---|---|---|
| **Deferred taxation comprises:** | | | | | | |
| Accelerated tax depreciation | (193) | 25 | (94) | 88 | - | (174) |
| Impairment provisions on loans and advances | (131) | - | - | 172 | - | 41 |
| Tax losses carried forward | (277) | (20) | (1) | (26) | - | (324) |
| Available-for-sale assets | 75 | 5 | - | - | (9) | 71 |
| Premises revaluation | 1 | - | - | - | - | 1 |
| Cash flow hedges | - | 1 | - | - | 17 | 18 |
| Unrelieved foreign tax | (53) | - | - | 53 | - | - |
| Retirement benefit obligations | (119) | - | - | 25 | 17 | (77) |
| Share based payments | (149) | (1) | - | (58) | 33 | (175) |
| Other temporary differences | (57) | (38) | (2) | (66) | - | (163) |
| **Net deferred tax assets** | (903) | (28) | (97) | 188 | 58 | (782) |

| | At 1 January 2009 $million | Exchange & other adjustments $million | Acquisitions/ disposals $million | Charge/ (credit) to profit $million | Charge/ (credit) to equity $million | At 31 December 2009 $million |
|---|---|---|---|---|---|---|
| **Deferred taxation comprises:** | | | | | | |
| Accelerated tax depreciation | (29) | (7) | - | (157) | - | (193) |
| Impairment provisions on loans and advances | (174) | (18) | - | 61 | - | (131) |
| Tax losses carried forward | (145) | 3 | - | (113) | (22) | (277) |
| Available-for-sale assets | 63 | 6 | - | - | 6 | 75 |
| Premises revaluation | 17 | (2) | - | (14) | - | 1 |
| Cash flow hedges | (35) | 14 | - | - | 21 | - |
| Unrelieved foreign tax | (34) | - | - | (19) | - | (53) |
| Retirement benefit obligations | (89) | (12) | - | 19 | (37) | (119) |
| Share based payments | (21) | (13) | - | (80) | (35) | (149) |
| Other temporary differences | (37) | 28 | - | (48) | - | (57) |
| Net deferred tax assets | (484) | (1) | - | (351) | (67) | (903) |

Deferred taxation comprises assets and liabilities as follows:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Total $million | Asset $million | Liability $million | Total $million | Asset $million | Liability $million |
| **Deferred taxation comprises:** | | | | | | |
| Accelerated tax depreciation | (174) | (222) | 48 | (193) | (214) | 21 |
| Impairment provisions on loans and advances | 41 | (180) | 221 | (131) | (227) | 96 |
| Tax losses carried forward | (324) | (309) | (15) | (277) | (277) | - |
| Available-for-sale assets | 71 | 42 | 29 | 75 | 61 | 14 |
| Premises revaluation | 1 | - | 1 | 1 | - | 1 |
| Cash flow hedges | 18 | 16 | 2 | - | (3) | 3 |
| Unrelieved foreign tax | - | - | - | (53) | (53) | - |
| Retirement benefit obligations | (77) | (77) | - | (119) | (120) | 1 |
| Share based payments | (175) | (162) | (13) | (149) | (140) | (9) |
| Other temporary differences | (163) | (54) | (109) | (57) | (123) | 66 |
| | (782) | (946) | 164 | (903) | (1,096) | 193 |

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

### 29. Deferred tax continued

**Company**

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the reporting period:

| | At 1 January 2010 $million | Exchange & other adjustments $million | Charge/ (credit) to profit $million | Charge/ (credit) to equity $million | At 31 December 2010 $million |
|---|---|---|---|---|---|
| **Deferred taxation comprises:** | | | | | |
| Accelerated tax depreciation | (156) | 2 | 1 | - | (153) |
| Impairment provisions on loans and advances | (113) | (4) | 41 | - | (76) |
| Tax losses carried forward | (129) | (3) | (60) | - | (192) |
| Available-for-sale assets | 12 | 5 | - | 11 | 28 |
| Premises revaluation | - | - | - | - | - |
| Cash flow hedges | (1) | - | - | 22 | 21 |
| Unrelieved foreign tax | (53) | - | 53 | - | - |
| Retirement benefit obligations | (100) | 2 | 24 | 14 | (60) |
| Share based payments | (137) | - | (50) | 33 | (154) |
| Other temporary differences | (19) | (11) | 48 | - | 18 |
| | (696) | (9) | 57 | 80 | (568) |

| | At 1 January 2009 $million | Exchange & other adjustments $million | Charge/ (credit) to profit $million | Charge/ (credit) to equity $million | At 31 December 2009 $million |
|---|---|---|---|---|---|
| **Deferred taxation comprises:** | | | | | |
| Accelerated tax depreciation | (84) | (1) | (71) | - | (156) |
| Impairment provisions on loans and advances | (125) | (3) | 15 | - | (113) |
| Tax losses carried forward | (41) | (1) | (65) | (22) | (129) |
| Available-for-sale assets | 21 | (2) | - | (7) | 12 |
| Premises revaluation | 11 | - | (11) | - | - |
| Cash flow hedges | (27) | - | - | 26 | (1) |
| Unrelieved foreign tax | (34) | - | (19) | - | (53) |
| Retirement benefit obligations | (60) | - | (1) | (39) | (100) |
| Share based payments | (23) | 1 | (68) | (47) | (137) |
| Other temporary differences | 9 | (7) | (21) | - | (19) |
| | (353) | (13) | (241) | (89) | (696) |

Deferred taxation comprises assets and liabilities as follows:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Total $million | Asset $million | Liability $million | Total $million | Asset $million | Liability $million |
| **Deferred taxation comprises:** | | | | | | |
| Accelerated tax depreciation | (153) | (177) | 24 | (156) | (172) | 16 |
| Impairment provisions on loans and advances | (76) | (76) | - | (113) | (113) | - |
| Tax losses carried forward | (192) | (192) | - | (129) | (129) | - |
| Available-for-sale assets | 28 | 25 | 3 | 12 | 8 | 4 |
| Premises revaluation | - | - | - | - | - | - |
| Cash flow hedges | 21 | 20 | 1 | (1) | (1) | - |
| Unrelieved foreign tax | - | - | - | (53) | (53) | - |
| Retirement benefit obligations | (60) | (60) | - | (100) | (100) | - |
| Share based payments | (154) | (154) | - | (137) | (137) | - |
| Other temporary differences | 18 | 18 | - | (19) | (19) | - |
| | (568) | (596) | 28 | (696) | (716) | 20 |

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

## 29. Deferred tax continued

| | Group 2010 $million | Group 2009 $million | Company 2010 $million | Company 2009 $million |
|---|---|---|---|---|
| **No account has been taken of the following potential deferred taxation assets/(liabilities):** | | | | |
| Unrelieved foreign tax | **664** | 715 | **664** | 715 |
| Unremitted earnings from overseas subsidiaries[1] | **(309)** | (296) | **(309)** | (296) |
| Foreign exchange movements on investments in branches | **(117)** | (48) | **(117)** | (48) |
| Tax losses | **124** | 130 | **124** | 116 |
| Held over gains on incorporations of overseas branches | **(473)** | (494) | **(473)** | (494) |

[1] Unremitted earnings from overseas subsidiaries includes $309 million (2009:$296 million) withholding tax. No UK tax liability has been recognised on undistributed earnings because it is probable that if such amounts are remitted in the future they would be tax free as a result of a change in the UK taxation of foreign dividends post 1 July 2009.

## 30. Other assets

| | Group 2010 $million | Group 2009 $million | Company 2010 $million | Company 2009 $million |
|---|---|---|---|---|
| Financial assets held at amortised cost (note 15) | | | | |
| Hong Kong SAR Government certificates of indebtedness (note 34) | **4,063** | 3,414 | **-** | - |
| Cash collateral | **5,620** | 4,557 | **5,463** | 4,455 |
| Acceptances and Endorsements | **4,847** | 3,080 | **1,950** | 1,607 |
| Unsettled trades and other financial assets | **5,098** | 1,619 [1] | **3,183** | 523 [1] |
| | **19,628** | 12,670 | **10,596** | 6,585 |
| Non-financial assets | | | | |
| Commodities | **2,852** | 2,763 | **2,852** | 2,763 |
| Other | **2,829** | 1,680 [1] | **1,144** | 727 [1] |
| | **25,309** | 17,113 | **14,592** | 10,075 |

[1] Unsettled trades and other financial assets previously included within non-financial assets have been reclassified.

The Hong Kong SAR government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued.

### 31. Deposits by banks

| | Group 2010 $million | Group 2009 $million | Company 2010 $million | Company 2009 $million |
|---|---|---|---|---|
| Deposits by banks | **28,551** | 38,461 | **20,220** | 21,526 |
| Deposits by banks included within: | | | | |
| Financial liabilities held at fair value through profit or loss (note 15) | **923** | 482 | **923** | 466 |
| Total deposits by banks | **29,474** | 38,943 | **21,143** | 21,992 |

### 32. Customer accounts

| | Group 2010 $million | Group 2009 $million | Company 2010 $million | Company 2009 $million |
|---|---|---|---|---|
| Customer accounts | **306,992** | 251,244 | **132,488** | 104,952 |
| Customer accounts included within: | | | | |
| Financial liabilities held at fair value through profit or loss (note 15) | **9,510** | 5,502 | **2,580** | 1,980 |
| Total customer accounts | **316,502** | 256,746 | **135,068** | 106,932 |

Included in customer accounts were deposits of $1,659 million (2009: $1,109 million) held for the Group and $71 million (2009: $21 million) for the Company, as collateral for irrevocable commitments under import letters of credit.

### 33. Debt securities in issue

#### Group

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Certificates of deposit of $100,000 or more $million | Other debt securities in issue $million | Total $million | Certificates of deposit of $100,000 or more $million | Other debt securities in issue $million | Total $million |
| Debt securities in issue | **9,021** | **14,017** | **23,038** | 10,611 | 13,891 | 24,502 |
| Debt securities in issue included within: | | | | | | |
| Financial liabilities held at fair value through profit or loss (note 15) | **207** | **3,103** | **3,310** | 865 | 3,122 | 3,987 |
| Total debt securities in issue | **9,228** | **17,120** | **26,348** | 11,476 | 17,013 | 28,489 |

#### Company

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Certificates of deposit of $100,000 or more $million | Other debt securities in issue $million | Total $million | Certificates of deposit of $100,000 or more $million | Other debt securities in issue $million | Total $million |
| Debt securities in issue | **4,874** | **7,862** | **12,736** | 4,357 | 7,636 | 11,993 |
| Debt securities in issue included within: | | | | | | |
| Financial liabilities held at fair value through profit or loss (note 15) | **-** | **2,020** | **2,020** | 523 | 2,002 | 2,525 |
| Total debt securities in issue | **4,874** | **9,882** | **14,756** | 4,880 | 9,638 | 14,518 |

## 34. Other liabilities

| | Group 2010 $million | Group 2009 $million | Company 2010 $million | Company 2009 $million |
|---|---|---|---|---|
| Financial liabilities held at amortised cost (note 15) | | | | |
| Notes in circulation | **4,063** | 3,414 | **-** | - |
| Acceptances and endorsements | **4,774** | 2,963 | **1,950** | 1,606 |
| Cash collateral | **2,527** | 2,136 | **2,253** | 2,016 |
| Unsettled trades and other financial liabilities | **4,526** | 2,538 [1] | **1,878** | 1,538 [1] |
| | **15,890** | 11,051 | **6,081** | 5,160 |
| Non-financial liabilities | | | | |
| Other liabilities | **5,168** | 5,033 | **2,132** | 1,754 |
| | **21,058** | 16,084 | **8,213** | 6,914 |

[1] Unsettled trades and other financial liabilities previously included within non-financial liabilities have been reclassified.

Hong Kong currency notes in circulation of $4,063 million (2009: $3,414 million) which are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 30).

## 35. Structure of deposits

The following tables set out the structure of the Group's deposits by principal geographic areas as at 31 December 2010 and 31 December 2009:

| 2010 | Asia Pacific: Hong Kong $million | Asia Pacific: Singapore $million | Asia Pacific: Korea $million | Asia Pacific: Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
|---|---|---|---|---|---|---|---|---|---|
| Non-interest bearing current and demand accounts | **7,045** | **5,927** | **74** | **5,167** | **3,175** | **7,907** | **3,917** | **7,608** | **40,820** |
| Interest bearing current accounts and savings deposits | **43,302** | **22,843** | **18,981** | **27,061** | **2,324** | **3,834** | **2,212** | **16,699** | **137,256** |
| Time deposits | **26,339** | **23,792** | **18,017** | **35,660** | **6,469** | **10,341** | **2,430** | **39,608** | **162,656** |
| Other deposits | **130** | **112** | **731** | **842** | **2,058** | **332** | **122** | **917** | **5,244** |
| Total | **76,816** | **52,674** | **37,803** | **68,730** | **14,026** | **22,414** | **8,681** | **64,832** | **345,976** |
| Deposits by banks | **2,540** | **1,130** | **2,484** | **4,006** | **512** | **1,555** | **470** | **16,777** | **29,474** |
| Customer accounts | **74,276** | **51,544** | **35,319** | **64,724** | **13,514** | **20,859** | **8,211** | **48,055** | **316,502** |
| | **76,816** | **52,674** | **37,803** | **68,730** | **14,026** | **22,414** | **8,681** | **64,832** | **345,976** |
| Debt securities in issue | **22** | **535** | **9,860** | **1,812** | **241** | **51** | **413** | **13,414** | **26,348** |
| Total | **76,838** | **53,209** | **47,663** | **70,542** | **14,267** | **22,465** | **9,094** | **78,246** | **372,324** |

| 2009 | Asia Pacific: Hong Kong $million | Asia Pacific: Singapore $million | Asia Pacific: Korea $million | Asia Pacific: Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
|---|---|---|---|---|---|---|---|---|---|
| Non-interest bearing current and demand accounts | 6,220 | 6,343 | 81 | 4,393 | 2,779 | 6,571 | 2,274 | 1,911 | 30,572 |
| Interest bearing current accounts and savings deposits | 42,493 | 16,544 | 16,663 | 24,480 | 2,051 | 3,093 | 3,386 | 18,016 | 126,726 |
| Time deposits | 22,964 | 20,731 | 13,840 | 27,855 | 5,101 | 11,086 | 1,694 | 30,611 | 133,882 |
| Other deposits | 73 | 52 | 458 | 1,048 | 1,291 | 408 | 146 | 1,033 | 4,509 |
| Total | 71,750 | 43,670 | 31,042 | 57,776 | 11,222 | 21,158 | 7,500 | 51,571 | 295,689 |
| Deposits by banks | 2,898 | 1,972 | 8,287 | 6,673 | 620 | 1,353 | 294 | 16,846 | 38,943 |
| Customer accounts | 68,852 | 41,698 | 22,755 | 51,103 | 10,602 | 19,805 | 7,206 | 34,725 | 256,746 |
| | 71,750 | 43,670 | 31,042 | 57,776 | 11,222 | 21,158 | 7,500 | 51,571 | 295,689 |
| Debt securities in issue | 145 | 679 | 12,608 | 1,695 | 520 | 45 | 326 | 12,471 | 28,489 |
| Total | 71,895 | 44,349 | 43,650 | 59,471 | 11,742 | 21,203 | 7,826 | 64,042 | 324,178 |

## 35. Structure of deposits continued

### Company

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | |
| | Singapore $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Non-interest bearing current and demand accounts | 5,927 | 939 | 3,053 | 6,853 | 69 | 7,226 | 24,067 |
| Interest bearing current accounts and savings deposits | 22,843 | 3,350 | 2,086 | 2,765 | 784 | 14,993 | 46,821 |
| Time deposits | 23,792 | 4,411 | 6,338 | 9,555 | 691 | 37,117 | 81,904 |
| Other deposits | 113 | 135 | 2,055 | 315 | - | 801 | 3,419 |
| Total | 52,675 | 8,835 | 13,532 | 19,488 | 1,544 | 60,137 | 156,211 |
| Deposits by banks | 1,130 | 1,585 | 510 | 1,381 | 101 | 16,436 | 21,143 |
| Customer accounts | 51,545 | 7,250 | 13,022 | 18,107 | 1,443 | 43,701 | 135,068 |
| | 52,675 | 8,835 | 13,532 | 19,488 | 1,544 | 60,137 | 156,211 |
| Debt securities in issue | 535 | 505 | 222 | 13 | 358 | 13,123 | 14,756 |
| Total | 53,210 | 9,340 | 13,754 | 19,501 | 1,902 | 73,260 | 170,967 |

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | |
| | Singapore $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Non-interest bearing current and demand accounts | 6,343 | 1,020 | 2,637 | 5,711 | - | 1,218 | 16,929 |
| Interest bearing current accounts and savings deposits | 16,544 | 2,891 | 1,795 | 2,122 | 764 | 15,951 | 40,067 |
| Time deposits | 20,730 | 5,651 | 5,021 | 10,173 | 660 | 27,123 | 69,358 |
| Other deposits | 53 | 63 | 1,286 | 335 | 1 | 832 | 2,570 |
| Total | 43,670 | 9,625 | 10,739 | 18,341 | 1,425 | 45,124 | 128,924 |
| Deposits by banks | 1,972 | 1,761 | 612 | 1,159 | 16 | 16,472 | 21,992 |
| Customer accounts | 41,698 | 7,864 | 10,127 | 17,182 | 1,409 | 28,652 | 106,932 |
| | 43,670 | 9,625 | 10,739 | 18,341 | 1,425 | 45,124 | 128,924 |
| Debt securities in issue | 679 | 677 | 490 | 13 | 276 | 12,383 | 14,518 |
| Total | 44,349 | 10,302 | 11,229 | 18,354 | 1,701 | 57,507 | 143,442 |

### 36. Provisions for liabilities and charges

**Group**

| | 2010 | | |
|---|---|---|---|
| | Provision for credit commitments $million | Other provisions $million | Total $million |
| At 1 January | 22 | 162 | 184 |
| Exchange translation differences | 1 | 1 | 2 |
| Transfer | - | 46 | 46 |
| Charge against profit | 8 | 123 | 131 |
| Provisions utilised | (10) | (38) | (48) |
| At 31 December | 21 | 294 | 315 |

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 contingent business related provisions.

**Company**

| | 2010 | | |
|---|---|---|---|
| | Provision for credit commitments $million | Other provisions $million | Total $million |
| At 1 January | 102 | 20 | 122 |
| Charge against profit | - | 15 | 15 |
| Provisions utilised | - | (16) | (16) |
| At 31 December | 102 | 19 | 121 |

Provision for credit commitments for the Company comprises primarily provisions made as part of risk participation agreements with subsidiaries.

### 37. Retirement benefit obligations

Retirement benefit obligations comprise:

| | 2010 $million | 2009 $million |
|---|---|---|
| Defined benefit schemes obligation | 297 | 498 |
| Defined contribution schemes obligation | 13 | 8 |
| Net book amount | 310 | 506 |

| | 2010 $million | 2009 $million |
|---|---|---|
| At 1 January | 506 | 447 |
| Exchange translation differences | (9) | 17 |
| Acquisitions | 2 | 2 |
| Charge against profit (net of finance income) | 182 | 138 |
| Change in other comprehensive income | (83) | 150 |
| Net payments | (288) | (248) |
| At 31 December | 310 | 506 |

Retirement benefit charge comprises:

| | 2010 $million | 2009 $million |
|---|---|---|
| Defined benefit schemes | 39 | 30 |
| Defined contribution schemes | 143 | 108 |
| Charge against profit (note 8) | 182 | 138 |

### 37. Retirement benefit obligations continued

**Group**

**UK Fund**

The financial position of the Group's principal retirement benefit scheme, the Standard Chartered Pension Fund (the 'Fund') (a defined benefit scheme), is assessed in the light of the advice of an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was performed as at 31 December 2008 by A Zegelman, Fellow of the Faculty of Actuaries, of Towers Watson Actuaries, using the projected unit method. As part of the 31 December 2008 actuarial valuation, the Trustee reviewed the life expectancy assumptions adopted. The assumptions having the most significant effect on the outcome of this valuation were:

| | |
|---|---|
| Return from gilts | 3.85 per cent per annum |
| Return from return seeking assets | 6.05 per cent per annum |
| General increase in salaries | 2.80 per cent per annum |
| Rate of price inflation | 2.80 per cent per annum |
| Increase in pensions: | |
| In deferment (where applicable) | 2.80 per cent per annum |
| In payment[1] (pre April 1997 service) | 2.60 per cent per annum |
| In payment (post April 1997 service) | 2.00 – 2.80 per cent per annum |

[1] Applies to discretionary increases and some guaranteed increases.

Applying these assumptions, at the valuation date the market value of the assets of the Fund ($1,228 million) was sufficient to cover 89.3 per cent of the benefits that had accrued to members. Additional contributions of $66 million were paid during 2010. No further additional contributions are payable over the three years to 31 December 2013.

Contributions paid to the Fund during 2010 were $78 million (2009: $21 million) and regular contributions were set at 28 per cent of pensionable salary for all members. With effect from 1 July 1998 the Fund was closed to new entrants and new employees have subsequently been offered membership of a defined contribution scheme. Due to the closure of the Fund to new entrants, the current service cost will increase as a percentage of pensionable pay as the members approach retirement.

The UK Government announced on 8 July 2010 that it would extend the use of the Consumer Prices Index (CPI) for increases to pensions in deferment and payment from the public sector to the private sector occupational pension arrangements rather than the Retail Prices Index (RPI). It is expected that CPI increases will be around 0.9 per cent per anum lower than RPI. As the UK scheme rules link some increases directly to the index used by the government, the change in legislation means that these will be automatically linked to CPI and the resulting reduction in liability of $54 million has been recognised in the income statement as a negative past service cost. In the case of discretionary pension increases, the change is not automatic but the Group still expects that future discretionary increases will be referenced to CPI. The resulting reduction in liability of $100 million has been treated as change in assumptions and recognised in other comprehensive income.

**Overseas Schemes**

The principal overseas defined benefit arrangements operated by the Group are in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the United States.

**All Schemes**

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2010. Pensions 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.

Employer contributions to defined benefit plans over 2011 are expected to be $52 million.

Separate figures are disclosed for the UK Fund, Overseas Funded Defined Benefit, Post-retirement Medical and Other Unfunded Schemes.

The financial assumptions used at 31 December 2010 were:

| | Funded defined benefit schemes | | | |
|---|---|---|---|---|
| | UK Fund[2] | | Overseas Schemes[3] | |
| | 2010 % | 2009 % | 2010 % | 2009 % |
| Price inflation | **3.50** | 3.50 | **1.50 – 4.50** | 1.50 – 4.50 |
| Salary increases | **3.50** | 3.50 | **3.50 – 5.00** | 3.50 – 6.00 |
| Pension increases | **2.60** | 3.30 | **1.75 – 3.30** | 0.00 – 3.30 |
| Discount rate | **5.50** | 5.70 | **1.60 – 8.10** | 1.50 – 7.50 |
| Post-retirement medical trend rate | **N/A** | N/A | **N/A** | N/A |

[2] The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 26 years (2009: 26 years) and a female member 29 years (2009: 29 years) and a male member currently aged 40 will live for 29 years (2009: 29 years) and a female member 31 years (2009: 31 years) after their 60th birthday.

[3] The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the United States. These comprise over 87 per cent of the total liabilities of funded overseas schemes.

### 37. Retirement benefit obligations continued

**Group** continued

| | Unfunded schemes | | | |
|---|---|---|---|---|
| | Post-retirement medical[1] | | Other[2] | |
| | 2010 % | 2009 % | 2010 % | 2009 % |
| Price inflation | **2.50** | 3.10 | **1.50 – 7.50** | 1.50 – 7.50 |
| Salary increases | **4.00** | 3.10 | **3.50 – 9.00** | 3.50 – 9.00 |
| Pension increases | **N/A** | N/A | **1.75 – 2.60** | 0.00 – 3.30 |
| Discount rate | **5.40** | 5.75 | **1.60 – 9.00** | 1.50 – 10.00 |
| Post-retirement medical rate | **9% in 2010 reducing by 1% per annum to 5% in 2014** | 10% in 2009 reducing by 1% per annum to 5% in 2014 | **N/A** | N/A |

[1] The Post-retirement medical plan is in the United States.
[2] The range of assumptions shown is for the main Unfunded Schemes in Austria, India, Indonesia, Taiwan, UAE, UK and the United States

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2010 were:

| | Funded defined benefit schemes | | | | Unfunded schemes | | | |
|---|---|---|---|---|---|---|---|---|
| | UK Fund | | Overseas schemes | | Post-retirement medical | | Other | |
| At 31 December 2010 | Expected return on assets % | Value $million | Expected return on assets % | Value $million | Expected return on assets % | Value $million | Expected return on assets % | Value $million |
| Equities | **8.00** | **375** | **5.00 – 12.00** | **242** | **N/A** | **N/A** | **N/A** | **N/A** |
| Bonds | **4.00** | **856** | **2.75 – 14.00** | **196** | **N/A** | **N/A** | **N/A** | **N/A** |
| Property | **7.50** | **21** | **5.00 – 7.00** | **4** | **N/A** | **N/A** | **N/A** | **N/A** |
| Others | **8.00** | **300** | **0.50 – 12.00** | **155** | **N/A** | **N/A** | **N/A** | **N/A** |
| Total market value of assets | | **1,552** | | **597** | | **N/A** | | **N/A** |
| Present value of the schemes' liabilities | | **(1,545)** | | **(741)** | | **(21)** | | **(139)** |
| Net pension asset/(liability) | | **7** | | **(144)** | | **(21)** | | **(139)** |

| | Funded defined benefit schemes | | | | Unfunded schemes | | | |
|---|---|---|---|---|---|---|---|---|
| | UK Fund | | Overseas schemes | | Post-retirement medical | | Other | |
| At 31 December 2009 | Expected return on assets % | Value $million | Expected return on assets % | Value $million | Expected return on assets % | Value $million | Expected return on assets % | Value $million |
| Equities | 8.00 | 347 | 8.00 – 9.00 | 225 | N/A | N/A | N/A | N/A |
| Bonds | 3.85 | 872 | 2.75 – 7.50 | 184 | N/A | N/A | N/A | N/A |
| Property | N/A | – | 7.00 | 1 | N/A | N/A | N/A | N/A |
| Others | 8.00 | 259 | 0.50 – 7.50 | 121 | N/A | N/A | N/A | N/A |
| Total market value of assets | | 1,478 | | 531 | | N/A | | N/A |
| Present value of the schemes' liabilities | | (1,704) | | (649) | | (20) | | (134) |
| Net pension liability | | (226) | | (118) | | (20) | | (134) |

| | Funded defined benefit schemes | | Unfunded schemes | |
|---|---|---|---|---|
| | UK Fund | Overseas schemes | Post-retirement medical | Other |
| At 31 December 2008 | Value $million | Value $million | Value $million | Value $million |
| Total market value of assets | 1,232 | 489 | N/A | N/A |
| Present value of the schemes' liabilities | (1,296) | (693) | (12) | (153) |
| Net pension liability | (64) | (204) | (12) | (153) |
| At 31 December 2007 | | | | |
| Total market value of assets | 1,913 | 575 | N/A | N/A |
| Present value of the schemes' liabilities | (1,931) | (602) | (11) | (257) |
| Net pension liability | (18) | (27) | (11) | (257) |
| At 31 December 2006 | | | | |
| Total market value of assets | 1,822 | 517 | N/A | N/A |
| Present value of the schemes' liabilities | (1,982) | (542) | (9) | (347) |
| Net pension liability | (160) | (25) | (9) | (347) |

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.

### 37. Retirement benefit obligations continued

**Group** continued

The pension cost for defined benefit schemes was:

| | Funded defined benefit schemes | | Unfunded schemes | | |
|---|---|---|---|---|---|
| Year ending 31 December 2010 | UK Fund $million | Overseas schemes $million | Post-retirement medical $million | Other $million | Total $million |
| Current service cost | 8 | 63 | 1 | 16 | 88 |
| Past service (benefit)/cost | (54) | 5 | - | (4) | (53) |
| Gain on settlements and curtailments | - | (1) | - | (9) | (10) |
| Expected return on pension scheme assets | (79) | (32) | - | - | (111) |
| Interest on pension scheme liabilities | 91 | 26 | 1 | 7 | 125 |
| Total (credit)/charge to profit before deduction of tax | (34) | 61 | 2 | 10 | 39 |
| Gain on assets in excess of expected return[1] | (42) | (17) | - | - | (59) |
| Experience (gain)/loss on liabilities | (67) | 35 | - | 8 | (24) |
| Total (gain)/loss recognised directly in other comprehensive income before tax | (109) | 18 | - | 8 | (83) |
| Deferred taxation | 30 | (12) | - | (1) | 17 |
| Total (gain)/loss after tax | (79) | 6 | - | 7 | (66) |

[1] The actual return on the UK fund assets was $122 million and on overseas scheme assets was $48 million.

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of $111 million (2009: loss of $194 million).

| | Funded defined benefit schemes | | Unfunded schemes | | |
|---|---|---|---|---|---|
| Year ending 31 December 2009 | UK Fund $million | Overseas schemes $million | Post-retirement medical $million | Other $million | Total $million |
| Current service cost | 9 | 61 | 1 | 15 | 86 |
| Past service cost/(benefit) | 3 | - | - | (57) | (54) |
| Gain on settlements and curtailments | - | (5) | - | (6) | (11) |
| Expected return on pension scheme assets | (83) | (29) | - | - | (112) |
| Interest on pension scheme liabilities | 87 | 26 | 1 | 7 | 121 |
| Total charge/(credit) to profit before deduction of tax | 16 | 53 | 2 | (41) | 30 |
| Gain on assets in excess of expected return[2] | (76) | (38) | - | - | (114) |
| Experience loss/(gain) on liabilities | 236 | (4) | 7 | 25 | 264 |
| Total loss recognised directly in statement of comprehensive income before tax | 160 | (42) | 7 | 25 | 150 |
| Deferred taxation | (41) | 4 | - | - | (37) |
| Total loss/(gain) after tax | 119 | (38) | 7 | 25 | 113 |

[2] The actual return on the UK fund assets was $159 million and on overseas scheme assets was $15 million.

## 37. Retirement benefit obligations continued

**Group** continued

| Year ending 31 December 2008 | Funded defined benefit schemes: UK Fund $million | Funded defined benefit schemes: Overseas schemes $million | Unfunded schemes: Post-retirement medical $million | Unfunded schemes: Other $million | Total $million |
|---|---|---|---|---|---|
| Gain on assets in excess of expected return[3] | (28) | (2) | - | - | (30) |
| Experience (gain)/loss on liabilities | (113) | 12 | 2 | (108) | (207) |
| Total loss recognised directly in statement of comprehensive income before tax | (141) | 10 | 2 | (108) | (237) |
| Deferred taxation | 44 | - | - | 27 | 71 |
| Total (gain)/loss after tax | (97) | 10 | 2 | (81) | (166) |
| **Year ending 31 December 2007** | | | | | |
| Gain on assets in excess of expected return[4] | (23) | (27) | - | - | (50) |
| Experience (gain)/loss on liabilities | (90) | 20 | (2) | 18 | (54) |
| Total (gain)/loss recognised directly in statement of comprehensive income before tax | (113) | (7) | (2) | 18 | (104) |
| Deferred taxation | 34 | 3 | - | 1 | 38 |
| Total (gain)/loss after tax | (79) | (4) | (2) | 19 | (66) |
| **Year ending 31 December 2006** | | | | | |
| Gain on assets in excess of expected return[5] | (91) | (20) | - | - | (111) |
| Experience loss on liabilities | 256 | 5 | - | - | 261 |
| Total loss/(gain)# recognised directly in statement of comprehensive income before tax | 165 | (15) | - | - | 150 |
| Deferred taxation | (50) | 5 | - | - | (45) |
| Total loss/(gain) after tax | 115 | (10) | - | - | 105 |

[3] The actual return on the UK fund assets was $99 million and on overseas scheme assets was $94 million.

[4] The actual return on the UK fund assets was $128 million and on overseas scheme assets was $34 million.

[5] The actual return on the UK fund assets was $116 million and on overseas scheme assets was $50 million.

Movement in the pension schemes and post retirement medical deficit during the year comprise:

| Year ending 31 December 2010 | Funded defined benefit schemes: UK Fund $million | Funded defined benefit schemes: Overseas schemes $million | Unfunded schemes: Post-retirement medical $million | Unfunded schemes: Other $million | Total $million |
|---|---|---|---|---|---|
| Deficit at 1 January 2010 | (226) | (118) | (20) | (134) | (498) |
| Contributions | 78 | 55 | 1 | 16 | 150 |
| Current service cost | (8) | (63) | (1) | (16) | (88) |
| Past service (benefit)/cost | 54 | (5) | - | 4 | 53 |
| Settlement/curtailment costs | - | 1 | - | 9 | 10 |
| Other finance (charge)/income | (12) | 6 | (1) | (7) | (14) |
| Actuarial loss | 109 | (18) | - | (8) | 83 |
| Acquisitions | - | - | - | (2) | (2) |
| Exchange rate adjustment | 12 | (2) | - | (1) | 9 |
| Surplus/(deficit) at 31 December 2010 | 7 | (144) | (21) | (139) | (297) |

## 37. **Retirement benefit obligations** continued

**Group** continued

| Year ending 31 December 2009 | Funded defined benefit schemes: UK Fund $million | Funded defined benefit schemes: Overseas schemes $million | Unfunded schemes: Post-retirement medical $million | Unfunded schemes: Other $million | Total $million |
|---|---|---|---|---|---|
| Deficit at 1 January 2009 | (64) | (204) | (12) | (153) | (433) |
| Contributions | 21 | 103 | 1 | 9 | 134 |
| Current service cost | (9) | (61) | (1) | (15) | (86) |
| Past service cost | (3) | - | - | 57 | 54 |
| Settlement/curtailment costs | - | 5 | - | 6 | 11 |
| Other finance income/(charge) | (4) | 2 | (1) | (6) | (9) |
| Actuarial loss/(gain) | (160) | 42 | (7) | (25) | (150) |
| Acquisitions | - | (2) | - | - | (2) |
| Exchange rate adjustment | (7) | (3) | - | (7) | (17) |
| Deficit at 31 December 2009 | (226) | (118) | (20) | (134) | (498) |

Movement in pension schemes and post-retirement medical gross assets and obligations during the year comprise:

| **Year ending 31 December 2010** | **Assets $million** | **Obligations $million** | **Total $million** |
|---|---|---|---|
| Deficit at 1 January 2010 | **2,009** | **(2,507)** | **(498)** |
| Contributions | **150** | **-** | **150** |
| Current service cost | **-** | **(88)** | **(88)** |
| Past service cost | **-** | **53** | **53** |
| Settlement/curtailment costs | **(4)** | **14** | **10** |
| Interest cost | **-** | **(125)** | **(125)** |
| Expected return on scheme assets | **111** | **-** | **111** |
| Benefits paid out | **(129)** | **129** | **-** |
| Actuarial gain | **59** | **24** | **83** |
| Acquisitions | **-** | **(2)** | **(2)** |
| Exchange rate adjustment | **(47)** | **56** | **9** |
| Deficit at 31 December 2010 | **2,149** | **(2,446)** | **(297)** |

| Year ending 31 December 2009 | Assets $million | Obligations $million | Total $million |
|---|---|---|---|
| Deficit at 1 January 2009 | 1,721 | (2,154) | (433) |
| Contributions | 134 | - | 134 |
| Current service cost | - | (86) | (86) |
| Past service cost | - | 54 | 54 |
| Settlement/curtailment costs | - | 11 | 11 |
| Interest cost | - | (121) | (121) |
| Expected return on scheme assets | 112 | - | 112 |
| Benefits paid out | (227) | 227 | - |
| Actuarial (loss)/gain | 114 | (264) | (150) |
| Acquisitions | 7 | (9) | (2) |
| Exchange rate adjustment | 148 | (165) | (17) |
| Deficit at 31 December 2009 | 2,009 | (2,507) | (498) |

## 37. Retirement benefit obligations continued

### Company

Retirement benefit obligations comprise:

| | 2010 $million | 2009 $million |
|---|---|---|
| Defined benefit schemes obligation | 191 | 392 |
| Defined contribution schemes obligation | 2 | 1 |
| Net book amount | 193 | 393 |

| | 2010 $million | 2009 $million |
|---|---|---|
| At 1 January | 393 | 182 |
| Exchange translation differences | (14) | 12 |
| Charge against profit (net of finance income) | 77 | 96 |
| Change in other comprehensive income | (88) | 166 |
| Net payments | (175) | (63) |
| At 31 December | 193 | 393 |

Retirement benefit charge comprises:

| | 2010 $million | 2009 $million |
|---|---|---|
| Defined benefit schemes | 1 | 50 |
| Defined contribution schemes | 76 | 46 |
| Charge against profit | 77 | 96 |

## 37. Retirement benefit obligations continued

**Company** continued

**UK Fund**
See the Group note on the UK fund on page 117, there are no differences between Group and Company in respect of the fund.

**Overseas Schemes**
The principal overseas defined benefit arrangements operated by the Group are in Germany, India and the United States.

**All Schemes**
The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2010.

Employer contributions to defined benefit plans over 2011 are expected to be $24 million.

Separate figures are disclosed for the UK Fund, Overseas Funded Defined Benefit, Post-retirement Medical and Other Unfunded Schemes.

The financial assumptions used at 31 December 2010 were:

| | Funded defined benefit schemes | | | |
|---|---|---|---|---|
| | UK Fund[1] | | Overseas Schemes[2] | |
| | 2010 % | 2009 % | 2010 % | 2009 % |
| Price inflation | **3.50** | 3.50 | **2.00 – 4.50** | 2.70 – 4.50 |
| Salary increases | **3.50** | 3.50 | **3.50 – 5.00** | 4.00 – 5.00 |
| Pension increases | **2.60** | 3.50 | **0.00 – 1.75** | – |
| Discount rate | **5.50** | 5.70 | **5.00 – 8.10** | 5.30 – 5.50 |
| Post-retirement medical trend rate | **N/A** | N/A | **N/A** | N/A |

[1] The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 26 years (2009: 26 years) and a female member 29 years (2009: 29 years) and a male member currently aged 40 will live for 29 years (2009: 29 years) and a female member 31 years (2009: 31 years) after their 60th birthday.

[2] The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, India, and the United States. These comprise over 75 per cent of the total liabilities of funded overseas schemes.

| | Unfunded schemes | | | |
|---|---|---|---|---|
| | Post-retirement medical[1] | | Other | |
| | 2010 % | 2009 % | 2010 % | 2009 % |
| Price inflation | **2.50** | 3.10 | **2.00 – 7.50** | 1.50 – 7.50 |
| Salary increases | **4.00** | 3.10 | **3.50 – 9.00** | 3.50 – 9.00 |
| Pension increases | **N/A** | N/A | **0.00 – 2.60** | 0.00 – 3.30 |
| Discount rate | **5.40** | 5.75 | **5.00 – 9.00** | 2.00 – 13.00 |
| Post-retirement medical rate[1] | **9% in 2010 reducing by 1% per annum to 5% in 2014** | 10% in 2009 reducing by 1% per annum to 5% in 2014 | **N/A** | N/A |

[1] The Post-retirement medical plan is in the United States.

[2] The range of assumptions shown is for the main Unfunded Schemes in Austria, India, Indonesia, UAE, UK and the United States.

### 37. Retirement benefit obligations continued

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2010 were:

| | Funded defined benefit schemes | | | | Unfunded schemes | | | |
|---|---|---|---|---|---|---|---|---|
| | UK Fund | | Overseas schemes | | Post-retirement medical | | Other | |
| At 31 December 2010 | Expected return on assets % | Value $million | Expected return on assets % | Value $million | Expected return on assets % | Value $million | Expected return on assets % | Value $million |
| Equities | 8.00 | 375 | 6.40 – 12.00 | 53 | N/A | N/A | N/A | N/A |
| Bonds | 4.00 | 856 | 2.75 – 12.00 | 47 | N/A | N/A | N/A | N/A |
| Property | 7.50 | 21 | 12.00 | 0 | N/A | N/A | N/A | N/A |
| Others | 8.00 | 300 | 1.50 – 12.00 | 38 | N/A | N/A | N/A | N/A |
| Total market value of assets | | 1,552 | | 138 | | N/A | | N/A |
| Present value of the schemes' liabilities | | (1,545) | | (207) | | (21) | | (108) |
| Net pension asset/(liability) | | 7 | | (69) | | (21) | | (108) |

| | Funded defined benefit schemes | | | | Unfunded schemes | | | |
|---|---|---|---|---|---|---|---|---|
| | UK Fund | | Overseas schemes | | Post-retirement medical | | Other | |
| At 31 December 2009 | Expected return on assets % | Value $million | Expected return on assets % | Value $million | Expected return on assets % | Value $million | Expected return on assets % | Value $million |
| Equities | 8.00 | 347 | 8.00–9.00 | 53 | N/A | N/A | N/A | N/A |
| Bonds | 3.85 | 872 | 2.75 – 7.50 | 48 | N/A | N/A | N/A | N/A |
| Property | N/A | – | 7.00 | 1 | N/A | N/A | N/A | N/A |
| Others | 8.00 | 259 | 0.50 – 7.50 | 17 | N/A | N/A | N/A | N/A |
| Total market value of assets | | 1,478 | | 119 | | N/A | | N/A |
| Present value of the schemes' liabilities | | (1,704) | | (174) | | (20) | | (91) |
| Net pension liability | | (226) | | (55) | | (20) | | (91) |

| | Funded defined benefit schemes | | Unfunded schemes | |
|---|---|---|---|---|
| | UK Fund | Overseas schemes | Post-retirement medical | Other |
| At 31 December 2008 | Value $million | Value $million | Value $million | Value $million |
| Total market value of assets | 1,232 | 100 | N/A | N/A |
| Present value of the schemes' liabilities | (1,296) | (140) | (12) | (63) |
| Net pension liability | (64) | (40) | (12) | (63) |
| At 31 December 2007 | | | | |
| Total market value of assets | 1,913 | 575 | N/A | N/A |
| Present value of the schemes' liabilities | (1,931) | (602) | (11) | (257) |
| Net pension liability | (18) | (27) | (11) | (257) |
| At 31 December 2006 | | | | |
| Total market value of assets | 1,822 | 517 | N/A | N/A |
| Present value of the schemes' liabilities | (1,982) | (542) | (9) | (347) |
| Net pension liability | (160) | (25) | (9) | (347) |

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.

## 37. Retirement benefit obligations continued

**Company** continued

The pension cost for defined benefit schemes was:

| | Funded defined benefit schemes | | Unfunded schemes | | |
|---|---|---|---|---|---|
| Year ending 31 December 2010 | UK Fund $million | Overseas schemes $million | Post-retirement medical $million | Other $million | Total $million |
| Current service cost | 8 | 12 | 1 | 11 | 32 |
| Past service (benefit)/cost | (54) | 4 | - | (1) | (51) |
| Expected return on pension scheme assets | (79) | (9) | - | - | (88) |
| Interest on pension scheme liabilities | 91 | 11 | 1 | 5 | 108 |
| Total (credit)/charge to profit before deduction of tax | (34) | 18 | 2 | 15 | 1 |
| Gain on assets in excess of expected return[1] | (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) |

[1] The actual return on the UK fund assets was $122 million and on overseas scheme assets was $15 million.

The total cumulative amount recognised directly in the statement of comprehensive income before tax to date is a loss of $97 million (2009: loss of $185 million).

| | Funded defined benefit schemes | | Unfunded schemes | | |
|---|---|---|---|---|---|
| Year ending 31 December 2009 | UK Fund $million | Overseas schemes $million | Post-retirement medical $million | Other $million | Total $million |
| Current service cost | 9 | 13 | - | 11 | 33 |
| Past service cost | 3 | - | - | - | 3 |
| Expected return on pension scheme assets | (83) | (6) | - | - | (89) |
| Interest on pension scheme liabilities | 87 | 9 | 1 | 6 | 103 |
| Total charge to profit before deduction of tax | 16 | 16 | 1 | 17 | 50 |
| Gain on assets in excess of expected return[2] | (76) | (9) | - | - | (85) |
| Experience loss/(gain) on liabilities | 237 | (7) | - | 21 | 251 |
| Total loss/(gain) recognised directly in statement of comprehensive income before tax | 161 | (16) | - | 21 | 166 |
| Deferred taxation | (41) | 2 | - | - | (39) |
| Total loss/(gain) after tax | 120 | (14) | - | 21 | 127 |

[2] The actual return on the UK fund assets was $99 million and on overseas scheme assets was $24 million.

## 37. Retirement benefit obligations continued

**Company** continued

| | Funded defined benefit schemes | | Unfunded schemes | | |
|---|---|---|---|---|---|
| | UK Fund | Overseas schemes | Post-retirement medical | Other | Total |
| Year ending 31 December 2008 | $million | $million | $million | $million | $million |
| Gain on assets in excess of expected return[1] | (28) | (2) | - | - | (30) |
| Experience (gain)/loss on liabilities | (113) | - | 2 | 5 | (106) |
| Total (gain)/loss recognised directly in statement of comprehensive income before tax | (141) | (2) | 2 | 5 | (136) |
| Deferred taxation | 44 | - | - | 1 | 45 |
| Total (gain)/loss after tax | (97) | (2) | 2 | 6 | (91) |
| Year ending 31 December 2007 | | | | | |
| Gain on assets in excess of expected return[2] | (23) | (8) | - | - | (31) |
| Experience gain on liabilities | (90) | - | (2) | (3) | (95) |
| Total gain recognised directly in statement of comprehensive income before tax | (113) | (8) | (2) | (3) | (126) |
| Deferred taxation | 34 | 6 | - | 1 | 41 |
| Total gain after tax | (79) | (2) | (2) | (2) | (85) |
| Year ending 31 December 2006 | | | | | |
| Gain on assets in excess of expected return[3] | (91) | - | - | - | (91) |
| Experience loss on liabilities | 256 | 10 | - | 7 | 273 |
| Total loss recognised directly in statement of comprehensive income before tax | 165 | 10 | - | 7 | 182 |
| Deferred taxation | (50) | (3) | - | (2) | (55) |
| Total loss after tax | 115 | 7 | - | 5 | 127 |

1 The actual return on the UK fund assets was $128 million and on overseas scheme assets was $34 million.

2 The actual return on the UK fund assets was $116 million and on overseas scheme assets was $15 million.

3 The actual return on the UK fund assets was $184 million and on overseas scheme assets was $6 million.

Movement in the pension schemes and post retirement medical deficit during the year comprise:

| | Funded defined benefit schemes | | Unfunded schemes | | |
|---|---|---|---|---|---|
| | UK Fund | Overseas schemes | Post-retirement medical | Other | Total |
| Year ending 31 December 2010 | $million | $million | $million | $million | $million |
| Deficit at 1 January 2010 | (226) | (55) | (20) | (91) | (392) |
| Contributions | 78 | 13 | 1 | 8 | 100 |
| Current service cost | (8) | (12) | (1) | (11) | (32) |
| Past service cost | 54 | (4) | - | 1 | 51 |
| Other finance charge | (12) | (2) | (1) | (5) | (20) |
| Actuarial loss | 109 | (10) | - | (11) | 88 |
| Exchange rate adjustment | 12 | 1 | - | 1 | 14 |
| Deficit at 31 December 2010 | 7 | (69) | (21) | (108) | (191) |

### 37. Retirement benefit obligations continued

**Company** continued

| Year ending 31 December 2009 | Funded defined benefit schemes UK Fund $million | Funded defined benefit schemes Overseas schemes $million | Unfunded schemes Post-retirement medical $million | Unfunded schemes Other $million | Total $million |
|---|---|---|---|---|---|
| Deficit at 1 January 2009 | (64) | (40) | (12) | (63) | (179) |
| Contributions | 21 | 18 | 1 | 6 | 46 |
| Current service cost | (9) | (13) | - | (11) | (33) |
| Past service cost | (3) | - | - | - | (3) |
| Other finance income/(charge) | (4) | (3) | (1) | (6) | (14) |
| Actuarial (loss)/gain | (160) | 15 | (8) | (13) | (166) |
| Acquistitions | - | (31) | - | - | (31) |
| Exchange rate adjustment | (7) | (1) | - | (4) | (12) |
| Deficit at 31 December 2009 | (226) | (55) | (20) | (91) | (392) |

Movement in pension schemes and post-retirement medical gross assets and obligations during the year comprise:

| Year ending 31 December 2010 | Assets $million | Obligations $million | Total $million |
|---|---|---|---|
| Deficit at 1 January 2010 | 1,597 | (1,989) | (392) |
| Contributions | 100 | - | 100 |
| Current service cost | - | (32) | (32) |
| Past service cost | - | 51 | 51 |
| Settlement/curtailment costs | - | - | - |
| Interest cost | - | (108) | (108) |
| Expected return on scheme assets | 88 | - | 88 |
| Benefits paid out | (98) | 98 | - |
| Actuarial gain | 49 | 39 | 88 |
| Acquisitions | (1) | 1 | - |
| Exchange rate adjustment | (45) | 59 | 14 |
| Deficit at 31 December 2010 | 1,690 | (1,881) | (191) |

| Year ending 31 December 2009 | Assets $million | Obligations $million | Total $million |
|---|---|---|---|
| Deficit at 1 January 2009 | 1,336 | (1,515) | (179) |
| Contributions | 46 | - | 46 |
| Current service cost | - | (33) | (33) |
| Past service cost | - | (3) | (3) |
| Interest cost | - | (103) | (103) |
| Expected return on scheme assets | 89 | - | 89 |
| Benefits paid out | (93) | 93 | - |
| Actuarial (loss)/gain | 85 | (251) | (166) |
| Acquisitions | (7) | (24) | (31) |
| Exchange rate adjustment | 141 | (153) | (12) |
| Deficit at 31 December 2009 | 1,597 | (1,989) | (392) |

## 38. Subordinated liabilities and other borrowed funds

| Subordinated loan capital – issued by subsidiary undertakings | 2010 $million | 2009 $million |
|---|---|---|
| $750 million 5.875 per cent subordinated notes 2020 | 738 | - |
| $300 million Floating Rate Subordinated Note 2017 (Callable 2012) | 299 | 298 |
| $22 million 9.75 per cent fixed to floating rate note 2021 (Callable 2016) | 22 | 22 |
| BWP 75 million Floating Rate Subordinated Notes 2017 (Callable 2012) | 12 | 11 |
| BWP 50 million Floating Rate Subordinated Notes 2015 (Callable 2011) | 8 | 8 |
| IDR 500 billion Floating Rate Notes 2016 (Callable 2011) | 22 | 22 |
| KRW 300 billion 7.05 per cent Subordinated debt 2019 (Callable 2014) | 266 | 259 |
| KRW 260 billion 6.08 per cent Subordinated debt 2018 (Callable 2013) | 236 | 227 |
| KRW 90 billion 6.05 per cent Subordinated debt 2018 | 84 | 78 |
| KRW 30 billion Floating Rate Subordinated debt 2011 | 26 | 26 |
| KRW 3 billion 6.11 per cent Subordinated debt 2011 | 2 | 2 |
| MYR 500 million 4.28 per cent Subordinated Bonds 2017 (Callable and floating rate from 2012) | 166 | 149 |
| PKR 1 billion Floating Rate Notes 2013 | 11 | 12 |
| PKR 750 million Floating Rate Notes 2011 | 2 | 6 |
| TWD 10 billion undated Floating Rate Notes | - | 312 |
| TWD 10 billion 2.9 per cent Subordinated debt 2019 (Callable 2014) | 331 | 310 |
| TZS 10 billion 11 per cent Subordinated Notes 2021 (Callable and floating rate from 2015) | 7 | - |
| TZS 8 billion Floating Rate Subordinated Notes 2015 | - | 6 |
| UGX 40 billion 13 per cent fixed interest rate bond 2020 (Callable 2015) | 17 | - |
| | 2,249 | 1,748 |
| **Subordinated loan capital – issued by Company:** | | |
| £675 million 5.375 per cent undated Step Up Subordinated Notes (Callable and floating rate from 2020) | 659 | 658 |
| £600 million 8.103 per cent Step Up Callable Perpetual Preferred Securities (Callable and floating rate from 2016) | 1,137 | 1,164 |
| £700 million 7.75 per cent Subordinated Notes 2018 | 1,192 | 1,201 |
| £300 million 6.0 per cent Subordinated Notes 2018 (Callable and floating rate from 2013) | 509 | 530 |
| £200 million 7.75 per cent undated Step Up Suboridnated Notes (Callable and floating rate from 2022) | 384 | 390 |
| €1,100 million 5.875 per cent Subordinated Notes 2017 | 1,622 | 1,701 |
| €750 million 3.625 per cent Subordinated Notes 2017 (Callable and floating rate from 2012) | 1,034 | 1,113 |
| €675 million Floating Rate Subordinated Notes 2018 (Callable 2013) | 915 | 972 |
| €500 million 8.16 per cent non-cumulative Trust Preferred Securities (Callable 2010) | - | 723 |
| $1.8 billion Floating Rate Undated Subordinated Notes (Callable 2014) | 1,800 | 1,800 |
| $1.5 billion 9.5 per cent Step Up Perpetual Preferred Securities (Callable 2014) | 1,580 | 1,509 |
| $1 billion 6.4 per cent Subordinated Notes 2017 | 1,143 | 1,101 |
| $700 million 8.0 per cent Subordinated Notes 2031 | 594 | 574 |
| $500 million Floating Rate Subordinated Notes 2015 (Callable 2010) | - | 499 |
| $500 million Floating Rate Subordinated Notes 2016 (Callable 2011) | 499 | 499 |
| $100 million Floating Rate Subordinated Notes 2018 (Callable 2013) | 100 | 100 |
| JPY 10 billion 3.35 per cent Subordinated Notes 2023 (Callable 2018) | 138 | 116 |
| SGD 450 million 5.25 per cent Subordinated Notes 2023 (Callable and floating rate from 2018) | 363 | 325 |
| **Primary Capital Floating Rate Notes:** | | |
| $400 million | 57 | 400 |
| $300 million (Series 2) | 81 | 300 |
| $400 million (Series 3) | 83 | 400 |
| $200 million (Series 4) | 51 | 201 |
| £150 million | 234 | 242 |
| $925 million 8.15 per cent non-cummulative redeemable preference shares (callable 2013) | 994 | 974 |
| Total for Company | 15,169 | 17,492 |
| Total for Group | 17,418 | 19,240 |

### 38. 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, $11,611 million is at fixed interest rates (2009: $11,564 million).

On 4 February 2010, Standard Chartered Bank exercised its right to redeem its $500 million subordinated floating rate notes in full on the first optional call date.

On 23 March 2010, Standard Chartered Capital Trust I, a special purpose entity of the Group, redeemed its EUR 500 million 8.16 per cent Non-Cumulative Trust Preferred Securities.

On 24 June 2010, Standard Chartered Bank (Hong Kong) Limited issued $750 million 5.875 per cent subordinated notes due June 2020.

As at 30 June 2010, Standard Chartered Bank (Taiwan) Limited had redeemed its TWD 10 billion undated floating rate notes.

On 20 July 2010, Standard Chartered Bank (Pakistan) Limited partly redeemed PKR 339 million of its PKR 750 million floating rate notes 2011.

On 22 October 2010, Standard Chartered Bank (Tanzania) Limited issued TZS 10 billion 11 percent subordinated notes due 2021, callable 2015.

On 6 December 2010, Standard Chartered Bank (Uganda) Limited issued UGX 40 billion 13 per cent fixed interest rate notes due 2020, callable 2015.

## 39. Share capital, reserves and own shares

### Share capital

The authorised share capital of the Company at 31 December 2010 was $15,005 million (2009: $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 2009 | 8,746 | 8,746 | - | 8,746 |
| Shares issued | 2,500 | 2,500 | - | 2,500 |
| At 31 December 2009 | **11,246** | **11,246** | - | **11,246** |
| Shares issued | **441** | **441** | - | **441** |
| At 31 December 2010 | **11,687** | **11,687** | - | **11,687** |

### Reserves

The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001.

The capital redemption reserve represents the nominal value of preference shares redeemed.

Available-for-sale reserve represents the unrealised fair value gains and losses in respect of financial assets classified as available-for-sale, net of taxation. Gains and losses are deferred in this reserve until such time as the underlying asset is sold, matures or becomes impaired.

Cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria of a cash flow hedge. Gains and losses are deferred in this reserve until such time as the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur.

Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve until such time as the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations.

Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions and own shares (treasury shares).

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

### 40. Non-controlling interests

| | $300m 7.267% Hybrid Tier 1 Securities $million | Other non-controlling interests $million | Total $million |
|---|---|---|---|
| At 1 January 2009 | 327 | 1,694 | 2,021 |
| Expenses in equity attributable to non-controlling interests | - | 19 | 19 |
| Other profits attributable to non-controlling interests | 19 | 310 | 329 |
| Comprehensive income for the year | 19 | 329 | 348 |
| Distributions | (22) | (65) | (87) |
| Other increases | - | 1 | 1 |
| At 31 December 2009 | **324** | **1,959** | **2,283** |
| Income in equity attributable to non-controlling interests | **-** | **9** | **9** |
| Other profits attributable to non-controlling interests | **19** | **371** | **390** |
| Comprehensive income for the year | **19** | **380** | **399** |
| Distributions | **(22)** | **(472)** | **(494)** |
| Other increases | **-** | **866** [1] | **866** |
| At 31 December 2010 | **321** | **2,733** | **3,054** |

[1] Part disposal of an interest in Standard Chartered (Hong Kong) Limited to Standard Chartered Holdings Limited (note 56).

## 41. Share based payments

Standard Chartered PLC operates a number of share based payment schemes for its directors and employees in which the Group and Company participate.

The total charge for the year relating to employee share based payment plans was $360 million (2009: $340 million) relates to equity-settled awards. After deferred tax, the total charge to the income statement was $342 million (2009: $305 million). The scheme lives referred to below relate to the remaining period in which options may be granted under the schemes.

**2000 Executive Share Option Scheme (2000 ESOS)**
The 2000 scheme is designed to be internationally competitive and focus executive directors and their senior management teams on delivering long-term performance. A Standard Chartered PLC, EPS performance criterion must be met before options can be exercised. Executive share options to purchase ordinary shares in Standard Chartered PLC are exercisable after the third, but before the tenth, anniversary of the date of grant. The exercise price per share is the share price at the date of grant and options can only be exercised if a performance condition is satisfied. No further options can be granted under this scheme.

**2001 Performance Share Plan (2001 PSP)**
The 2001 PSP is an intrinsic element of total remuneration for our executive directors and a for a small number of the Group's most senior executives. Its significance as a percentage of these individuals' total potential remuneration is one of the strongest indicators of our commitment to paying for sustainable performance. A performance test is applied both at the time of award and upon vesting.

The 2001 PSP scheme will be replaced in 2011. Under the 2001 PSP scheme the maximum award that can be granted is 400 per cent of base salary.

Performance conditions
Half the award is dependent upon the Standard Chartered PLC Group's total shareholder return performance compared to that of a group of peers at the end of a three-year period. The other half is subject to a target for Standard Chartered PLC's earnings per share growth applied over the same three-year period.

The Committee reviewed the performance conditions this year and concluded that, in aggregate, the combination of these measures and targets was appropriate and provided a balance between driving stretching performance and having an effective retention and motivation tool. The rationale for the selection of total shareholder return and earnings per share performance conditions is set out below:

| | |
|---|---|
| TSR | Relative total shareholder return, which measures the growth in share price plus dividends paid to shareholders, is recognised as one of the best indicators as to whether they have achieved a good return investing in a specific company relative to a basket of similar companies or a single index |
| EPS | Earnings per share provide an appropriate measure of a company's underlying financial performance |

A review of our performance conditions is currently being undertaken and the Committee is considering proposing to the shareholders that a measure relating to economic profit is included in the design of our PSP.

**TSR element**
The constituents of our comparison peer group for awards made in 2007, 2008, 2009 and 2010 are set out below:

For awards made prior to 2010

| | |
|---|---|
| ABN AMRO [1,2] | ICBC |
| Banco Santander | ICICI [2] |
| Bank of America | JP Morgan Chase |
| Bank of China | Kookmin |
| Bank of East Asia | Lloyds Banking Group (formerly Lloyds TSB) [3] |
| Barclays | Overseas Chinese Banking Corporation |
| Citigroup | Royal Bank of Scotland |
| Credit Suisse | Standard Bank |
| DBS Group | Standard Chartered |
| Deutsche Bank | State Bank of India |
| HBOS [3] | Unicredito |
| HSBC | United Overseas Bank |

[1] Following the acquisition of ABN AMRO ('ABN'), for awards granted in 2007, ABN was replaced with a 'synthetic' company comprising the median TSR performance of the remaining comparison companies.

[2] For awards granted in 2008, ABN was removed from the comparison group and substituted with ICICI.

[3] For unvested awards granted in 2007 and 2008, HBOS was replaced by another synthetic company, in view of its acquisition by Lloyds TSB.

### 41. Share based payments continued

A comprehensive review of the comparison group was made in June 2008 by the Committee, which decided to increase the number of constituents from 15 to 21 for awards to be made in 2009 and beyond. The enlarged group better reflects the increased size and scope of our current business. The Committee used a combination of measures, including size, business scope and geographic spread, to identify the most appropriate companies before agreeing the constituents.

| For awards made in 2010 | |
|---|---|
| Banco Santander | JP Morgan Chase |
| Bank of America | Kookmin |
| Bank of China | Lloyds Banking Group |
| Bank of East Asia | Overseas Chinese Banking Corporation |
| Barclays | Royal Bank of Scotland |
| Citigroup | Standard Bank |
| DBS Group | State Bank of India |
| Deutsche Bank | Unicredito |
| HSBC | United Overseas Bank |
| ICBC | Standard Chartered |
| ICICI | Société Générale |

Following the increase in the number of constituents, the vesting schedule has been re-calibrated to ensure the vesting level at median and upper quintile remains broadly unchanged. The percentage of awards exercisable at the end of the relevant three-year performance period is calculated on a straight-line basis. Minimum vesting occurs if we achieve median ranking, with full vesting achieved if we are ranked in the upper quintile or above position in our comparison group.

Comparison group for **awards in 2010 onwards**
In December 2009, the Committee reviewed the continued appropriateness of our comparison peer group and decided to make a minor refinement to the constituents, which resulted in the replacement of Lloyds Banking Group by Credit Suisse. This will affect awards made in 2010 and onwards.

The Committee believes that it is preferable to measure total shareholder return performance using a local currency approach. This reflects the international composition of the comparison group, but also takes into account that a significant proportion of each company's profits is generated in the same currency as its primary listing. This approach measures the real impact for a shareholder by focusing on relative stock movement rather than taking into account exchange rate fluctuations.

Awards of nil price options to acquire shares are granted to the executives and will normally be exercisable between three and ten years after the date of grant if the individual is still employed by the Group. There is provision for earlier exercise in certain limited circumstances.

The remaining life of the scheme is one year.

**1997/2006 Restricted Share Scheme (RSS)**
Restricted Share Schemes are to deliver the deferred portion of annual performance awards and as an incentive to motivate and retain high performing employees. In line with similar schemes operated by our competitors, our existing restricted share awards do not have any performance conditions. Generally half of the award vests two years after the date of grant and the balance after three years.

The remaining life of the scheme is six years.

**2007 Supplementary Restricted Share Scheme (2007 SRSS)**
The Group operates a Supplementary Restricted Share Scheme which is similar to the RSS. This scheme is principally used for Global Markets. It was used in 2010 to defer one-third of an employee's 2009 Annual Performance award which vests after one year. For all other grants, half of the award vests two years after the date of grant and the balance after three years. Executive directors are specifically prohibited from the plan; no new shares can be issued to satisfy awards; and there is no individual annual limit.

The remaining life of the scheme is seven years.

**2004 Deferred Bonus Plan**
Under the 2004 Deferred Bonus Plan, shares are conditionally awarded as part of the executive directors' annual performance awards. The remaining life of the plan is four years.

## 41. Share based payments continued

### All Employee Sharesave Schemes

No awards have been made under the 1994 UK Sharesave and 1996 International Sharesave schemes since 2003, as these were replaced by the 2004 UK and International Sharesave schemes. In 2008 a new Irish sharesave scheme was introduced for all employees of the Group in the Republic of Ireland. Under these Sharesave schemes, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company. The price at which they may purchase shares is at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under all the employee sharesave schemes.

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

### 2000 Executive Share Option Scheme (2000 ESOS)

No share awards were granted during 2010 or 2009.

A reconciliation of option movements over the year to 31 December 2010 and 2009 is shown below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January | **3,403,965** | **£7.29** | 7,485,925 | £7.18 |
| Additional shares for rights issue[1] | **58,484** | **-** | - | - |
| Lapsed | **-** | **-** | (5,253) | £8.19 |
| Exercised | **(2,094,305)** | **£7.28** | (4,076,707) | £7.08 |
| Outstanding at 31 December | **1,386,144** | **£7.01** | 3,403,965 | £7.29 |
| Exercisable at 31 December | **1,386,144** | **£7.01** | 3,403,965 | £7.29 |

[1] The exercise price for grants awarded prior to the announcement of the rights issue on 13 October 2010 which have not been exercised or lapsed, have been decreased by 3.8 per cent and the number of options granted have been increased to ensure option holders were compensated for the dilutive impact of the rights issue.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Range of exercise price for options outstanding | Weighted average exercise price | Weighted average remaining contractual life | Weighted average exercise price | Weighted average remaining contractual life |
| £5.82/£8.76 (2009: £6.05/£9.10) | **£7.01** | **2.8 years** | £7.29 | 3.2 years |

The intrinsic value of vested but not exercised 2000 ESOS cash-settled awards as at 31 December 2010 was $1 million (2009: $3 million). The weighted average share price at the time the options were exercised during 2010 was £17.78 (2009: £14.28).

### 2001 Performance Share Plan (2001 PSP)

Valuation

The fair value of awards is based on the market value less an adjustment to take into account the expected dividends over the vesting period. The same fair value is applied for awards made to both the directors and employees of the Group. As set out above, half the award is dependent on a TSR performance condition and half dependent on an SC Plc EPS performance condition. The fair value of the TSR component is derived by discounting 50 per cent of the award that is subject to the TSR condition by the loss of expected dividends over the performance period together with the probability of meeting the TSR condition, which is calculated by the area under the TSR vesting schedule curve. The EPS fair value is derived by discounting 50 per cent of the award by the loss of expected dividends over the performance period. In respect of the EPS component only, the number of shares expected to vest is adjusted for actual performance when calculating the charge for the year.

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| Grant date | 16 December | 21 September | 18 June | 11 March | 3 December | 15 September | 23 June | 11 March |
| Share price at grant date | **£17.66** | **£19.12** | **£17.40** | **£17.40** | £15.51 | £14.44 | £11.75 | £8.10 |
| Vesting period (years) | **3** | **3** | **3** | **3** | 3 | 3 | 3 | 3 |
| Expected dividend yield (%) | **3.78** | **3.76** | **3.51** | **3.51** | 3.43 | 3.43 | 3.41 | 3.41 |
| Fair value (EPS) (£) | **7.90** | **8.55** | **7.85** | **7.85** | 7.13 | 6.63 | 5.40 | 3.73 |
| Fair value (TSR) (£) | **3.10** | **3.36** | **3.08** | **3.08** | 2.81 | 2.61 | 2.13 | 1.46 |

The expected dividend yield is based on the historical dividend yield over the three years prior to grant.

## 41. Share based payments continued

### 2001 Performance Share Plan (2001 PSP) continued

A reconciliation of option movements over the year to 31 December 2010 and 2009 is shown below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January | 10,775,552 | - | 8,458,895 | - |
| Granted | 1,326,976 | - | 4,583,187 | - |
| Additional shares for rights issue[1] | 359,003 | - | – | - |
| Lapsed | (938,348) | - | (528,627) | - |
| Exercised | (1,951,337) | - | (1,737,903) | - |
| Outstanding at 31 December | 9,571,846 | - | 10,775,552 | - |
| Exercisable at 31 December | 836,321 | - | 938,782 | - |

[1] For grants awarded prior to the announcement of the rights issue on 13 October 2010 which have not been exercised or lapsed the number of options granted have been increased by 3.8 per cent to ensure option holders were compensated for the dilutive impact of the rights issue.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Range of exercise price for options outstanding | Weighted average exercise price | Weighted average remaining contractual life | Weighted average exercise price | Weighted average remaining contractual life |
| n/a | - | 7.8 years | - | 8.2 years |

The intrinsic value of vested but not exercised cash-settled awards as at 31 December 2010 was $1 million (2009: $2 million).

The weighted average share price at the time the options were exercised during 2010 was £17.58 (2009: £11.48).

Of the 2,774,708 options granted in 2008 and outstanding as at 31 December 2010, the EPS condition is not expected to be met on 765,542 options. As a result, it is considered that these options will not vest.

### 1997/2006 Restricted Share Scheme (1997/2006 RSS)

Valuation

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period. The same fair value is applied for awards made to both the directors and employees of the Group.

| | 2010 | | | | 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Grant date | 16 December | 21September | 18June | 11March | 3 December | 28 September | 15 September | 23 June | 11 March |
| Share price at grant date | £17.66 | £19.12 | £17.40 | £17.40 | £15.51 | £14.98 | £14.44 | £11.75 | £8.10 |
| Vesting period (years) | 2/3 | 2/3 | 2/3 | 2/3 | 2/3 | 2/3 | 2/3 | 2/3 | 2/3 |
| Expected dividend yield (%) | 3.7 | 3.7 | 3.9 | 3.9 | 3.45 | 3.45 | 3.45 | 3.73 | 3.73 |
| Fair value (£) | 16.11 | 17.46 | 15.80 | 15.80 | 14.25 | 13.76 | 13.27 | 10.72 | 7.39 |

The expected dividend yield is based on the historical dividend for three years prior to grant.

A reconciliation of option movements over the year to 31 December 2010 and 2009 is shown below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January | 17,277,162 | - | 7,285,927 | - |
| Granted | 9,998,480 | - | 12,675,994 | - |
| Additional shares for rights issue[1] | 918,061 | - | - | - |
| Lapsed | (1,041,580) | - | (528,860) | - |
| Exercised | (2,651,963) | - | (2,155,899) | - |
| Outstanding at 31 December | 24,500,160 | - | 17,277,162 | - |
| Exercisable at 31 December | 1,841,565 | - | 1,986,203 | - |

[1] For grants awarded prior to the announcement of the rights issue on 13 October 2010 which have not been exercised or lapsed the number of options granted have been increased by 3.8 per cent to ensure option holders were compensated for the dilutive impact of the rights issue.

### 41. Share based payments continued

| 2010 | | 2009 | |
|---|---|---|---|
| Weighted average exercise price | Weighted average remaining contractual life | Weighted average exercise price | Weighted average remaining contractual life |
| - | 5.4 years | - | 5.6 years |

The intrinsic value of vested but not exrercised1997/2006 RSS cash-settled awards as at 31 December 2010 was $16 million (2009: $12 million).

The weighted average share price at the time the options were exercised during 2010 was £17.79 (2009: £11.98).

**2007 Supplementary Restricted Share Scheme (2007 SRSS)**

Valuation

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period. The same fair value is applied for awards made to both the directors and employees of the Group.

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| Grant date | 16 December | 21 September | 18 June | 11 March | 3 December | 15 September | 23 June | 11 March |
| Share price at grant date | £17.66 | £19.12 | £17.40 | £17.40 | £15.51 | £14.44 | £11.75 | £8.10 |
| Vesting period (years) | 2/3 | 2/3 | 2/3 | 1/2/3 | 2/3 | 2/3 | 2/3 | 2/3 |
| Expected dividend yield (%) | 3.7 | 3.7 | 3.9 | 2.7/3.9 | 3.45 | 3.45 | 3.73 | 3.73 |
| Fair value (£) | 16.11 | 17.46 | 15.80 | 16.93/15.8 | 14.25 | 13.27 | 10.72 | 7.39 |

The expected dividend yield is based on the historical dividend for three years prior to grant. A reconciliation of option movements over the year to 31 December 2010 is shown below:

| | 2010 | | ##D<prioryear> | |
|---|---|---|---|---|
| | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January | 7,414,532 | - | 2,442,096 | - |
| Granted | 7,280,693 | - | 5,172,293 | - |
| Additional shares for rights issue[1] | 508,709 | - | - | - |
| Lapsed | (300,657) | - | (51,909) | - |
| Exercised | (1,018,205) | - | (147,948) | - |
| Outstanding at 31 December | 13,885,072 | - | 7,414,532 | - |
| Exercisable at 31 December | 637,014 | - | 53,580 | - |

[1] For grants awarded prior to the announcement of the rights issue on 13 October 2010 which have not been exercised or lapsed the number of options granted have been increased by 3.8 per cent to ensure option holders were compensated for the dilutive impact of the rights issue.

| 2010 | | 2009 | |
|---|---|---|---|
| Weighted average exercise price | Weighted average remaining contractual life | Weighted average exercise price | Weighted average remaining contractual life |
| - | 5.7 years | - | 5.9 years |

The intrinsic value of vested but unexercised 2007 SRSS awards as at 31 December 2010 was $nil million (2009: $nil million).

In 2009 and 2010 there were no vested and unexercised cash settled awards.

The weighted average share price at the time the options were exercised during 2010 was £18.13 (2009: £14.62).

**2004 Deferred Bonus Plan**

Under this plan shares are issued directly to participants upon vesting.

A reconciliation of share movements over the year to 31 December 2010 and 2009 is shown below:

| | 2010 No. of shares | 2009 No. of shares |
|---|---|---|
| Outstanding at 1 January | 350,581 | 352,857 |
| Shares vested | (359,540) | (347,836) |
| Shares awarded | 378,569 | 352,633 |
| Additional shares for rights issue | 14,375 | - |
| Shares lapsed | - | (7,073) |
| Outstanding at 31 December | 383,985 | 350,581 |

Notes:

a) The market value of Standard Chartered PLC shares on date of awards (9 March 2010) was £17.19 (2009: £6.98).

b) The shares vest one year after the date of award.

c) A notional scrip dividend accrues on the shares held in the Trust. The dividend is normally delivered in the form of shares and is released on vesting.

## 41. Share based payments continued

### 1994/1996 UK and International Sharesave Scheme

Options are valued using a binomial option-pricing model. The same fair value is applied for awards made to both the directors and employees of the Group. A reconciliation of option movements over the year to 31 December 2010 and 2009 is shown below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January | **35,920** | **£5.61** | 162,982 | £5.61 |
| Additional shares for rights issue | - | - | - | - |
| Lapsed | **(35,920)** | **£5.61** | - | - |
| Exercised | - | - | (127,062) | £5.61 |
| Outstanding at 31 December | - | - | 35,920 | £5.61 |
| Exercisable at 31 December | - | - | 35,920 | £5.61 |

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Range of exercise price for options outstanding | Weighted average exercise price | Weighted average remaining contractual life | Weighted average exercise price | Weighted average remaining contractual life |
| 2009: £4.91/£5.61 | - | - | £5.61 | 0 years |

In 2009 and 2010 there were no vested but unexercised cash-settled awards.

### 2004 UK and International Sharesave Schemes

**Valuation**

Options are valued using a binomial option-pricing model. The same fair value is applied for awards made to both the directors and employees of the Group. The fair value per option granted and the assumptions used in the calculation are as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Grant date | 9 October | 5 October | 9 October | 5 October |
| Share price at grant date | **£18.70** | **£18.48** | £15.57 | £14.92 |
| Exercise price | **£15.19** | **£15.19** | £11.46 | £11.46 |
| Vesting period (years) | **3/5** | **3/5** | 3/5 | 3/5 |
| Expected volatility (%) | **56.0/46.0** | **56.0/46.0** | 52.9/43.7 | 52.9/42.6 |
| Expected option life (years) | **3.33/5.33** | **3.33/5.33** | 3.33/5.33 | 3.33/5.33 |
| Risk free rate (%) | **0.9/0.6** | **0.9/0.6** | 1.8/2.5 | 1.8/2.5 |
| Expected dividend yield (%) | **3.5/3.4** | **3.5/3.4** | 3.3/3.2 | 3.3/3.2 |
| Fair value (£) | **7.2/7.0** | **7.0/6.9** | 6.4/6.2 | 5.9/5.8 |

The expected volatility is based on historical volatility over the last three to five years, or three to five years prior to grant. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend for three years prior to grant. Where two amounts are shown for volatility, risk free rates, expected dividend yield and fair values, the first relates to a three year vesting period and the second to a five year vesting period.

A reconciliation of option movements over the year to 31 December 2010 and 2009 is shown below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | No. of shares | Weighted average exercise price | No. of shares | Weighted average exercise price |
| Outstanding at 1 January | **17,466,437** | **£10.28** | 20,229,858 | £9.69 |
| Granted | **3,495,017** | **£15.19** | 3,881,940 | £11.46 |
| Additional shares rights issue[1] | **649,756** | - | - | - |
| Lapsed | **(2,960,001)** | **£9.57** | (2,160,450) | £10.26 |
| Exercised | **(3,852,218)** | **£9.58** | (4,484,911) | £8.81 |
| Outstanding at 31 December | **14,798,991** | **£11.31** | 17,466,437 | £10.28 |
| Exercisable at 31 December | **2,099,064** | **£9.95** | 2,018,787 | £9.17 |

[1] The exercise price for grants awarded prior to the announcement of the rights issue on 13 October 2010 which have not been exercised or lapsed, have been decreased by 3.8 per cent and the number of options granted have been increased to ensure option holders were compensated for the dilutive impact of the rights issue.

## 41. Share based payments continued

| Range of exercise price for options outstanding | 2010 Weighted average exercise price | 2010 Weighted average remaining contractual life | 2009 Weighted average exercise price | 2009 Weighted average remaining contractual life |
|---|---|---|---|---|
| £8.32/£14.63 (2009: £6.27/£11.46) | **£11.31** | **2.23 years** | £10.28 | 2.2 years |

The weighted average share price at the time the options were exercised during 2010 was £7.97 (2009: £14.16) for the UK Sharesave scheme and £8.04 (2009: £12.73) for the International Sharesave scheme.

The intrinsic value of vested but not exercised UK and International Sharesave cash-settled awards as at 31 December 2010 was $28 million (2009: $7 million).

### 2008 Irish Sharesave Scheme

The first awards under this scheme were made on 29 September 2008. No awards were made in 2010.

### Valuation

Options are valued using a binomial option-pricing model. The same fair value is applied for awards made to both the directors and employees of the Group. The fair value per option granted and the assumptions used in the calculation are as follows:

| Grant date | 2010 | 2009 5 October |
|---|---|---|
| Share price at grant date | - | £14.92 |
| Exercise price | - | £11.46 |
| Vesting period (years) | - | 3/5 |
| Expected volatility (%) | - | 52.9/42.6 |
| Expected option life (years) | - | 3.33/5.33 |
| Risk free rate (%) | - | 1.8/2.5 |
| Expected dividend yield (%) | - | 3.3/3.2 |
| Fair value (£) | - | 5.9/5.8 |

The expected dividend yield is based on the historical dividend for three years prior to grant. A reconciliation of option movements over 2010 and 2009 is shown below:

| | 2010 No. of shares | 2010 Weighted average exercise price | 2009 No. of shares | 2009 Weighted average exercise price |
|---|---|---|---|---|
| Outstanding at 1 January | **18,871** | **£10.48** | 14,290 | £10.18 |
| Granted | - | - | 4,581 | £11.46 |
| Additional shares for rights issue[1] | **715** | - | - | - |
| Exercised | - | - | - | - |
| Outstanding at 31 December | **19,586** | **£10.10** | 18,871 | £10.48 |
| Exercisable at 31 December | - | - | - | - |

[1] The exercise price for grants awarded prior to the announcement of the rights issue on 13 October 2010 which have not been exercised or lapsed, have been decreased by 3.8 per cent and the number of options granted have been increased to ensure option holders were compensated for the dilutive impact of the rights issue.

| Range of exercise price for options outstanding | 2010 Weighted average exercise price | 2010 Weighted average remaining contractual life | 2009 Weighted average exercise price | 2009 Weighted average remaining contractual life |
|---|---|---|---|---|
| £9.80 – £11.04 (2009: £10.18 – £11.46) | **£10.10** | **2.6 years** | £10.48 | 3.6 years |

# Standard Chartered Bank

## Notes to the financial statements continued

### 42. Cash flow statement

**Adjustment for non-cash items included within income statement**

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 [1] | 2010 | 2009 [1] |
| | $million | $million | $million | $million |
| Depreciation and amortisation | **577** | 538 | **256** | 239 |
| Gain on disposal of property, plant and equipment | **(65)** | (40) | **(32)** | (2) |
| Gain on disposal of available-for-sale and loan and receivable financial assets | **(300)** | (592) | **(31)** | (156) |
| Gain arising on repurchase of subordinated-liabilities | **-** | (264) | **-** | (710) |
| Writedowns relating to asset backed securities | **-** | 4 | **-** | 4 |
| Movement in fair value hedges on available-for-sale assets | **(4)** | 6 | **(2)** | 7 |
| Amortisation of discounts and premiums of investment securities | **3** | (762) | **115** | (553) |
| Pension costs for defined benefit schemes | **39** | 30 | **1** | 50 |
| Share based payment cost | **360** | 340 | **219** | 250 |
| Impairment losses on loans and advances and other credit risk provisions | **883** | 2,000 | **475** | 1,069 |
| Dividend income from subsidiaries | **-** | - | **(603)** | (273) |
| Profit from associates | **(42)** | (21) | **-** | - |
| Other impairment | **76** | 102 | **56** | 575 |
| Recoveries of acquisition fair values and discount unwind | **(91)** | (101) | **(26)** | (18) |
| Interest expense on subordinated liabilities | **536** | 399 | **476** | 508 |
| (Gain)/loss on sale of business and change of control | **(4)** | 2 | **-** | - |
| Total | **1,968** | 1,641 | **904** | 990 |

**Change in operating assets**

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $million | $million | $million | $million |
| (Increase)/decrease in derivative financial instruments | **(8,801)** | 32,293 | **(9,816)** | 28,548 |
| Decrease/(increase) in amounts due to parents/subsidiaries | **9,169** | 475 | **4,511** | (5,075) |
| Net increase in debt securities, treasury bills and equity shares held at fair value through profit or loss | **(13,554)** | (6,331) | **(5,285)** | (5,336) |
| Net increase in loans and advances to banks and customers | **(50,518)** | (21,801) | **(25,960)** | (13,737) |
| Decrease in pre-payments and accrued income | **1,216** | 233 | **824** | 64 |
| Decrease/(increase) in other assets | **1,456** | (1,780) | **(11,544)** | 3,434 |
| Total | **(61,032)** | 3,089 | **(47,270)** | 7,898 |

**Change in operating liabilities**

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 [1] | 2010 | 2009 [1] |
| | $million | $million | $million | $million |
| Increase/(decrease) in derivative financial instruments | **9,779** | (31,360) | **10,258** | (28,211) |
| Net increase in deposits from banks, customer accounts, debt securities in issue and short positions | **40,306** | 17,999 | **23,876** | 11,528 |
| Increase in accruals and deferred income | **(79)** | 163 | **(92)** | 266 |
| (Decrease)/increase in other liabilities | **(2,663)** | 265 | **8,146** | (4,372) |
| Total | **47,343** | (12,933) | **42,188** | (20,789) |

[1] Amounts have been restated as explained in note 54

### 43. 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 | |
|---|---|---|---|---|
| | 2010 $million | 2009 $million | 2010 $million | 2009 $million |
| Cash and balances at central banks | **32,724** | 18,131 | **22,782** | 11,800 |
| Less restricted balances | **(7,385)** | (4,971) | **(3,138)** | (2,380) |
| Treasury bills and other eligible bills | **4,770** | 7,748 | **154** | 2,104 |
| Loans and advances to banks | **26,162** | 37,127 | **14,807** | 18,977 |
| Trading securities | **3,463** | 10,036 | **1,667** | 4,914 |
| Total | **59,734** | 68,071 | **36,272** | 35,415 |

### 44. Capital commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 $million | 2009 $million | 2010 $million | 2009 $million |
| Contracted | **42** | 36 | **40** | 30 |

### 45. Operating lease commitments

**Group**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Premises $million | Equipment $million | Premises $million | Equipment $million |
| **Commitments under non-cancellable operating leases expiring:** | | | | |
| Within one year | **259** | **4** | 271 | 8 |
| Later than one year and less than five years | **518** | **5** | 477 | 11 |
| After five years | **405** | **-** | 487 | - |
| | **1,182** | **9** | 1,235 | 19 |

During the year $354 million (2009: $257 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 2010 are $3 million (2009: $4 million).

**Company**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Premises $million | Equipment $million | Premises $million | Equipment $million |
| **Commitments under non-cancellable operating leases expiring:** | | | | |
| Within one year | **105** | **1** | 107 | 1 |
| Later than one year and less than five years | **280** | **1** | 198 | 1 |
| After five years | **369** | **-** | 440 | - |
| | **754** | **2** | 745 | 2 |

During the year $354 million (2009: $257 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 2010 are $nil million (2009: $nil million).

## 46. Contingent liabilities and commitments

The table below shows the contract or underlying principal amounts and risk weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

The risk weighted amounts have been calculated in accordance with the UK Financial Services Authority (FSA) guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

### Group

| | 2010 | 2009 |
|---|---|---|
| | Contract or underlying principal amount | Contract or underlying principal amount |
| **Contingent liabilities**[1] | $million | $million |
| Guarantees and irrevocable letters of credit | 31,765 | 28,731 |
| Other contingent liabilities | 10,039 | 9,927 |
| | 41,804 | 38,658 |
| **Commitments**[1] | | |
| Documentary credits and short term trade-related transactions | 7,505 | 6,695 |
| Forward asset purchases and forward deposits placed | 877 | 874 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | |
| One year and over | 24,014 | 20,616 |
| Less than one year | 21,610 | 20,729 |
| Unconditionally cancellable | 60,108 | 45,344 |
| | 114,114 | 94,258 |

[1] Includes amounts relating to the Group's share of its joint ventures.

### Company

| | 2010 | 2009 |
|---|---|---|
| | Contract or underlying principal amount | Contract or underlying principal amount |
| | $million | $million |
| **Contingent liabilities** | | |
| Guarantees and irrevocable letters of credit | 21,561 | 20,157 |
| Other contingent liabilities | 8,864 | 8,099 |
| | 30,425 | 28,256 |
| **Commitments** | | |
| Documentary credits and short term trade-related transactions | 4,687 | 4,775 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | |
| One year and over | 16,221 | 16,918 |
| Less than one year | 5,455 | 4,671 |
| Unconditionally cancellable | 26,602 | 18,321 |
| | 52,965 | 44,685 |

**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.

**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.

## 47. Repurchase and reverse repurchase agreements

The Group enters into collateralised reverse repurchase and repurchase agreements and securities borrowing and lending transactions. It also receives securities as collateral for commercial lending.

### Balance sheet assets

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | Reverse repurchase agreements | Reverse repurchase agreements | Reverse repurchase agreements | Reverse repurchase agreements |
| | $million | $million | $million | $million |
| Banks | 10,740 | 1,192 | 6,266 | 1,123 |
| Customers | 3,540 | 1,603 | 2,664 | 1,599 |
| | 14,280 | 2,795 | 8,930 | 2,722 |

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $million | $million | $million | $million |
| Securities and collateral which can be repledged or sold (at fair value) | 14,168 | 2,624 | 9,441 | 2,592 |
| 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) | 2,153 | 1,696 | 2,120 | 1,669 |

### Balance sheet liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | Repurchase agreements | Repurchase agreements | Repurchase agreements | Repurchase agreements |
| | $million | $million | $million | $million |
| Banks | 1,707 | 1,567 | 1,119 | 571 |
| Customers | 1,305 | 380 | 1,298 | 314 |
| | 3,012 | 1,947 | 2,417 | 885 |

Collateral pledged against these liabilities is disclosed in notes 16 and 24. The terms and conditions relating to the collateral pledged typically permits the collateral to be sold or repledged, subject to the obligation to return the collateral at the end of the agreement.

## 48. Financial risk management

The management of risk lies at the heart of Group's and Company'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 which are inherent to our strategy, product range and geographical coverage.

### Risk management framework

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of 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 credit, market, capital and 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 GRC and 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.

Executive responsibility for risk management is held by the Standard Chartered Bank Court (the Court) which comprises the group executive directors and other directors of Standard Chartered Bank.

The Court delegates authority for the management of risk to several committees.

The Group Risk Committee (GRC) is responsible for the management of all risks other than those delegated by the Court to the Group Asset and Liability Committee (GALCO) and the Group Pensions Executive Committee (PEC). The GRC is responsible for the establishment of, and compliance with, policies relating to credit risk, country cross-border risk, market risk, operational risk, and reputational risk. The GRC also defines our overall risk management framework.

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

The Group PEC is responsible for the management of pension risk.

Members of the Court are also members of both the GRC and GALCO. The GRC is chaired by the Group Chief Risk Officer (GCRO). The GALCO is chaired by the Group Finance Director.

Risk limits and risk exposure approval authority frameworks are set by the GRC in respect of credit risk, country cross-border risk and market risk. The GALCO sets the approval authority framework in respect of liquidity risk. Risk approval authorities may be exercised by risk committees or authorised individuals.

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 committees and Group-level committees.

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

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

## 48. Financial risk management continued

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

The third line of defence is the independent assurance provided by the Group Internal Audit (GIA) function. Their role is defined and overseen by the Board 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 which is separate from the origination, trading and sales functions of the businesses. The GCRO also chairs the GRC and is a member of the Group Management Committee.

The role of the Risk function is:

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

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

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

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

### Risk appetite

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

Risk appetite is an expression of the amount of risk we are willing to take in pursuit of our strategic objectives, reflecting our capacity to sustain losses and continue to meet our obligations arising from a range of different stress trading conditions.
We define our risk appetite in terms of both volatility of earnings and the maintenance of minimum regulatory capital requirements under stress scenarios. We also define a risk appetite with respect to liquidity risk and reputational risk.

Our quantitative risk profile is assessed through a bottom-up analytical approach covering all of our major businesses, countries and products. The risk appetite is approved by the Board and forms the basis for establishing the risk parameters within which the businesses must operate, including policies, concentration limits and business mix.

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

### Stress testing

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

Our stress testing framework is designed to:

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

### 48. Financial risk management continued

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

Our stress testing activity in 2010 focused on specific asset classes, customer segments and the potential impact of macroeconomic factors. Stress tests have taken into consideration possible future scenarios that could arise as a result of the development of prevailing market conditions.

Stress testing themes such as currency market disruptions, inflation, US dollar depreciation, declines in asset values or potential border conflicts are co-ordinated by the Stress Testing Committee to ensure consistency of impacts on different risk types or countries. Stress tests for country or risk type are also performed. Examples of risk type stress testing are covered in the section on Market risk.

### 49. 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.

Our cross-border exposure to China, India and UAE has risen significantly over the past year, reflecting our focus and continued expansion in our core countries.

For China the increase was driven by both onshore and offshore loans to Chinese corporates and banks making increased use of more attractive foreign currency funding for their trading and business activities.

Increased cross-border exposure for India reflects growth in short term trade business and higher Corporate Finance activity. Cross-border exposure to the UAE has increased as we grew our core business with particular emphasis on the Abu Dhabi portfolio.

The decrease in our exposures to Korea reflects less demand for US dollar borrowings from Korean clients.

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

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

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | One year or less $million | Over one year $million | Total $million | One year or less $million | Over one year $million | Total $million |
| India | **13,117** | **12,706** | **25,823** | 8,370 | 10,470 | 18,840 |
| China | **12,623** | **7,131** | **19,754** | 5,979 | 4,007 | 9,986 |
| Hong Kong | **12,781** | **5,542** | **18,323** | 12,410 | 4,856 | 17,266 |
| US | **13,857** | **4,226** | **18,083** | 14,484 | 5,604 | 20,088 |
| United Arab Emirates | **5,927** | **10,717** | **16,644** | 5,807 | 9,071 | 14,878 |
| Singapore | **11,692** | **3,514** | **15,206** | 13,135 | 3,411 | 16,546 |
| South Korea | **7,488** | **5,846** | **13,334** | 8,555 | 6,500 | 15,055 |
| Switzerland | **3,918** | **2,362** | **6,280** | 2,844 | 1,638 | 4,482 |
| Qatar | **1,996** | **3,255** | **5,251** | 840 | 2,044 | 2,884 |

### 50. Market risk

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

The primary categories of market risk for Standard Chartered are:

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

**Market risk governance**

The GRC approves our market risk appetite taking account of market volatility, the range of products and asset classes, business volumes and transaction sizes. Market risk limits have remained broadly stable in 2010.

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

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

**Value at Risk ('VaR')**

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

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

We apply two VaR methodologies:

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

In both methods 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 2010 there was one regulatory back testing exception, and one in 2009. This is well within the 'green zone' applied internationally to internal models by bank supervisors, and implies that model reliability is statistically greater than 95 per cent.

**Stress testing**

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

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

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

### 50. Market risk continued

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

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

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

**Market risk changes**

Total average VaR declined in 2010 compared to 2009. This stemmed mainly from the non-trading book VaR, and reflected decreasing volatility of credit spreads that followed a sharp increase after the collapse of Lehman Brothers in September 2008. The one year historical data window applied as an input to the VaR model continued to reflect this period of particularly high credit spread volatility throughout most of 2009, but its impact tailed off in the second half of 2009. Average trading book VaR also declined in 2010 across asset classes.

There have been three significant changes of VaR coverage during 2009 and 2010 which have affected Total VaR as follows:

- Group Treasury positions were transferred from VaR to net interest income sensitivity basis from the start of 2010 (see details on page 149). This resulted in a $3.6million reduction in total VaR in 2010.
- The listed part of the private equities portfolio was included in non-trading VaR from October 2009 resulting in an increase of $3million in total VaR.
- Securities classed as loans and receivables or held to maturity were removed from VaR in June 2009. These non-traded securities (largely comprising asset backed securities reclassified in 2008) are accounted for on an amortised cost basis and are match funded, so market price movements have no effect on either profit and loss or reserves. This alignment of VaR with accounting treatment resulted in an $8.6million reduction in total VaR at the time of implementation.

**Group**

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

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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] | **20.1** | **25.5** | **16.3** | **19.2** | 37.3 | 46.7 | 24.7 | 25.5 |
| Foreign exchange risk | **5.6** | **12.5** | **3.1** | **7.6** | 7.8 | 16.1 | 3.5 | 5.0 |
| Commodity risk | **1.9** | **4.0** | **0.7** | **3.5** | 3.0 | 5.5 | 1.3 | 3.7 |
| Equity risk | **9.5** | **11.3** | **6.9** | **10.7** | 4.3 | 11.1 | 1.1 | 10.8 |
| Total[2] | **22.1** | **31.0** | **17.3** | **25.2** | 38.9 | 47.9 | 27.6 | 31.8 |
| **Trading** | | | | | | | | |
| Interest rate risk[1] | **8.7** | **11.9** | **5.1** | **6.7** | 11.7 | 17.8 | 8.7 | 10.5 |
| Foreign exchange risk | **5.6** | **12.5** | **3.1** | **7.6** | 7.8 | 16.1 | 3.5 | 5.0 |
| Commodity risk | **1.9** | **4.0** | **0.7** | **3.5** | 3.0 | 5.5 | 1.3 | 3.7 |
| Equity risk | **1.9** | **2.9** | **1.2** | **1.4** | 2.7 | 3.6 | 1.0 | 2.5 |
| Total[2] | **11.2** | **16.7** | **8.1** | **9.6** | 14.5 | 19.3 | 9.9 | 13.2 |
| **Non-trading** | | | | | | | | |
| Interest rate risk[1] | **15.0** | **22.2** | **11.2** | **14.3** | 32.4 | 41.0 | 20.8 | 22.2 |
| Equity risk[5] | **9.4** | **10.8** | **8.1** | **10.0** | 1.8 | 9.9 | - | 9.1 |
| Total[2] | **17.4** | **23.2** | **13.5** | **16.9** | 32.7 | 41.0 | 22.6 | 23.5 |

1 Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale.
2 The total VaR shown in the tables above is not a sum of the component risks due to offsets between them.
3 Highest and lowest VaR for each risk factor are independent and usually occur on different days.
4 Actual one day VaR as at period end date.
5 Non-trading equity risk VaR was included only from October 2009. For the period October to December 2009, non-trading equity risk VaR average was $9.1 million, with a low of $8.7 million.

## 50. Market risk continued

**Average daily income earned from market risk related activities**

| Trading | 2010 $million | 2009 $million |
|---|---|---|
| Interest rate risk | **4.8** | 5.0 |
| Foreign exchange risk | **4.7** | 5.3 |
| Commodity risk | **1.3** | 1.0 |
| Equity risk | **0.4** | 0.4 |
| Total | **11.2** | 11.7 |

| Non-Trading | 2010 $million | 2009 $million |
|---|---|---|
| Interest rate risk | **3.6** | 4.5 |
| Equity risk | **0.5** | - |
| Total | **4.1** | 4.5 |

**Company**

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

| Trading and non-trading | 2010 $million | 2009 $million |
|---|---|---|
| Interest rate risk[1] | **11.7** | 20.3 |
| Foreign exchange risk | **5.9** | 4.7 |
| Commodity risk | **3.5** | 3.7 |
| Equity risk | **10.7** | 10.8 |
| Total | **19.8** | 24.1 |

| Trading | 2010 $million | 2009 $million |
|---|---|---|
| Interest rate risk | **5.3** | 10.3 |
| Foreign exchange risk | **5.9** | 4.7 |
| Commodity risk | **3.5** | 3.7 |
| Equity risk | **1.4** | 2.5 |
| Total[2] | **8.0** | 11.8 |

| Non-trading | 2010 $million | 2009 $million |
|---|---|---|
| Interest rate risk[1] | **8.5** | 15.7 |
| Equity risk | **10** | 9.1 |
| Total | **12.9** | 19.4 |

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

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

**Market risk VaR coverage**

Interest rate risk from non-trading book portfolios is always transferred to Financial Markets where it is managed by local Asset and Liability Management (ALM) desks under the supervision of local Asset and Liability Committees (ALCO). 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) in the same way as for the trading book, including listed available for sale securities. Securities classed as Loans and receivables or Held to maturity are not reflected in VaR or stress tests since they are accounted on an amortised cost basis, so market price movements have no effect on either profit and loss or reserves.

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

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

## 50. Market risk continued

### 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).

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

**Group Treasury**
**NII sensitivity to parallel shifts in yield curves**

| | 2010 $million | 2009 $million |
|---|---|---|
| +25 basis points | **29.9** | 14.0 |
| –25 basis points | **(29.9)** | (14.0) |

The increase in NII sensitivity is primarily due to the placement of the 2010 rights issue proceeds at the US Federal Reserve over the year end.

## 51. Credit risk

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

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

### Credit policies

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

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

### Credit rating and measurement

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

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

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

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

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 which develop and maintain the models. Models undergo a detailed annual review. Such reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process.

### Credit approval

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

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

### Concentration risk

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

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

**Credit monitoring**

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

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

The Wholesale Banking Credit Issues Forum (WBCIF) is a sub-committee of the Wholesale Banking Risk Committee, which in turn is a sub-committee of and derives it 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.

Corporate 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.

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

## 51. Credit risk continued

**Credit monitoring** continued

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 which are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by specialist recovery teams. In some countries, aspects of collections and recovery functions are outsourced.

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

**Credit mitigation**

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

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

Collateral is valued in accordance with our risk mitigation policy, which prescribes the frequency of valuation for different collateral types, based on the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired loans is maintained at fair value.

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

**Traded products**

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

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

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

In addition, we enter into Credit Support Annexes (CSA) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Under a variation margin process, additional collateral is called from the counterparty if total uncollateralised mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is bilateral and requires us to post collateral if the overall mark-to-market value of positions is in the counterparty's favour and exceeds an agreed threshold.

**Securities**

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

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

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

**Maximum exposure to credit risk**

The table below presents the Group's and Company's maximum exposure to credit risk of its on-balance sheet and off-balance sheet financial instruments at 31 December 2010, before taking into account any collateral held or other credit enhancements. For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

The Group's exposure to credit risk is spread across our markets, in particular Hong Kong, Korea, Singapore, Other Asia Pacific region and Americas, UK & Europe, (Singapore, Other Asia Pacific, India and MESA in the Company).. The Group (and Company) 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.

## 51. Credit risk continued

**Maximum exposure to credit risk** continued

The Group has transferred to third parties by way of securitisation the rights to any collections of principal and interest on customer loan assets with a face value of $3,072 million (2009: $3,601 million). The Group continues to be exposed to related credit and foreign exchange risk on these assets. The Group continues to recognise these assets in addition to the proceeds and related liability of $2,385 million (2009: $3,063 million) arising from the securitisations.

The Company has transferred to third parties by way of securitisation the rights to any collections of principal and interest on customer loan assets with a face value of $295 million (2009: $283 million). The Company continues to be exposed to related credit and foreign exchange risk on these assets. The Company continues to recognise these assets in addition to the proceeds and related liability of $114 million (2009: $144 million) arising from the securitisations.

The Group has entered into synthetic credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $18.7 billion (2009:$15.7 billion). The Group and Company continues to hold the underlying assets referenced in the synthetic credit default swaps The Company has not entered into synthetic credit default swaps..

In respect of derivative financial instruments, $26,789 million (2009: $30,539 million) is available for offset as a result of master netting agreements which do not, however, meet the criteria under IAS 32 to enable these balances to be presented on a net basis in the financial statements as in the ordinary course of business they are not intended to be settled net.

Collateral is held to mitigate the credit risk exposures primarily in respect of loans and advances, and consisting of residential, commercial and industrial properties, securities and other assets such as plant and machinery.

The Group's maximum exposure to credit risk has increased by $64 billion compared to 2009, the Company's increased by $33 billion. Exposure to loans and advances to banks and customers has increased by $43.2 billion (Company $22.8 billion) due to growth in the mortgage portfolio and broad based growth across several industry sectors in Wholesale banking. Improving customer appetite for derivatives has increased the Group's exposure by $9.7 billion when compared to 2009 and the Company's by $10.3 billion .

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 $million | 2009 $million | 2010 $million | 2009 $million |
| Financial assets held at fair value through profit or loss[1] | **25,267** | 21,229 | **14,756** | 14,385 |
| Derivative financial instruments | **47,949** | 38,218 | **45,537** | 35,207 |
| Loans and advances to banks and customers | **292,415** | 249,176 | **135,281** | 112,456 |
| Investment securities | **73,279** | 74,079 | **28,380** | 31,265 |
| Contingent liabilities | **41,804** | 38,658 | **30,425** | 28,256 |
| Undrawn irrevocable standby facilities, credit lines and other commitments to lend | **45,624** | 41,345 | **21,676** | 21,589 |
| | **526,338** | 462,705 | **276,055** | 243,158 |

[1] Excludes equity shares.

**Analysis of the loan portfolio**

The tables on page 154 and 155 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.

Collateral held against past due and impaired loans in Consumer Banking largely comprises residential and commercial property and in Wholesale Banking largely comprises property and securities. Where the fair value of collateral held exceeds the outstanding loan, any excess is paid back to customers in the event of its realisation and is not available for offset against other loans.

Renegotiated loans that would otherwise be past due or impaired if their terms had not been renegotiated were $1,750 million (2009: $2,084 million), $587 million (2009: $687 million) of which related to Consumer Banking loans to customer and $1,163 million (2009: $1,397 million) of which related to Wholesale banking loans to customer. Loans whose terms have been renegotiated to include that concessions that the Group would not ordinarily make will usually be impaired.

Total renegotiated loans at a Company level were $835 million (2009: $1,338 million), $151 million (2009: $149 million) of which related to Consumer Banking loans to customer and $684 million (2009: $1,189 million) of which related to Wholesale banking loans to customer.

Loans that were more than 90 days past due, and consequently reported as non-performing before renegotiation, continue to be reported as non-performing until a minimum number of payments have been received under the new terms. Where loans that are past due have been renegotiated, such loans are no longer considered to be past due immediately after renegotiation.

In Wholesale Banking and SME Discretionary Lending and Private Banking, renegotiated loans continue to be managed by GSAM until considered to be performing and no longer a problem account. In other parts of Consumer Banking all renegotiated loans are managed within a separate portfolio, and if such loans subsequently become past due, write off and IIP is accelerated to 90 days past due (unsecured and automobile finance) and 120 days past due (secured) respectively.

Although total loans to banks have increased by only $0.3 billion (Company $2.9 billion) between December 2009 and December 2010, there has been a shift in the credit grade distribution between the credit grade 1-5 category and credit grade 6-8 category. Loans to banks in the credit grade 1-5 category has decreased as exposure has deliberately been shifted from the interbank market to highly rated sovereign counterparties. Exposure in the credit grade 6-8 category has increased due to an increase in trade finance business with financial institutions in our core markets.

## 51. Credit risk continued

In the Wholesale Banking corporate portfolio, the negative credit grade migration observed during 2009 largely stabilised in 2010, in line with improving macroeconomic conditions across our footprint. This is also reflected in a sustained reduction in the number of accounts on Early Alert since the end of 2009.

During 2010 total loans to Wholesale Banking customers increased by $21.9 billion, or 20 per cent. Company Wholesale Bank loans increased by $13.9 billion, or 20 per cent. As at 31 December 2010 only 2.9 per cent (Company 2.9 per cent) of the loans are either past due or individually impaired, a slight increase on 2009. The increase in total loans has been driven equally by increases in lending, trade finance and corporate finance. The increased exposure in the credit grade 6-8 category is largely a consequence of increased activities in corporate finance, acquisition finance and syndicated lending, as Wholesale Banking deepens relationships with corporate clients in our key markets. The level of collateral taken against customers in this credit grade range is generally higher than for customers in the credit grade 1-5 category.

Consumer Banking loans to customers increased by $22.6 billion since 31 December 2009, with nearly 58 per cent of this growth being in the mortgage portfolio, which is well collateralised and has an average loan to value ratio of 51 per cent. The increase in Company Consumer Banking loans was $7.3 billion, or 29 per cent. Portfolio quality indicators have improved across all of our major markets and products during the year. The proportion of past due or individually impaired loans has decreased as a result of improving economic conditions in our footprint markets.

**Group**

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 42,979 | 48,518 | 54,603 | 103,121 | 46,534 | 43,811 | 44,158 | 87,969 |
| - Grades 6-8 | 9,263 | 55,577 | 35,521 | 91,098 | 5,485 | 38,375 | 21,570 | 59,945 |
| - Grades 9-11 | 843 | 21,914 | 21,219 | 43,133 | 730 | 22,177 | 22,728 | 44,905 |
| - Grade 12 | 19 | 1,564 | 1,983 | 3,547 | 30 | 2,034 | 2,246 | 4,280 |
| | 53,104 | 127,573 | 113,326 | 240,899 | 52,779 | 106,397 | 90,702 | 197,099 |
| **Past due but not individually impaired loans** | | | | | | | | |
| - Up to 30 days past due | 5 | 223 | 2,587 | 2,810 | 2 | 369 | 2,522 | 2,891 |
| - 31 - 60 days past due | 1 | 190 | 412 | 602 | - | 98 | 406 | 504 |
| - 61 - 90 days past due | - | 137 | 223 | 360 | - | 71 | 239 | 310 |
| - 91 - 150 days past due | - | - | 181 | 181 | - | - | 222 | 222 |
| | 6 | 550 | 3,403 | 3,953 | 2 | 538 | 3,389 | 3,927 |
| Individually impaired loans | 249 | 3,209 | 927 | 4,136 | 286 | 2,474 | 1,030 | 3,504 |
| Individually impairment provisions | (93) | (1,318) | (506) | (1,824) | (132) | (1,315) | (538) | (1,853) |
| **Net individually impaired loans** | 156 | 1,891 | 421 | 2,312 | 154 | 1,159 | 492 | 1,651 |
| Total loans and advances | 53,266 | 130,014 | 117,150 | 247,164 | 52,935 | 108,094 | 94,583 | 202,677 |
| Portfolio impairment provision | (2) | (309) | (451) | (760) | (2) | (355) | (519) | (874) |
| | 53,264 | 129,705 | 116,699 | 246,404 | 52,933 | 107,739 | 94,064 | 201,803 |
| Of which, held at fair value through profit or loss: | | | | | | | | |
| Neither past due nor individually impaired | | | | | | | | |
| - Grades 1-5 | 295 | 1,174 | - | 1,174 | 1,192 | 2,092 | - | 2,092 |
| - Grades 6-8 | 904 | 4,118 | - | 4,118 | 855 | 870 | - | 870 |
| - Grades 9-11 | 7 | 586 | - | 586 | 1 | 549 | - | 549 |
| - Grade 12 | - | 168 | - | 168 | - | - | - | - |
| | 1,206 | 6,046 | - | 6,046 | 2,048 | 3,511 | - | 3,511 |
| Estimated fair value of collateral: | | | | | | | | |
| Held against past due loans | - | 268 | 2,244 | 2,512 | - | 458 | 1,980 | 2,438 |
| Held against individually impaired loans | - | 460 | 522 | 982 | - | 557 | 601 | 1,158 |

## 51. Credit risk continued

### Company

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 19,853 | 30,371 | 12,799 | 43,170 | 20,338 | 26,925 | 9,529 | 36,454 |
| - Grades 6-8 | 7,745 | 34,789 | 12,469 | 47,258 | 4,572 | 22,639 | 9,709 | 32,348 |
| - Grades 9-11 | 649 | 13,408 | 5,122 | 18,530 | 445 | 15,522 | 3,786 | 19,308 |
| - Grade 12 | 16 | 1,074 | 949 | 2,023 | 27 | 1,629 | 1,131 | 2,760 |
| | 28,263 | 79,642 | 31,339 | 110,981 | 25,382 | 66,715 | 24,155 | 90,870 |
| **Past due but not individually impaired loans** | | | | | | | | |
| - Up to 30 days past due | - | 105 | 768 | 873 | 2 | 193 | 662 | 855 |
| - 31 - 60 days past due | - | 143 | 156 | 299 | - | 21 | 155 | 176 |
| - 61 - 90 days past due | - | 17 | 72 | 89 | - | 2 | 93 | 95 |
| - 91 - 150 days past due | - | - | 74 | 74 | - | - | 89 | 89 |
| | - | 265 | 1,070 | 1,335 | 2 | 216 | 999 | 1,215 |
| Individually impaired loans | 74 | 2,276 | 310 | 2,586 | 103 | 1,237 | 219 | 1,456 |
| Individually impairment provisions | (15) | (671) | (179) | (850) | (54) | (540) | (126) | (666) |
| **Net individually impaired loans** | 59 | 1,605 | 131 | 1,736 | 49 | 697 | 93 | 790 |
| Total loans and advances | 28,322 | 81,512 | 32,540 | 114,052 | 25,433 | 67,628 | 25,247 | 92,875 |
| Portfolio impairment provision | (1) | (199) | (162) | (361) | (1) | (225) | (213) | (438) |
| | 28,321 | 81,313 | 32,378 | 113,691 | 25,432 | 67,403 | 25,034 | 92,437 |
| Of which, held at fair value through profit or loss: | | | | | | | | |
| Neither past due nor individually impaired | | | | | | | | |
| - Grades 1-5 | 252 | 941 | - | 941 | 1,192 | 2,058 | - | 2,058 |
| - Grades 6-8 | 904 | 3,899 | - | 3,899 | 850 | 780 | - | 780 |
| - Grades 9-11 | 7 | 560 | - | 560 | 1 | 532 | - | 532 |
| - Grade 12 | - | 168 | - | 168 | - | - | - | - |
| | 1,163 | 5,568 | - | 5,568 | 2,043 | 3,370 | - | 3,370 |
| Estimated fair value of collateral: | | | | | | | | |
| Held against past due loans | - | 23 | 688 | 711 | - | 100 | 588 | 688 |
| Held against individually impaired loans | - | 265 | 171 | 436 | - | 93 | 119 | 212 |

## 51. Credit risk continued

### Collateral and other credit enhancements possessed or called upon

During the year, the Group and Company obtained assets by taking possession of collateral or calling upon other credit enhancements (such as guarantees), the carrying value of which are detailed in the table below. Repossessed properties are sold in an orderly fashion. Where the proceeds are in excess of the outstanding loan balance they are returned to the borrower. Certain of the equity securities acquired continue to be held by the Group for investment purposes and are classified as available-for-sale, and the related loan written off.

**Group**

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Consumer Banking $million | Wholesale Banking $million | Total $million | Consumer Banking $million | Wholesale Banking $million | Total $million |
| Property | 67 | - | 67 | 135 | 7 | 142 |
| Debt securities and equity shares | - | 3 | 3 | - | 2 | 2 |
| Guarantees | - | - | - | 25 | - | 25 |
| Other | 2 | - | 2 | 91 | 42 | 133 |
| | 69 | 3 | 72 | 251 | 51 | 302 |

**Company**

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Consumer Banking $million | Wholesale Banking $million | Total $million | Consumer Banking $million | Wholesale Banking $million | Total $million |
| Property | 11 | - | 11 | 3 | - | 3 |
| Other | 1 | - | 1 | 2 | 2 | 4 |
| | 12 | - | 12 | 5 | 2 | 7 |

### Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

**Group**

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Debt securities $million | Treasury bills $million | Total $million | Debt securities $million | Treasury bills $million | Total $million |
| Impaired securities | 241 | - | 241 | 231 | - | 231 |
| Impairment provisions | (180) | - | (180) | (191) | - | (191) |
| Net impaired securities | 61 | - | 61 | 40 | - | 40 |
| Securities neither past due nor impaired | 67,140 | 24,093 | 91,233 | 65,192 | 24,517 | 89,709 |
| | 67,201 | 24,093 | 91,294 | 65,232 | 24,517 | 89,749 |
| Of which: | | | | | | |
| Held at fair value | 11,817 | 6,198 | 18,015 | 10,111 | 5,559 | 15,670 |

## 51. Credit risk continued

### Company

| | 2010 Debt securities $million | 2010 Treasury bills $million | 2010 Total $million | 2009 Debt securities $million | 2009 Treasury bills $million | 2009 Total $million |
|---|---|---|---|---|---|---|
| Impaired securities | 185 | - | 185 | 202 | - | 202 |
| Impairment provisions | (174) | - | (174) | (187) | - | (187) |
| Net impaired securities | 11 | - | 11 | 15 | - | 15 |
| Securities neither past due nor impaired | 31,538 | 4,857 | 36,395 | 34,710 | 5,512 | 40,222 |
| | 31,549 | 4,857 | 36,406 | 34,725 | 5,512 | 40,237 |
| Of which: | | | | | | |
| Held at fair value | 6,669 | 1,356 | 8,025 | 7,128 | 1,844 | 8,972 |

The impaired debt securities largely includes the Group's holdings of asset backed securities, on which a $26 million (2009: $73 million) impairment charge was taken in 2010. There has been a marginal decrease in provisions on impaired securities since December 2009.

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

### Group

| | 2010 Debt securities $million | 2010 Treasury bills $million | 2010 Total $million | 2009 Debt securities $million | 2009 Treasury bills $million | 2009 Total $million |
|---|---|---|---|---|---|---|
| AAA | 10,427 | 2,791 | 13,218 | 10,706 | 630 | 11,336 |
| AA- to AA+ | 19,689 | 8,562 | 28,251 | 21,246 | 9,618 | 30,864 |
| A- to A+ | 18,384 | 8,378 | 26,762 | 17,770 | 10,757 | 28,527 |
| BBB- to BBB+ | 8,078 | 2,516 | 10,594 | 7,243 | 1,930 | 9,173 |
| Lower than BBB- | 2,947 | 1,361 | 4,308 | 2,422 | 1,193 | 3,615 |
| Unrated | 7,615 | 485 | 8,100 | 5,805 | 389 | 6,194 |
| | 67,140 | 24,093 | 91,233 | 65,192 | 24,517 | 89,709 |

Unrated securities primarily relate to corporate issues. Using internal credit ratings $6,775 million (2009: $5,674 million) of these securities are considered to be investment grade and $1,325 million (2009: $520 million) below investment grade.

### Company

| | 2010 Debt securities $million | 2010 Treasury bills $million | 2010 Total $million | 2009 Debt securities $million | 2009 Treasury bills $million | 2009 Total $million |
|---|---|---|---|---|---|---|
| AAA | 6,585 | 2,315 | 8,900 | 9,131 | 624 | 9,755 |
| AA- to AA+ | 7,073 | 68 | 7,141 | 10,532 | 436 | 10,968 |
| A- to A+ | 4,694 | 240 | 4,934 | 4,843 | 2,767 | 7,610 |
| BBB- to BBB+ | 5,322 | 1,648 | 6,970 | 4,542 | 1,059 | 5,601 |
| Lower than BBB- | 1,327 | 250 | 1,577 | 646 | 340 | 986 |
| Unrated | 6,537 | 336 | 6,873 | 5,016 | 286 | 5,302 |
| | 31,538 | 4,857 | 36,395 | 34,710 | 5,512 | 40,222 |

Using internal credit ratings, $5,717 million (2009: $4,976 million) of these securities are considered to be investment grade and $1,156 million (2009: $326 million) below investment grade.

### 52. Liquidity Risk

Liquidity risk is the risk that the Group and/or Company 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 all obligations as they fall due. We manage liquidity risk both on a short-term and medium-term basis. In the short-term, our focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and wholesale funding where required. In the medium-term, the focus is on ensuring the balance sheet remains structurally sound 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. Group Market Risk 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 intended 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**
Due to the diversified nature of our business, our policy is that liquidity is more effectively managed locally, in-country. Each ALCO is responsible for ensuring that the country is self-sufficient, able to meet all its obligations to make payments as they fall due, and operates within the local regulations and liquidity limits set for the country.

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

- the mismatch in local and foreign currency behavioural cash flows
- the level of wholesale borrowing to ensure that the size of this funding is proportionate to the local market and our local operations
- commitments, both on and off balance sheet, to ensure there are sufficient funds available in the event of drawdown on these commitments
- the advances to deposits ratio to ensure that commercial advances are funded by stable sources and that customer lending is funded by customer deposits
- the amount of medium-term funding to support the asset portfolio
- the amount of local currency funding sourced from foreign currency sources

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

All limits are reviewed at least annually, and more frequently if required, to ensure that they remain relevant given market conditions and business strategy. Compliance with limits is monitored independently on a regular basis by Group Market Risk 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.

In addition, regular reports to the ALCO include the following:

- information on the concentration and profile of debt maturities
- depositor concentration report to monitor reliance on large individual depositors

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

## 52. Liquidity Risk continued

### Primary sources of funding

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

We maintain access to the interbank 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.

### Liquidity metrics

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

### Advances to deposits ratio

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 $million** | 2009 $million | **2010 $million** | 2009 $million |
| Loans and advances to customers[1] | **246,404** | 201,803 | **113,691** | 92,437 |
| Customer accounts[2] | **316,502** | 256,746 | **135,068** | 106,932 |
| | **%** | % | **%** | % |
| Advances to deposits ratio | **77.8** | 78.6 | **84.2** | 86.4 |

1 see note 19.
2 see note 32.

### Liquid asset ratio

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 %** | 2009 % | **2010 %** | 2009 % |
| Liquid assets[1] to total assets ratio | **26.6** | 26.2 | **20.1** | 19.9 |

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

## 52. Liquidity Risk continued

This table analyses assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date, on a discounted basis. Contractual maturities do not necessarily reflect actual repayments or cash flow.

### Group

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Three months or less $million | Between three months and one year $million | Between one year and five years $million | More than five years $million | Total $million |
| **Assets** | | | | | |
| Cash and balances at central banks | 25,339 | - | - | 7,385 | 32,724 |
| Derivative financial instruments | 9,204 | 12,182 | 19,596 | 6,967 | 47,949 |
| Loans and advances to banks[1] | 39,799 | 10,715 | 2,391 | 358 | 53,263 |
| Loans and advances to customers[1] | 81,268 | 35,921 | 55,450 | 73,765 | 246,404 |
| Investment securities[1] | 20,269 | 32,564 | 31,566 | 11,166 | 95,565 |
| Other assets | 13,831 | 5,839 | 65 | 20,623 | 40,358 |
| Total assets | 189,710 | 97,221 | 109,068 | 120,264 | 516,263 |
| **Liabilities** | | | | | |
| Deposits by banks[1] | 26,565 | 2,258 | 498 | 153 | 29,474 |
| Customer accounts[1] | 269,213 | 37,464 | 6,943 | 2,882 | 316,502 |
| Derivative financial instruments | 9,159 | 11,887 | 19,606 | 6,922 | 47,574 |
| Debt securities in issue[1] | 10,817 | 9,052 | 5,349 | 1,130 | 26,348 |
| Due to parent companies | 11,757 | - | - | - | 11,757 |
| Subordinated liabilities and other borrowed funds | 5 | 290 | 904 | 16,219 | 17,418 |
| Other liabilities | 16,153 | 2,681 | 766 | 14,230 | 33,830 |
| Total liabilities | 343,669 | 63,632 | 34,066 | 41,536 | 482,903 |
| Net liquidity gap | (153,959) | 33,589 | 75,002 | 78,728 | 33,360 |

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

# Standard Chartered Bank

## Notes to the financial statements continued

### 52. Liquidity risk continued

**Group**

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Three months or less $million | Between three months and one year $million | Between one year and five years $million | More than five years $million | Total $million |
| **Assets** | | | | | |
| Cash and balances at central banks | 13,159 | - | - | 4,972 | 18,131 |
| Derivative financial instruments | 9,916 | 7,508 | 16,207 | 4,587 | 38,218 |
| Loans and advances to banks[2] | 37,126 | 14,182 | 1,289 | 335 | 52,932 |
| Loans and advances to customers[2] | 63,162 | 34,939 | 44,406 | 59,296 | 201,803 |
| Investment securities[2] | 18,939 | 30,185 | 32,717 | 10,774 | 92,615 |
| Other assets[3] | 5,755 | 710 | 315 | 25,941 | 32,721 |
| Total assets | 148,057 | 87,524 | 94,934 | 105,905 | 436,420 |
| **Liabilities** | | | | | |
| Deposits by banks[2] | 34,721 | 2,967 | 1,140 | 115 | 38,943 |
| Customer accounts[2] | 230,332 | 22,198 | 3,971 | 245 | 256,746 |
| Derivative financial instruments | 8,644 | 7,969 | 15,757 | 4,505 | 36,875 |
| Debt securities in issue[2] | 11,392 | 9,134 | 6,288 | 1,675 | 28,489 |
| Due to parent companies | 2,588 | - | - | - | 2,588 |
| Subordinated liabilities and other borrowed funds | 723 | - | 1,195 | 17,322 | 19,240 |
| Other liabilities[3] | 12,649 | 1,089 | 146 | 12,467 | 26,351 |
| Total liabilities | 301,049 | 43,357 | 28,497 | 36,329 | 409,232 |
| Net liquidity gap | (152,992) | 44,167 | 66,437 | 69,576 | 27,188 |

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

## 52. Liquidity risk continued

### Company

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Three months or less $million | Between three months and one year $million | Between one year and five years $million | More than five years $million | Total $million |
| **Assets** | | | | | |
| Cash and balances at central banks | 19,644 | - | - | 3,138 | 22,782 |
| Derivative financial instruments | 8,815 | 11,155 | 18,883 | 6,684 | 45,537 |
| Loans and advances to banks[1] | 20,304 | 5,686 | 1,972 | 359 | 28,321 |
| Loans and advances to customers[1] | 48,811 | 16,661 | 26,642 | 21,577 | 113,691 |
| Investment securities[1] | 7,826 | 7,462 | 16,364 | 6,740 | 38,392 |
| Investment in subsidiary undertakings | - | - | - | 19,102 | 19,102 |
| Other assets | 9,071 | 3,875 | 8 | 5,141 | 18,095 |
| Due from subsidiary undertakings | 12,626 | - | - | - | 12,626 |
| Total assets | 127,097 | 44,839 | 63,869 | 62,741 | 298,546 |
| **Liabilities** | | | | | |
| Deposits by banks[1] | 19,585 | 1,257 | 263 | 38 | 21,143 |
| Customer accounts[1] | 118,437 | 14,111 | 2,436 | 84 | 135,068 |
| Derivative financial instruments | 8,742 | 11,087 | 19,366 | 6,183 | 45,378 |
| Debt securities in issue[1] | 7,029 | 4,746 | 2,833 | 148 | 14,756 |
| Other liabilities | 5,773 | 579 | 650 | 6,643 | 13,645 |
| Due to subsidiary undertakings | 31,588 | - | - | - | 31,588 |
| Subordinated liabilities and other borrowed funds | - | - | 877 | 14,292 | 15,169 |
| Total liabilities | 191,154 | 31,780 | 26,425 | 27,388 | 276,747 |
| Net liquidity gap | (64,057) | 13,059 | 37,444 | 35,353 | 21,799 |

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

## 52. Liquidity risk continued

### Company

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Three months or less $million | Between three months and one year $million | Between one year and five years $million | More than five years $million | Total $million |
| **Assets** | | | | | |
| Cash and balances at central banks | 9,418 | - | - | 2,382 | 11,800 |
| Derivative financial instruments | 8,661 | 9,656 | 12,340 | 4,550 | 35,207 |
| Loans and advances to banks[2] | 18,921 | 5,068 | 1,108 | 335 | 25,432 |
| Loans and advances to customers[2] | 36,263 | 18,382 | 20,562 | 17,230 | 92,437 |
| Investment securities[2] | 6,444 | 10,768 | 16,527 | 7,225 | 40,964 |
| Investment in subsidiary undertakings | - | - | - | 17,356 | 17,356 |
| Other assets[2] | 1,896 | 260 | 14 | 12,092 | 14,262 |
| Due from subsidiary undertakings | 14,685 | - | - | - | 14,685 |
| Total assets | 96,288 | 44,134 | 50,551 | 61,170 | 252,143 |
| **Liabilities** | | | | | |
| Deposits by banks[2] | 20,902 | 769 | 288 | 33 | 21,992 |
| Customer accounts[2] | 95,686 | 9,764 | 1,408 | 74 | 106,932 |
| Derivative financial instruments | 8,313 | 9,907 | 12,222 | 4,163 | 34,605 |
| Debt securities in issue[2] | 7,904 | 4,230 | 2,003 | 381 | 14,518 |
| Other liabilities[2] | 4,682 | 327 | 94 | 6,175 | 11,278 |
| Due to subsidiary undertakings | 26,506 | - | - | - | 26,506 |
| Subordinated liabilities and other borrowed funds | 723 | - | 892 | 15,877 | 17,492 |
| Total liabilities | 164,716 | 24,997 | 16,907 | 26,703 | 233,323 |
| Net liquidity gap | (68,428) | 19,137 | 33,644 | 34,467 | 18,820 |

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

Within the tables above cash and balances with central banks, loans and advances to banks, treasury bills and debt securities classified as trading, held at fair value or available for sale included within investment securities are used by the Group principally for liquidity management purposes.

## 52. Liquidity Risk continued

**Behavioural maturity of financial liabilities on a discounted basis**

The Group seeks to manage its liabilities both on a contractual and behavioural basis primarily by matching the maturity profiles of assets and liabilities. The cash flows presented in the tables above reflect the cash flows which will be contractually payable over the residual maturity of the instruments. In practice, however, certain liability instruments behave differently from their contractual terms and typically, for short term customer accounts, extend to a longer period than their contractual maturity. The Group's expectation of when such liabilities are likely to become payable is provided in the table below:

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Three months or less | Between three months and one year | Between one year and five years | More than five years | Total |
| **Group** | $million | $million | $million | $million | $million |
| Deposits by banks | **25,306** | **3,124** | **892** | **152** | **29,474** |
| Customer accounts | **130,275** | **49,199** | **113,104** | **23,922** | **316,500** |
| Total | **155,581** | **52,323** | **113,996** | **24,074** | **345,974** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Three months or less | Between three months and one year | Between one year and five years | More than five years | Total |
| | $million | $million | $million | $million | $million |
| Deposits by banks | 34,764 | 3,252 | 812 | 115 | 38,943 |
| Customer accounts [1] | 107,379 | 35,091 | 93,543 | 20,733 | 256,746 |
| Total | 142,143 | 38,343 | 94,355 | 20,848 | 295,689 |

[1] Customer accounts have been reclassified between maturity profiles.

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Three months or less | Between three months and one year | Between one year and five years | More than five years | Total |
| **Company** | $million | $million | $million | $million | $million |
| **Deposits by banks** | **18,582** | **2,045** | **478** | **38** | **21,143** |
| **Customer Accounts** | **63,207** | **22,853** | **29,353** | **19,655** | **135,068** |
| **Total** | **81,789** | **24,898** | **29,831** | **19,693** | **156,211** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Three months or less | Between three months and one year | Between one year and five years | More than five years | Total |
| | $million | $million | $million | $million | $million |
| Deposits by banks | 20,640 | 1,107 | 212 | 34 | 21,993 |
| Customer Accounts | 50,952 | 18,260 | 21,335 | 16,385 | 106,932 |
| Total | 71,592 | 19,367 | 21,547 | 16,419 | 128,925 |

## 52. Liquidity risk continued

### Financial liabilities excluding derivative financial instruments on an undiscounted basis

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

Within the 'More than five years' maturity band are undated financial liabilities of $5,118 million (2009: $6,408 million), all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful. Interest payments on these instruments are included within the maturities up to five years.

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| **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 | 23,924 | 2,429 | 398 | 131 | 34,548 | 2,930 | 982 | 84 |
| Customer accounts | 258,243 | 36,672 | 6,023 | 1,783 | 219,763 | 25,469 | 4,351 | 536 |
| Financial liabilities at fair value | 12,304 | 2,996 | 3,038 | 4,060 | 8,763 | 2,644 | 2,508 | 1,676 |
| Debt securities in issue | 10,995 | 9,000 | 4,310 | 517 | 8,959 | 6,770 | 4,810 | 931 |
| Due to parent companies | 11,757 | - | - | - | 21,759 | - | - | - |
| Subordinated liabilities and other borrowed funds | 230 | 1,211 | 4,739 | 34,029 | 1,435 | 877 | 6,402 | 20,894 |
| Other liabilities | 16,015 | 2,678 | 432 | 8,908 | 14,838 | 1,046 | 387 | 7,853 |
| Total liabilities | 333,468 | 54,986 | 18,940 | 49,428 | 310,065 | 39,736 | 19,440 | 31,974 |
| Gross loan commitments | 61,642 | 18,746 | 13,476 | 1,739 | 45,910 | 12,751 | 18,552 | 539 |

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| **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 | 17,080 | 1,471 | 314 | 1 | 20,764 | 738 | 103 | - |
| Customer accounts | 115,443 | 14,131 | 2,271 | 110 | 95,375 | 9,424 | 917 | 25 |
| Financial liabilities at fair value | 8,611 | 1,916 | 1,519 | 87 | 6,295 | 1,534 | 1,287 | 96 |
| Debt securities in issue | 6,995 | 5,052 | 2,015 | 174 | 5,546 | 2,036 | 1,027 | 130 |
| Subordinated liabilities and other borrowed funds | 207 | 691 | 3,980 | 30,896 | 1,112 | 862 | 6,160 | 19,830 |
| Due to parent companies | 31,588 | - | - | - | 37,359 | - | - | - |
| Other liabilities | 6,279 | 574 | 576 | 3,963 | 7,969 | 326 | 476 | 3,644 |
| Total liabilities | 186,203 | 23,835 | 10,675 | 35,231 | 174,420 | 14,920 | 9,970 | 23,725 |
| Gross loan commitments | 26,940 | 4,672 | 7,924 | 1,108 | 15,035 | 3,026 | 15,141 | 232 |

### 52. 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.

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| 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 | 285,164 | 187,036 | 126,684 | 21,961 | 224,831 | 119,179 | 119,009 | 17,328 |

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| 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 | 378,449 | 206,324 | 104,534 | 22,373 | 210,038 | 110,440 | 113,465 | 16,369 |

### 53. Currency risk

We have investments in foreign operations (subsidiaries and branches) in currencies other than our functional currency, US dollars. Foreign exchange movements on those net investments in foreign currencies are taken to our reserves; these reserves form part of the capital base. The effect of exchange rate movements on the capital ratio is partially mitigated by the fact that both the value of these investments and the risk weighted assets in those currencies follow broadly the same exchange rate movements. We hedge the net investments in limited circumstances if it is anticipated that the capital ratio will be materially affected by exchange rate movements.

Foreign exchange risk arising within the non-trading portfolio, excluding structural positions, is minimised by match funding assets and liabilities in the same foreign currency

Structural foreign exchange risks arise from net investments in currencies other than US dollars. The Group has made net investments in Group undertakings in a number of currencies.

The resulting foreign exchange exposures are managed on an individual basis, and are assessed regularly taking account of foreign exchange rate expectations. The positions are treated as long-term embedded exposures, and are not treated as trading positions. Hedges of the foreign exchange exposures may be considered in certain limited cases. At 31 December 2010, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial instruments) of $1,112 million (2009: $644 million) to partly cover its exposure to Korean won and $nil million (2009: $94 million) to partly cover its exposure to Taiwanese dollars.

The table below sets out the principal structural foreign exchange exposures (net of investment hedges) of the Group and Company at 31 December 2010 and 2009:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 $million** | 2009 $million | **2010 $million** | 2009 $million |
| Hong Kong dollar | **5,817** | 5,852 | **-** | - |
| Korean won | **5,266** | 5,133 | **178** | 169 |
| Indian rupee | **3,400** | 2,828 | **2,756** | 2,228 |
| Taiwanese dollar | **2,606** | 2,071 | **53** | 15 |
| Thai baht | **1,495** | 1,291 | **-** | - |
| UAE dirham | **1,343** | 1,008 | **1,343** | 1,008 |
| Singapore dollar | **841** | 986 | **664** | 896 |
| Malaysian ringgit | **1,047** | 834 | **-** | - |
| Chinese yuan | **1,420** | 795 | **-** | - |
| Indonesian rupiah | **882** | 595 | **305** | 199 |
| Pakistani rupee | **614** | 562 | **-** | - |
| Other | **2,838** | 2,293 | **1,547** | 1,069 |
| | **27,569** | 24,248 | **6,846** | 5,584 |

An analysis has been performed on these exposures to assess the impact of a one per cent fall in the US dollar exchange rates adjusted to incorporate the impacts of correlations between different currencies. The impact on the positions above would be an increase of $197 million (2009: $176 million). Changes in the valuations of these positions are taken to reserves.

## 54. Restatement of prior periods

### Cash flow statement

The cash flow statement has been restated as follows:

- Share based payment costs have been reclassified under 'Non-cash items included within income statement', previously these costs were included in profit before taxation;
- Interest paid on certain subordinated debt instruments has been reclassified from 'Net cash used in operating activities' to 'Net cash from financing activities', and
- Cash flow information relating to senior debts has been reclassified from 'Cash flows from operating activities' to 'Net cash from financing activities'.

### Group

| | As reported at 2009 $million | Restatement $million | Restated at 2009 $million |
|---|---|---|---|
| Non-cash items included within income statement | 1,301 | 340 | 1,641 |
| Change in operating liabilities | (14,234) | 1,301 | (12,933) |
| Net cash used in operating activities | (5,986) | 1,676 | (4,310) |
| Interest paid on subordinated liabilities | (361) | (511) | (872) |
| Interest paid on senior debts | - | (446) | (446) |
| Gross proceeds from issue of senior debts | - | 8,109 | 8,109 |
| Repayment of senior debts | - | (694) | (8,828) |
| Net cash from financing activities | 3,104 | (4,532) | (1,428) |

### Company

| | As reported at 2009 $million | Restatement $million | Restated at 2009 $million |
|---|---|---|---|
| Non-cash items included within income statement | 740 | 250 | 990 |
| Change in operating liabilities | (21,039) | 250 | (20,789) |
| Net cash used in operating activities | (10,457) | 511 | (9,946) |
| Interest paid on subordinated liabilities | (313) | (511) | (824) |
| Net cash from financing activities | 3,327 | (511) | 2,816 |

### Investment securities

At 31 December 2009, the Group and Company reclassified certain investment securities measured as loans and receivables between those listed on a recognised UK stock exchange, those listed elsewhere and those that are unlisted. Details of the reclassification are set out below:

### Group

| | As reported at 2009 $million | Reclassified $million | Restated at 2009 $million |
|---|---|---|---|
| Listed on a recognised UK exchange | - | 374 | 374 |
| Listed elsewhere | 1,287 | (374) | 913 |

## 54. Restatement of prior periods continued

### Investment securities continued

### Company

| | As reported at 2009 $million | Reclassified $million | Restated at 2009 $million |
|---|---|---|---|
| Listed on a recognised UK exchange | - | 374 | 374 |
| Listed elsewhere | 1,282 | (374) | 908 |

### IFRS 2 Share based payment

On 1 January 2010, the Group and Company adopted an amendment to IFRS 2 - Share Based payments, which is applied on a retrospective basis. This amendment requires the Group and the Company to measure the services received by their employees against shares issued or settlements made by the parent as equity settled share based payment transactions. As a result the Group and Company have restated prior periods by reducing staff costs and presenting the changes as a deemed capital distribution to parent. Since the Company does not present an income statement, the profit for the year transferred to retained earnings in the statement of changes in equity has been restated.

No balance sheet lines have been impacted and accordingly no third period balance sheet has been presented.

### Group

| | As reported at 2009 $million | Restated $million | Restated at 2009 $million |
|---|---|---|---|
| *Income statement* | | | |
| Staff cost | (4,909) | 35 | (4,874) |
| *Statement of changes in equity* | | | |
| Profit for the year | 3,526 | 35 | 3,561 |
| Deemed capital contribution | - | 340 | 340 |
| Deemed distribution to parent | - | (375) | (375) |

### Company

| | As reported at 2009 $million | Restated $million | Restated at 2009 $million |
|---|---|---|---|
| *Statement of changes in equity* | | | |
| Profit for the year | 1,639 | 11 | 1,650 |
| Deemed capital contribution | - | 261 | 261 |
| Deemed distribution to parent | - | (272) | (272) |

### 54. Restatement of prior periods continued

**Group segmental information - by class of business**

| | As reported at 2009 | | | | |
|---|---|---|---|---|---|
| | Consumer Banking $million | Wholesale Banking $million | Total reportable segments $million | Corporate items not allocated $million | Total $million |
| Operating expenses | (3,714) | (4,195) | (7,909) | (58) | (7,967) |
| Operating profit before impairment losses and taxation | 1,922 | 5,119 | 7,041 | 206 | 7,247 |
| Profit before taxation | 869 | 4,089 | 4,958 | 208 | 5,166 |

| | Restatement | | | | |
|---|---|---|---|---|---|
| | Consumer Banking $million | Wholesale Banking $million | Total reportable segments $million | Corporate items not allocated $million | Total $million |
| Operating expenses | 17 | 18 | 35 | - | 35 |
| Operating profit before impairment losses and taxation | 17 | 18 | 35 | - | 35 |
| Profit before taxation | 17 | 18 | 35 | - | 35 |

| | As restated 2009 | | | | |
|---|---|---|---|---|---|
| | Consumer Banking $million | Wholesale Banking $million | Total reportable segments $million | Corporate items not allocated $million | Total $million |
| Operating expenses | (3,697) | (4,177) | (7,874) | (58) | (7,932) |
| Operating profit before impairment losses and taxation | 1,939 | 5,137 | 7,076 | 206 | 7,282 |
| Profit before taxation | 886 | 4,107 | 4,993 | 208 | 5,201 |

**Group segmental information - by geographic area**

| | As reported at 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| Operating expenses | (1,170) | (802) | (955) | (1,781) | (572) | (894) | (554) | (1,239) | (7,967) |
| Operating profit before impairment losses and taxation | 1,204 | 793 | 603 | 1,111 | 1,245 | 1,188 | 537 | 566 | 7,247 |
| Profit before taxation | 1,064 | 716 | 324 | 771 | 1,061 | 367 | 483 | 380 | 5,166 |

| | Restatement | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| Operating expenses | - | - | 12 | 8 | - | 1 | 2 | 12 | 35 |
| Operating profit before impairment losses and taxation | - | - | 12 | 8 | - | 1 | 2 | 12 | 35 |
| Profit before taxation | - | - | 12 | 8 | - | 1 | 2 | 12 | 35 |

| | Restated at 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| Operating expenses | (1,170) | (802) | (943) | (1,773) | (572) | (893) | (552) | (1,227) | (7,932) |
| Operating profit before impairment losses and taxation | 1,204 | 793 | 615 | 1,119 | 1,245 | 1,189 | 539 | 578 | 7,282 |
| Profit before taxation | 1,064 | 716 | 336 | 779 | 1,061 | 368 | 485 | 392 | 5,201 |

### 55. Special purpose entities

The Group uses Special Purpose Entities (SPEs) in the normal course of business across a variety of activities. SPEs are established for specific limited purposes and take a number of legal forms. The main types of activities for which the Group utilises SPEs cover synthetic credit default swaps for portfolio management purposes, managed investment funds (including specialised principal finance funds) and structured finance.

SPEs are consolidated into the Group's financial statements where the Group bears the majority of the residual risk or reward. Most of the Group's consolidated SPEs are in respect of the Group's securitised portfolios of residential mortgages (see note 51).

The total assets of unconsolidated SPEs in which the Group has an interest are set out below.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Total assets $million** | **Maximum exposure $million** | Total assets $million | Maximum exposure $million |
| Portfolio management vehicles | **2,083** | **262** | 1,694 | 339 |
| Principal Finance Funds[1] | **995** | **134** | 988 | 130 |
| Structured finance | **948** | **690** | - | - |
| | **4,026** | **1,086** | 2,682 | 469 |

[1] Committed capital for these funds is $375 million (2009: $375 million) of which $129 million (2009: $130 million) has been drawn down net of provisions for impairment of $33 million (2009: $33 million)

For the purposes of portfolio management, the Group has entered into synthetic credit default swaps with note-issuing SPEs. The referenced assets remain on the Group's balance sheet as the credit risk is not transferred to these SPEs. The Group's exposure arises from (a) the capitalised start-up costs in respect of the swap vehicles and (b) interest in the first loss notes and investment in a minimal portion of the mezzanine and senior rated notes issued by the note issuing SPEs. The proceeds of the notes issuance are typically invested in AAA-rated Government securities, which are used to collateralise the SPE's swap obligations to the Group, and to repay the principal to investors at maturity. The SPEs reimburse the Group on actual losses incurred, through the realisation of the collateral security. Correspondingly, the SPEs write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All the funding is committed for the life of these vehicles and hence the Group has no indirect exposure in respect of the vehicles' liquidity position.

The Group's exposure to Principal Finance Funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure and real estate.

Structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more SPEs, which provide beneficial arrangements for customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions in 2010 largely related to the provision of ship finance.

The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the SPEs have Standard Chartered branding.

## 56. 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 Holidings 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' pay and benefits 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 and members of the Group Management Committee, which includes all executive directors.

| | 2010 $million | 2009 $million |
|---|---|---|
| Salaries, allowances and benefits in kind | 19 | 16 |
| Pension contributions | 6 | 6 |
| Bonuses paid or receivable | 12 | 9 |
| Share based payments | 35 | 37 |
| | 72 | 68 |

Transactions with directors, officers and others

At 31 December 2010, the total amounts to be disclosed under the Companies Act 2006 (the Act) about loans to directors and officers were as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number | $000 | Number | $000 |
| Directors | 3 | 6,470 | 3 | 228 |
| Officers[1] | 1 | 17 | 3 | 5,280 |

[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**

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 11,998 | - | - | - | 30 | 25 | - | 21 |
| Fellow subsidiaries of SC PLC Group | - | 90 | - | - | - | - | - | - |
| | 11,998 | 90 | - | - | 30 | 25 | - | 21 |
| **Liabilities** | | | | | | | | |
| Ultimate parent company | - | 441 | 72 | 15 | 2,588 | 291 | 49 | - |
| | - | 441 | 72 | 15 | 2,588 | 291 | 49 | - |

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Interest expense $million | Dividend expense $million | Interest expense $million | Dividend expense $million |
| Ultimate parent company | 208 | 693 | - | 270 |
| | 208 | 693 | - | 270 |

## 56. 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.

On 31 October 2010, the Group disposed of additional 15 per cent interest in its subsidiary, Standard Chartered (Hong Kong) Limited to its parent company Standard Chartered Holdings Limited for $1 billion realising a gain of $16 million which was reported within equity.

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 2010 $91 million (2009: $109 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 37.

The Group's employees participate in the Standard Chartered PLC group's share based compensation plans (see note 41). 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 $2 million at 31 December 2010 (2009: $3 million), and deposits of $24 million (2009: $16 million). The Group has investments in subordinated debt issued by PT Bank Permata Tbk of $127 million (2009: $50 million).On 3 October 2010 PT Bank Permata Tbk announced a rights issue of 1 share for every 6 shares held, to which the Group fully subscribed increasing its investment by $99 million proportionate to its shareholding.

### Associates

The Group has loans and advances to Merchant Solutions and China Bohai Bank totalling $42 million and $6 million respectively at 31 December 2010 (2009: $32 million) and amounts payable to Merchant Solutions and China Bohai Bank of $34 million and $2 million respectively at 31 December 2010 (2009: $nil million). During the year China Bohai Bank undertook a rights issue to which the Group subscribed, increasing its investment by $102 million. Except as disclosed, the Group did not have any amounts due to or from associate investments.

### Company

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 239 | 90 | - | - | - | 25 | - | - |
| Subsidiaries and fellow subsidiaries of SC PLC Group | 15,188 | 4,311 | 21 | 3 | 14,683 | 3,973 | 737 | 11 |
| Joint ventures | 2 | - | - | - | 2 | - | - | - |
| | 15,429 | 4,401 | 21 | 3 | 14,685 | 3,998 | 737 | 11 |
| Ultimate parent company | 11,966 | 441 | 506 | 15 | 2,277 | 291 | 517 | 21 |
| Subsidiaries and fellow subsidiaries of SC PLC Group | 31,588 | 4,300 | - | 44 | 24,214 | 4,012 | - | 85 |
| Joint ventures | 24 | - | - | - | 15 | - | - | - |
| | 43,578 | 4,741 | 506 | 59 | 26,506 | 4,303 | 517 | 106 |

## 56. Related party transactions continued

### Company continued

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | - | - | - | 208 | - | - |
| Subsidiaries and fellow subsidiaries of SC PLC Group | 93 | 122 | 132 | 344 | - | - |
| | 93 | 122 | 132 | 552 | - | - |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | - | - | - | 171 | - | - |
| Subsidiaries and fellow subsidiaries of SC PLC Group | 46 | 61 | 149 | 562 | - | - |
| | 46 | 61 | 149 | 733 | - | - |

As at 31 December 2010, the Company had created a charge over $38 million (2009: $31 million) of cash assets in favour of the independent trustees of its employer financial retirement benefit schemes.

On 31 October 2010, the Company disposed of additional 15 per cent interest in its subsidiary, Standard Chartered (Hong Kong) Limited to its parent company Standard Chartered Holdings Limited for $1 billion realising a gain of $278 million.

During the year, the Standard Chartered PLC (SC PLC), the ultimate parent company of the Group waived debt of $386 million in connection with the repurchase of SC PLC debt in 2009.This waiver was accounted for as a deemed capital contribution in the Company by SC PLC.

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 37.

In the normal course of business the Company has guaranteed credit risk on credit exposures to customers of certain subsidiaries of $nil million (2009: $350 million).

The Company has entered into risk participation agreements with its subsidiary undertakings which transferred exposures of $1,066 million (2009: $2,567 million).

As at 31 December 2010 the Company holds debt securities issued by subsidiary undertakings of $695 million (2009: $226 million) and has issued debt securities to subsidiary undertakings of $nil million (2009: $130 million).

The Company's employees participate in the Standard Chartered PLC group's share based compensation plans (see notes 1 and 41).

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 $nil million at 31 December 2010 (2009: $3 million), and deposits of $24 million (2009: $16 million).

## 57. Post balance sheet events

### Tax

On 22 June 2010, the UK Government announced its intention to propose Parliament to reduce the UK corporation tax rate from 28 per cent to 27 per cent in 2011-12, with further reductions to 26 per cent in 2012-13, 25 per cent in 2013-14 and 24 per cent in 2014-15. As of 31 December 2010, only the 27 per cent tax rate change for 2011-12 was substantively enacted. Had the 2012-15 change of nominal tax rates been substantively enacted as of the said date, the UK deferred tax assets for 2010 would have further reduced by $15 million (Company: further reduced by $15 million).

### Acquisitions

On 24 January 2011, the Group announced the acquisition of GE Money Pte Ltd, a leading specialist in auto and unsecured personal loans in Singapore. The acquisition is expected to complete in the first quarter of 2011.

### UK bank levy

On 15 October 2010, the UK Government announced the introduction of an ongoing levy on certain qualifying liabilities of the Group with effect from January 2011, determined based on the balance sheet at the end of the financial year. The levy, which will not be deductible for corporation tax, will be charged on total liabilities excluding Tier 1 capital, insured or guaranteed retail deposits and repos secured on certain sovereign debt. There will also be a deduction from chargeable liabilities for an amount equal to high quality liquid assets and an allowance of GBP 20 billion before the levy is due. On 8 February 2011 the Government announced that the rate of the levy had been set at 0.075 per cent of qualifying liabilities, with a lower rate of 0.0375 per cent applied to liabilities with a maturity greater than one year and any deposits not otherwise excluded from the scope of the levy (except for those from financial institutions and financial traders). The Group estimates that the liability in respect of 2011 would be between $160 million and $195 million. There is no liability to be recognised in 2010.

### 58. Significant accounting estimates and judgments

The Company has loans and advances to STCI totalling $12 million (2009: $12 million). In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgments in respect of measuring financial instruments. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes.

**Loan loss provisioning**

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

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

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

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

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

**Fair value of financial instruments**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value, with changes in fair value either reported within the income statement or within equity until the instrument is sold or becomes impaired. Details of the type and classification of the Group's financial instruments are set out in notes 15 to the accounts and the accounting policy set out in note 1 to the accounts. In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters. The most significant element of Group assets in which observable prices are not available relates to certain instruments held within the asset backed securities portfolio. At 31 December 2010, level 3 assets with a market value of $2,348 were held in respect of which there was no observable market data. For these instruments, a sensitivity analysis is presented in note 15 in respect of reasonably possible changes to the valuation assumptions.

Equity investments that do not have an observable market price are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering, after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

### 58. Significant accounting estimates and judgments continued

**Goodwill impairment**
An annual assessment is made, as set out in note 27, as to whether the current carrying value of goodwill is impaired. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgment.

**Pensions**
Actuarial assumptions are made in valuing future defined benefit pension obligations as set out in note 37 and are updated periodically. The principal assumptions relate to the rate of inflation and the discount rate. The assumed rate of inflation affects the rate at which salaries grow and therefore the size of the pensions that employees receive on retirement. The discount rate is equal to the yield on high-quality corporate bonds which have a term to maturity approximating that of the related liability, and is potentially subject to significant variation. As a result, there is uncertainty that these assumptions will continue in the future. For example, if the discount rate for the UK fund increased by 25 basis points, the liability would reduce by approximately $51 million, and vice versa. Whilst changes in other assumptions would have an impact, the effect would not be as significant.

**Taxes**
Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgments as to the probability of future taxable revenues being generated against which tax losses will be available for offset.

**Provisions for liabilities and charges**
The Group receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

**Share based payments**
Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models – which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life – and is expensed over the vesting period. Some of the inputs used, such as the expected option life, are not market observable and are based on estimates derived from available data, such as employee exercise behaviour. The models utilised, such as the binomial option pricing model, are intended to value options traded in active markets. The share options issued by the Group, however, have a number of features that make them incomparable to such traded options. Using different input estimates or models could produce different option values, which would result in the recognition of a higher or lower expense. For example, if the volatility assumption was increased by five per cent (or decreased by five per cent), the fair values for options granted under the Sharesave schemes in 2010 would increase by approximately £0.45 for three year grants, and by £0.54 for five year grants (or decrease by approximately £0.45 for three year grants, and by £0.54 for five year grants).

## 59. Recently issued accounting pronouncements

The following pronouncements relevant and applicable to the Group and Company were issued as at 31 December 2010 but have effective dates for periods beginning after 31 December 2010. The use of IFRSs and certain IFRIC Interpretations that have yet to be endorsed by the European Union is not permitted.

The full impact of these IFRSs and IFRIC Interpretations is currently being assessed by the Group; other than IFRS 9 – Financial Instruments none of these pronouncements are expected to result in any material adjustments to the financial statements. The Group continues to evaluate the potential impact on its financial statements in respect of IFRS 9.

| Pronouncement | Description of impact | Latest effective date for the Group and Company |
|---|---|---|
| Amendment to IAS 24: Related party transactions | This amendment clarifies the definition of related parties and to provide exemption from the disclosure of certain transactions with government entities. | 1 January 2011 |
| IFRIC 19 – Extinguishing financial liabilities with Equity instruments | Addresses the accounting by an entity when upon renegotiation of the terms of a financial liability the entity issues equity instruments to extinguish all or part of the financial liability. | 1 January 2011 |
| Amendment to IFRIC 14 – Prepayments of a Minimum funding requirements | Addresses the interaction between a minimum funding requirement (MFR) and the limit placed by paragraph 58 of IAS 19 on the measurement of the defined benefit asset or liability. | 1 January 2011 |
| Improvements to IFRSs (issued 2010) | Amendments to IFRS 3 – Business Combinations (allocation of goodwill to non-controlling interests), IFRS 7 – Financial instruments (clarifies the requirements for certain risk related disclosures), IAS 1– Presentation of financial statements (clarifies presentational aspects of elements of statement of changes in equity), IAS 34 – Interim financial reporting (requires disclosure of significant events and transactions ), IFRIC 13 – Customer loyalty programmes (clarifies the calculation of reward credits). | 1 January 2011 |
| Amendment to IAS 12 – Deferred tax: Recovery of underlying assets[1,2] | This amendment provides a practical approach for measuring deferred tax liabilities and deferred tax assets when it would be difficult and subjective to determine the expected manner of recovery. | 1 January 2012 |
| Amendment to IFRS 7 – Financial instruments disclosure[1,2] | This amendment introduces additional disclosures when an asset is transferred but is not derecognised. It also requires disclosures of assets that are derecognised but where the entity continues to have a continuing exposure to the asset after the sale. | 1 January 2012 |
| IFRS 9 – Financial Instruments[1,2] | IFRS 9 replaces certain elements of IAS 39 in respect of the classification and measurement of financial assets and financial liabilities. The standard requires all financial assets to be classified as fair value or amortised cost. Amortised cost classification is only permitted where the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and where these contractual cash flows are solely payment of principal and interest, gains or losses on assets measured at fair value are recognised in the income statement unless the asset is an equity investment and the Group has elected to present such gains or losses in other comprehensive income.<br>Financial liabilities are required to be measured at fair value or amortised cost similar to IAS 39 requirements except that the change in fair value relating to own credit is reported within other comprehensive income and not the income statement. | 1 January 2013 |

1 This IFRS or IFRIC Interpretation has not yet been endorsed by the EU.

2 Subject to endorsement of the EU the Group has not yet made a final decision as to whether it will apply in the 2011 financial statements those pronouncements marked in the table above.

## 60. Capital management

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

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

The capital plan takes the following into account:

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

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

A strong governance and process framework is embedded in our capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board. The Board Risk Committee reviews specific risk areas and the issues discussed at the key capital management committees. The Group Asset and Liability Committee (GALCO) sets internal triggers and target ranges for capital management and oversees adherence with these.

**Current compliance with Capital Adequacy Regulations**

Our lead supervisor is the UK's Financial Services Authority (FSA). The capital that we are required to hold by the FSA is determined by our balance sheet, off-balance sheet, counterparty and other risk exposures. Further detail on counterparty and risk exposures is included in the Risk review on pages 150 to 157.

Capital in branches and subsidiaries is maintained on the basis of host regulators' requirements. 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 179 summarises the consolidated capital position of the Company. The principal forms of capital are included in the following items on the consolidated balance sheet: share capital and reserves (called-up ordinary share capital, preference shares, and eligible reserves), subordinated liabilities (innovative Tier 1 securities and qualifying subordinated liabilities), and loans to banks and customers (portfolio impairment provision).

**Movement in capital**

On a Basel II basis, Core Tier 1 capital has increased by $5,207 million since 31 December 2009 due to retained profits of $4.1 billion; issue of shares of $0.4 billion; an increase of $0.8 billion in non-controlling interest offset by other movements of $0.1 billion. The increase in non-controlling interest was the result of the Company disposing in October 2010 of a further 15 per cent of its holding in SC (Hong Kong) Ltd to SC Holdings Ltd.

Non Core Tier 1 capital decreased by $381 million and Tier 2 capital decreased by $987 million.

**Basel III**

The Basel III rules text published in December 2010 by the Basel Committee on Banking Supervision (the "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, some proposals are still under consideration by the BCBS and the Financial Stability Board, in particular the capital requirements for systemically important financial institutions.

In setting global regulatory standards, the BCBS has left significant discretion to individual regulators on the exact interpretation and implementation of Basel III and other proposed changes. At present, there remains significant uncertainty as to how the EU, the FSA, as the Company's lead regulator, and various other regulators in our key markets will seek to interpret and apply these arrangements. The Company believes that it is prudent to assume the imposition of an accelerated timetable for the adoption of the new Basel III framework and that certain regulators are likely to take a conservative approach to the implementation of new capital buffers, resulting in higher effective minimum capital requirements than have yet been announced.

The GALCO targets Tier 1 and total capital ratios within a range of 7 to 9 per cent and 12 to 14 per cent respectively. In light of the uncertain economic environment and evolving regulatory debate on banks' capital structures, we believe it is appropriate to remain strongly capitalised above our target ranges.

## 60. Capital management continued

| | Basel II | |
|---|---|---|
| | 2010 | 2009 |
| | $million | $million |
| **Tier 1 capital:** | | |
| Called-up ordinary share capital and preference shares | **11,687** | 11,246 |
| Eligible reserves [1] | **16,823** | 12,316 |
| Non-controlling interests | **2,736** | 1,961 |
| Less: excess expected losses [2] | **(664)** | (502) |
| Less: securitisations | **(132)** | (97) |
| Goodwill and other intangible assets | **(6,659)** | (6,451) |
| Other regulatory adjustments | **(60)** | 51 |
| **Core Tier 1 capital** | **23,731** | 18,524 |
| Innovative Tier 1 securities | **2,828** | 2,860 |
| Preference shares | **2,414** | 2,694 |
| Tax on excess expected losses [1] | **183** | 163 |
| Less: material holdings | **(326)** | (237) |
| **Total Tier 1 capital** | **28,830** | 24,004 |
| **Tier 2 capital:** | | |
| Eligible revaluation reserves | **544** | 258 |
| Portfolio impairment provision | **266** | 242 |
| Less: excess expected losses [2] | **(664)** | (502) |
| Qualifying subordinated liabilities: | | |
| Perpetual subordinated debt | **3,293** | 4,360 |
| Other eligible subordinated debt | **9,602** | 9,547 |
| Less: Amortisation of qualifying subordinated liabilities | **-** | - |
| Less: material holdings and securitisations | **(458)** | (335) |
| Total Tier 2 capital | **12,583** | 13,570 |
| Deductions from Tier 1 and Tier 2 capital | **(3)** | (57) |
| **Total Capital Base** | **41,410** | 37,517 |

[1] The tax benefit on excess expected losses is included 50 per cent in eligible reserves and 50 percent in tax on excess expected losses.

[2] Excess expected losses are shown gross.

# Standard Chartered Bank

## Glossary

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| **Advances to deposit ratio** | The ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposits ratio demonstrates that customer deposits exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers. |
| **Asset Backed Securities (ABS)** | Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and in the case of Collateralised Obligation (CDOs), the reference pool may be ABS. |
| **Alt-A** | Loans regarded as lower risk than sub-prime, but they share higher risk characteristics than lending under normal criteria. |
| **Advanced Internal Rating Based (AIRB)** | 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. |
| **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). |
| **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 real estate** | Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multifamily housing buildings, warehouses, garages, and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets. |
| **Contractual maturities** | Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid. |
| **Cost: income ratio** | Represents the proportion of total operating expense to total operating income. |
| **Cover ratio** | Represents the extent to which non-performing loans are covered by impairment allowances. |
| **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. |
| **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. |
| **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 FSA (Financial Services Authority). |
| **Core Tier 1 Capital ratio** | Core Tier 1 capital as a percentage of risk weighted assets. |
| **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. |

# Glossary continued

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| **Debt securities** | Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks. |
| **Debt securities in issue** | Debt securities in issue are transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits. |
| **Delinquency** | A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans are considered to be delinquent when consecutive payments are missed. |
| **Dividend per share** | Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted. |
| **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. |
| **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 allowance has been raised and also includes loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing. |
| **Impairment allowances** | Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual or collective. |
| **Individually / collectively assessed** | Impairment is measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available. Typically assets within the Wholesale Banking business of the Group are assessed individually whereas assets within the Consumer Banking business are assessed on a collective, or portfolio, basis. |
| **Internal Ratings Based (IRB) approach** | The IRB approach is used to calculate risk weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters. |
| **Investment grade** | A debt security, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB. |
| **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 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. |

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| **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 financial assets and interest paid on financial 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:<br>– renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected; or<br>– 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. |
| **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. |

# Glossary continued

**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 over the period under review.

**Risk weighted assets**
A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the FSA.

**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).

**Securitisation**
Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to an SPE (special purpose entity) who then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.

**Special purpose entities (SPEs)**
SPEs are entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities.

Transactions with SPEs take a number of forms, including:

- The provision of financing to fund asset purchases, or commitments to provide finance for future purchases.
- Derivative transactions to provide investors in the SPE with a specified exposure.
- The provision of liquidity or backstop facilities which may be drawn upon if the SPE experiences future funding difficulties.
- Direct investment in the notes issued by SPEs.

**Standardised approach**
In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions ('ECAI') ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.

**Structured finance / notes**
A structured note is an investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.

**Subordinated liabilities**
Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

**Sub-prime**
Sub-prime is defined as loans to borrowers typically having weakened credit histories that include payment delinquencies and potentially more severe problems such as court judgements and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, high debt-to-income ratios, or other criteria indicating heightened risk of default.

**Tier 1 capital**
Tier 1 capital comprises Core Tier 1 capital plus innovative Tier 1 securities and preference shares and tax on excess expected losses less material holdings in credit or financial institutions.

**Tier 1 capital ratio**
Tier 1 capital as a percentage of risk weighted assets.

**Tier 2 capital**
Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.

**VaR**
Value at Risk is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.

**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.