Standard Chartered PLC
Pillar 3 Disclosures
31 December 2010

Standard Chartered

Incorporated in England with registered number 966425
Registered Office: 1 Aldermanbury Square, London, EC2V 7SB, England

Overview

The Group complies with the Basel II framework which has been implemented in the UK through the FSA's general prudential sourcebook and its prudential sourcebook for Banks, Building Societies and Investment Firms. Basel II is structured around three 'pillars' which are outlined below:

- Pillar 1 sets out minimum regulatory capital requirements – the minimum amount of regulatory capital banks must hold against the risks they assume;
- Pillar 2 sets out the key principles for supervisory review of a bank's risk management framework and its capital adequacy. It sets out specific oversight responsibilities for the Board and senior management, thus reinforcing principles of internal control and other corporate governance practices; and
- Pillar 3, covered in this report, aims to bolster market discipline through enhanced disclosure by banks.

Basel II provides three approaches of increasing sophistication to the calculation of credit risk capital; the Standardised Approach, the Foundation Internal Ratings Based Approach and the Advanced Internal Ratings Based Approach (AIRB). Basel II also introduces capital requirements for operational risk.

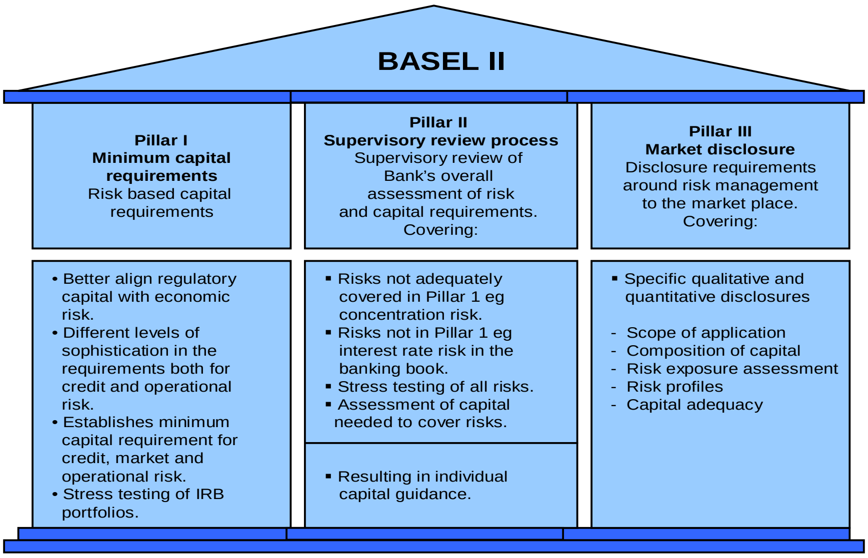
The EU Capital Requirements Directive (CRD) is the means by which Basel II has been implemented in the EU. In the case of the provisions relating to advanced approaches for credit risk and operational risk, implementation commenced from 1 January 2008. In the UK the CRD is implemented by the FSA through its General Prudential Sourcebook (GENPRU) and it's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

From 1 January 2008 the Group has been using the Advanced Internal Ratings Based approach for the measurement of credit risk capital. This approach builds on the Group's risk management practices and is the result of a significant investment in data warehouse and risk models.

The Group[1] applies a Value at Risk (VaR) model for the measurement of market risk capital for part of the trading book exposures where permission to use such models has been granted by the FSA. Where the Group's market risk exposures are not approved for inclusion in VaR models, the capital requirements are determined using standard rules provided by the regulator.

The Group applies the Standardised Approach for determining the capital requirements for operational risk.

During the initial years of Basel II implementation, the minimum capital requirements were restricted by reference to the Basel I framework, so they could not fall below 80 per cent of the Basel I capital requirements in 2009. This restriction was due to expire at the end of 2009, but the FSA has decided to retain this capital floor indefinitely.



Using these approaches the Group has calculated the Risk Weighted Assets (RWA) and the minimum regulatory capital requirement as at 31 December 2010 presented in the table below, comprising 83 per cent credit risk, 11 per cent operational risk and 6 per cent market risk.

	31.12.10		31.12.09	
	Regulatory capital requirement[2] $million	Risk Weighted Assets $million	Regulatory capital requirement[2] $million	Risk Weighted Assets $million
Credit Risk	16,187	202,333	13,865	173,315
Operational Risk	2,158	26,972	1,656	20,696
Market Risk	1,262	15,772	1,593	19,912
Total	19,607	245,077	17,114	213,923

(1) The 'Group' refers to Standard Chartered PLC together with its subsidiary undertakings, see note 2 page 3.
(2) Regulatory capital requirement is calculated at eight per cent of risk weighted assets.

Standard Chartered
Pillar 3 Disclosures
31 December 2010

Contents

Page

1. Scope of Basel II framework ... 4
2. Capital management ... 5
    2.1. Capital structure ... 6
3. Risk management ... 11
4. Credit risk ... 14
    4.1. Internal Ratings Based Approach to credit risk ... 15
    4.2. Standardised Approach to credit risk ... 15
    4.3. Regulatory capital requirements ... 16
    4.4. Exposure values ... 18
    4.5. Credit risk mitigation ... 23
    4.6. Internal Ratings Based models ... 25
    4.7. Risk grade profile ... 28
    4.8. Problem credit management and provisioning ... 32
    4.9. Counterparty credit risk in the trading book ... 36
    4.10. Securitisation ... 38
5. Market risk ... 42
6. Operational risk ... 46
7. Remuneration ... 48
8. Group entities ... 51
9. Immaterial portfolios ... 51
10. Forward looking statements ... 51
11. Acronyms ... 52

(1) Standard Chartered PLC is headquartered in London where it is regulated by the UK's Financial Services Authority (FSA).

(2) Within this document 'the Group' refers to Standard Chartered PLC together with its subsidiary undertakings. The Hong Kong Special Administrative Region of the People's Republic of China is referred to as Hong Kong and includes Macau; India includes Nepal; The Republic of Korea is referred to as Korea; Middle East and Other South Asia (MESA) includes, amongst others: Afghanistan, Bahrain, Bangladesh, Egypt, Jordan, Lebanon, Oman, Pakistan, Qatar, Sri Lanka, United Arab Emirates (UAE); and Other Asia Pacific includes, amongst others: Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Mauritius, the Philippines, Taiwan, Thailand and Vietnam.

(3) Throughout this document, unless another currency is specified, the word 'dollar' or symbol $ means United States dollar.

(4) Throughout this document AIRB and IRB are interchangeable terms and refer to internal ratings based models used. The Group does not use the Foundation IRB approach.

Standard Chartered
Pillar 3 Disclosures
31 December 2010

1. Scope of Basel II framework

Pillar 1
The Group's lead supervisor, the FSA, formally approved the Group's use of the AIRB approach for calculating regulatory capital in 2007 and since 1 January 2008, the Group has been using the AIRB approach for the measurement of credit risk capital. The Internal Ratings Based (IRB) models cover 78 per cent of the Group's credit RWA (2009: 80 per cent). Although the FSA's approval covers the Group's global operations, the Group also continues to work closely with other regulators and anticipates making further AIRB applications to local regulators as and when permitted, and where it is considered appropriate to do so.

The Group applies a Value at Risk (VaR) model for the measurement of market risk capital in accordance with the scope of the permission to use such a model granted by the FSA. Where the Group's market risk exposures are not approved for inclusion in its VaR model, capital requirements are based on standard rules provided by the regulator which are less risk sensitive.

The Group is also required to calculate a capital charge to cover operational risk for which the Group applies the Standardised Approach.

Pillar 2
Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks where other suitable mitigants are not available. This risk and capital assessment is commonly referred to as the Internal Capital Adequacy Assessment Process (ICAAP). The range of risks that need to be covered by the ICAAP is much broader than Pillar 1, which covers only credit risk, market risk and operational risk.

The Group has developed an ICAAP framework which closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained to support the Group's current and projected demand for capital under expected and stressed conditions.

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 Group Risk Committee (GRC) and Group Asset and Liability Committee (GALCO).

The GALCO, through its authority delegated by the Standard Chartered Bank Court (Court), is responsible for the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of the Group's liquidity, capital adequacy and structural foreign exchange and interest rate risk.

The GRC, through its authority delegated by the Court, is responsible for the management of all risks other than those delegated by the Court to the 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 the Group's overall risk management framework.

The ICAAP framework has been designed to be applied consistently across the organisation to meet the Pillar 2 requirements of local regulators. A description of the Risk Management Framework is set out in section 3 Risk Management.

Under Pillar 2, regulators are required to undertake a review of banks' ICAAPs. This is referred to as the Supervisory Review and Evaluation Process (SREP). The SREP forms part of the FSA's Advanced Risk Response Operating Framework (ARROW) and determines the minimum regulatory capital requirements of the Group, referred to as Individual Capital Guidance (ICG).

Pillar 3
Pillar 3 aims to provide a consistent and comprehensive disclosure framework that enhances comparability between banks and further promotes improvements in risk practices. The Group has implemented a Pillar 3 policy and procedure framework to address the requirements laid down for Pillar 3 disclosure. The information provided here has been reviewed and validated by senior management and is in accordance with the rules in force at the time of publication and laid out in the FSA Handbook and The Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) chapter 11, covering both the qualitative and quantitative items. Disclosure relating to remuneration follows the requirements of FSA Policy Statement PS10/21 issued in December 2010. Further details and disclosure of risk, liquidity, capital management and remuneration are presented in the Annual Report and Accounts. In accordance with the Group's policy the full Pillar 3 disclosures will be made annually as at 31 December, and will be published on the Standard Chartered PLC website www.standardchartered.com as soon as is practical after the Group announces its annual results.

Accounting and prudential treatment
The full Pillar 3 disclosures are made for the consolidated Standard Chartered PLC Group. Additional disclosures of the capital requirements of the Group's significant subsidiaries are shown in section 2.1.

The accounting policy for consolidation is provided in the notes to the financial statements, published in the Annual Report and Accounts. All subsidiaries are fully consolidated and the treatment is the same for both regulatory and accounting purposes. For associates, the regulatory treatment differs from the accounting policy, which applies the equity accounting method. Investments in associates that are between 20 and 50 per cent owned are proportionally consolidated for regulatory purposes and the investment in associates that are between 10 and 20 per cent owned are deducted from capital resources. Joint ventures are proportionally consolidated for both accounting and regulatory purposes.

Section 8. Group entities lists the entities where regulatory treatment differs from the accounting treatment. The Group's principal subsidiary undertakings are also detailed in this section.

2. Capital management

The Group's approach to capital management is driven by its desire to maintain a strong capital base to support the development of its 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 the Group's strategy.

The capital plan takes the following into account:

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

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

The Group uses a capital model to assess the capital demand for material risks, and support its 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 the Group's management disciplines.
A strong governance and process framework is embedded in the capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board. The Board Risk Committee (BRC) 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. At a country level, capital is monitored by the local Asset and Liability Committee (ALCO), which is responsible for managing the country level balance sheet, capital and liquidity. Appropriate policies are in place governing the transfer of capital within the Group. These ensure that capital is remitted as appropriate, subject to complying with local regulatory requirements and statutory and contractual restrictions. There are no current material practical or legal impediments to the prompt transfer of capital resources in excess of those required for regulatory purposes or repayment of liabilities between the parent company, Standard Chartered PLC and its subsidiaries when due.

Group Treasury is responsible for the ongoing assessment of the demand for capital and the updating of the Group's capital plan.

Current Compliance with Capital Adequacy Regulations
The capital that the Group is required to hold by the FSA is determined by the Group's balance sheet, off-balance sheet, counterparty and other risk exposures.

Capital in branches and subsidiaries is maintained on the basis of host regulator's requirements. Suitable processes and controls are in place to monitor and manage capital adequacy and ensure compliance with local regulatory ratios in all legal entities. These processes are designed to ensure that the Group has sufficient capital available to meet local regulatory capital requirements at all times.

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.

The Group estimates that the impact of adjustments to risk-weighted assets and regulatory capital under both the proposed amendments to Basel II and the introduction of Basel III will be to reduce the Group's future Core Tier 1 capital ratio by up to 1 per cent. This estimate is unchanged in aggregate terms from the assessment disclosed at the time of the rights issue in October 2010.

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 Group's lead regulator, and various other regulators in the Group's key markets will seek to interpret and apply these arrangements. The Group believes, as it did at the time of the rights issue in October 2010, 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.

2.1. Capital structure

Group's capital resources

The table below summarises the consolidated capital position of the Group. The consolidated balance sheet of the Group includes capital under the following headings:

- called-up ordinary share capital, preference shares, and eligible reserves (included in share capital and reserves);
- innovative Tier 1 securities and qualifying subordinated liabilities (included in subordinated liabilities); and
- portfolio impairment provision (netted against loans to banks and loans to customers).

Movement in capital

On a Basel II basis, Core Tier 1 capital has increased by $9,838 million since 31 December 2009. The 1-for-8 rights issue announced on 13th October 2010 added $5.2 billion and was supplemented by retained profits of $4.4 billion and the issue of Indian Depositary Receipts in June 2010 of $503 million. This was offset by an increase in goodwill and intangibles of $360 million.

Non-core Tier 1 capital decreased by $107 million and Tier 2 capital increased by $30 million.

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, the Group believes it is appropriate to remain strongly capitalised above the target ranges.

	31.12.10 $million	31.12.09 $million
Core Tier 1 capital		
Called up ordinary share capital	1,174	1,013
Eligible reserves[1]	35,270	25,001
Non-controlling interests	332	256
Less: excess expected losses[2]	(664)	(502)
Less: securitisations	(132)	(97)
Goodwill and other intangible assets	(6,980)	(6,620)
Other regulatory adjustments	(60)	51
Total Core Tier 1 capital	28,940	19,102
Innovative Tier 1 securities	2,828	2,860
Preference shares	2,686	2,694
Tax on excess expected losses[1]	185	163
Less: material holdings	(326)	(237)
Total Tier 1 capital	34,313	24,582
Tier 2 capital		
Eligible revaluation reserves	530	253
Portfolio impairment provision	266	242
Less: excess expected losses[2]	(664)	(502)
Qualifying subordinated liabilities:		
Perpetual subordinated debt	1,494	1,535
Other eligible subordinated debt	9,602	9,547
Less: material holdings and total securitisations	(458)	(335)
Total Tier 2 capital	10,770	10,740
Deductions from Tier 1 and Tier 2 capital	(3)	(57)
Total capital base	45,080	35,265

(1) The tax benefit on excess expected losses is included 50 per cent in 'Eligible reserves' and 50 per cent in Tax on excess expected losses.

(2) Excess expected losses are shown gross.

	31.12.10 $million	31.12.09 $million
Risk weighted assets		
Credit risk	202,333	173,315
Operational risk	26,972	20,696
Market risk	15,772	19,912
Total risk weighted assets	245,077	213,923
Capital ratios		
Core Tier 1 capital	11.8%	8.9%
Tier 1 capital	14.0%	11.5%
Total capital ratio	18.4%	16.5%

Capital instruments issued by the Group
All capital instruments included in the capital base have been issued in accordance with the rules and guidance in GENPRU. For regulatory purposes, capital is categorised into three main categories, or tiers, depending on the degree of permanency and loss absorbency exhibited. These are Tier 1, Tier 2 and Tier 3 capital which are described below where relevant.

Tier 1 capital
Tier 1 capital is comprised of permanent share capital, profit and loss account and other eligible reserves, equity non-controlling interests, perpetual non-cumulative preference shares and innovative Tier 1 instruments, after the deduction of certain regulatory adjustments.

Permanent share capital is an item of capital issued by an organisation to an investor, which is fully paid-up and where the proceeds of issue are immediately and fully available. There is no obligation to pay a coupon or dividend to the shareholder. The capital is available for unrestricted and immediate use to cover risks and losses, and enable the organisation to continue trading. It can only be redeemed on the winding-up of the organisation.

Profit and loss account and other eligible reserves are accumulated resources included in shareholders' funds in an organisation's balance sheet, with certain regulatory adjustments applied.

Equity non-controlling interests represent the equity stakes held by non-controlling shareholders in the Group's undertakings.

Perpetual non-cumulative preference shares are permanent holdings for which there is no obligation to pay a dividend, and the dividend payment is not cumulative. Such shares do not generally carry voting rights, but rank higher than ordinary shares for dividend payments and in the event of a winding-up or other return of capital. The following table sets out details of the preference shares in issue and their primary terms:

Description	Terms			31.12.10 $million	31.12.09 $million
Preference Shares (Hybrid Tier 1 capital with no incentive to redeem) [1]					
£100 million 8.250 per cent Preference shares	Perpetual	Non-cumulative	Irredeemable	142	145
£100 million 7.375 per cent Preference shares	Perpetual	Non-cumulative	Irredeemable	136	140
$750 million 7.014 per cent Preference shares	Perpetual	Non-cumulative	Redeemable (callable Jul 2037, re-fix to 3 month LIBOR plus 1.46 per cent)	747	747
$750 million 6.409 per cent Preference shares	Perpetual	Non-cumulative	Redeemable (callable Jan 2017, re-fix to 3 month LIBOR plus 1.51 per cent)	747	747
$925 million 8.125 per cent Preference shares	Perpetual	Non-cumulative	Redeemable (callable Nov 2013, re-fixing to 5 year Treasuries plus 6.78 per cent in 2019)	914	915
				2,686	2,694

[1] Treated as Tier 1 capital under GENPRU TP8A

Innovative Tier 1 securities are deeply subordinated debt instruments which despite their legal form, have loss absorbency qualities and can therefore be included as Tier 1 capital. The following table sets out the Innovative Tier 1 securities in issue and their primary terms:

Description	Terms			31.12.10 $million	31.12.09 $million
Innovative Tier 1 securities (Hybrid Tier 1 capital with incentive to redeem) [(1)]					
£600 million 8.103 per cent Preferred securities	Perpetual	Cumulative	Redeemable (callable May 2016 and annually thereafter, step-up from May 2016 to 5 year UK gilts plus 4.275 per cent)	1,019	1,050
$300 million 7.267 per cent Hybrid tier 1 securities	Non-perpetual	Non-Cumulative	Redeemable (callable Mar 2014, maturity Mar 2034, extendable for 30 year periods, 7.267 per cent to Mar 2014, step up 3 month LIBOR plus 4.29 per cent)	320	323
$1,500 million 9.5 per cent Preferred Securities	Perpetual	Cumulative	Redeemable, (callable Dec 2014, step up in Dec 2014 to 5 year Treasuries plus 6.78 per cent)	1,489	1,487
				2,828	2,860

(1) Treated as Tier 1 capital under GENPRU TP8A

Tier 2 capital

Tier 2 capital is comprised of Upper Tier 2 and Lower Tier 2 capital. The main components are subordinated debt instruments. Upper Tier 2 capital includes perpetual subordinated debt instruments, revaluation reserves and general provisions. The following table sets out the Upper Tier 2 instruments in issue and their primary terms:

Description	Terms		31.12.10 $million	31.12.09 $million
Primary capital floating rate notes:				
$400 million	Perpetual	Either 6 month LIBOR plus 0.125 per cent or Residual Period LIBOR plus 0.0625 per cent[(1)]	57	58
£150 million	Perpetual	3 month LIBOR plus 0.1875 per cent[(1)]	234	242
$300 million	Perpetual	6 month LIBOR plus 0.25 per cent[(1)]	81	82
$400 million	Perpetual	6 month LIBOR plus 0.275 per cent[(1)]	83	84
$200 million	Perpetual	6 month LIBOR plus 0.15 per cent[(1)]	51	52
Subordinated notes:				
£675 million	Perpetual	Callable Jul 2020, 5.375 per cent coupon with step up to 3 month LIBOR plus 1.89 per cent	605	624
£200 million	Perpetual	Callable Jan 2022, 7.75 per cent coupon with step-up to 5 year benchmark gilt plus 3.8 per cent	383	393
			1,494	1,535

(1) These securities are past their first call date and are callable at the option of the issuer on any future interest payment date, in accordance with their terms and conditions.

Lower Tier 2 capital consists of dated capital instruments i.e. of a fixed term, which are normally of medium to long-term maturity with an original maturity of at least five years. For regulatory purposes, it is a requirement that these instruments be amortised on a straight-line basis in their final five years of maturity. This deduction is shown in the table on page 6 as 'amortisation of qualifying subordinated liabilities' and reduces the amount of capital that is recognised for regulatory purposes. The following table sets out the Lower Tier 2 instruments in issue net of amortisation and their primary terms:

Description	Terms		31.12.10 $million	31.12.09 $million
£300 million	6 per cent subordinated notes	Maturing Jan 2018, callable 2013, step up 3 month LIBOR plus 0.79 per cent	467	483
£700 million	7.75 per cent subordinated notes	Maturing Apr 2018	1,088	1,126
€750 million	3.625 per cent subordinated notes	Maturing Feb 2017, callable Feb 2012, step up 3 month EURIBOR plus 0.87 per cent	1,004	1,072
€675 million	Floating rate subordinated notes	Maturing Mar 2018, callable Mar 2013, coupon 3 month EURIBOR plus 0.30 per cent, step up 3 month LIBOR plus 0.80 per cent	904	964
€1,100 million	5.875 per cent subordinated notes	Maturing Sep 2017	1,473	1,573
$500 million	Floating rate subordinated notes	Maturing Feb 2015, callable Feb 2010, coupon 3 month LIBOR plus 0.30 per cent, step-up 3 month LIBOR plus 0.80 per cent [(1)]	-	499
$700 million	8 per cent subordinated notes	Maturing Mar 2031	426	426
$100 million	Floating rate subordinated notes	Maturing Mar 2018, callable Mar 2013, coupon 3 month LIBOR plus 0.30 per cent, step-up 3 month LIBOR plus 0.80 per cent	100	100
$1,000 million	6.4 per cent subordinated notes	Maturing Sep 2017	996	995
$500 million	Floating rate subordinated notes	Maturing Jun 2016, coupon 3 month LIBOR 0.30 per cent, callable Jun 2011, step up 3 month LIBOR plus 0.80 per cent	500	500
$300 million	Floating rate subordinated notes	Maturing Apr 2017, callable Apr 2012, coupon 3 month LIBOR plus 0.25 per cent, step-up 3 month LIBOR plus 0.75 per cent	298	297
$22 million	9.75 per cent subordinated notes	Maturing Jun 2021, callable Jun 2016, step up 6 month LIBOR plus 6.6035 per cent	25	24
$750 million	5.875 per cent subordinated note	Maturing Jun 2020	743	-
BWP 75 million	Floating rate subordinated note	Maturing Nov 2017, callable Nov 2012, 91 day BOBC plus 0.40 per cent, step up 91 day BOBC plus 0.90 per cent	12	11
BWP 50 million	Floating rate subordinated note	Maturing Dec 2015, callable Mar 2011, coupon 91 day BOBC plus 0.70 per cent, step-up 91 day BOBC plus 1.20 per cent	8	8
JPY 10,000 million	3.35 per cent subordinated note	Maturing Apr 2023, callable Apr 2018, step-up 4.35 per cent.	123	107
KRW 90 billion	6.05 per cent subordinated note	Maturing Mar 2018	89	87
KRW 260 billion	6.08 per cent subordinated note	Maturing Apr 2018, callable Apr 2013	242	236
KRW 300 billion	7.05 per cent subordinated note	Maturing Apr 2019, callable Apr 2014, step up to 7.55 per cent	264	257
MYR 500 million	4.28 per cent subordinated note	Maturing Nov 2017, callable Nov 2012, step-up 3 month KLIBOR plus 0.69 per cent	162	146
SGD 450 million	5.25 per cent subordinated notes	Maturing Apr 2023, callable Apr 2018, step-up 6 month SGDSOR plus 3.1025 per cent	350	319
TZS 8,000 million	Floating rates subordinated note	Maturing Aug 2015, callable Aug 2010, coupon 182 T-bill rate plus 0.40 per cent, step up 182 T-bill rate plus 0.80 per cent[(2)]	-	6
TWD 10 billion	2.9 per cent subordinated note	Maturing Oct 2019, callable Oct 2014, step up 3.4 per cent	328	311
			9,602	9,547

[(1)] On 4 February 2010, Standard Chartered Bank exercised its right to redeem these securities in full.

[(2)] On 24 August 2010, Standard Chartered Bank Tanzania Limited exercised its right to call these securities in full.

Regulatory deductions
The FSA requires deductions and prudential filters to be applied in calculating capital for regulatory purposes. The following items are deducted from Core Tier 1 capital:

- Goodwill, which is the accounting adjustment recognised in the preparation of a group's consolidated accounts arising on an acquisition; and
- Intangible assets such as software licences.

The following are deducted from Core Tier 1 and Tier 2 capital in equal proportions:

- The excess of expected loss over related provisions;
- The retained portion of the securitisation asset pool which has been assigned a risk weighting of 1250 per cent; and

Investments in 'material holdings' (being investments in excess of 10 per cent of the share capital or subordinated debt of a credit or financial institution) are deducted from Tier 1 and Tier 2 capital in equal proportions.

Lending of a capital nature to a connected party or guarantees provided to such a party is deducted from total Tier 1 and Tier 2 capital.

Capital resources of significant subsidiaries
For local capital adequacy purposes, a range of approaches are applied in accordance with the regulatory requirements in force in each jurisdiction. Wherever possible, the approaches adopted at the Group level are applied locally.

The capital resources of the Group's more significant subsidiaries are presented below. These subsidiaries are Standard Chartered Bank (a UK incorporated banking entity including overseas branches, and certain subsidiaries which are permitted to be consolidated for capital adequacy purposes), Standard Chartered Bank (Hong Kong) Limited and Standard Chartered First Bank Korea Limited. The capital resources of these subsidiaries are presented in accordance with the regulatory requirements applicable in the countries in which they are incorporated.

The capital resources of the Group's significant subsidiaries are set out in the following table:

	31.12.10			31.12.09		
	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered First Bank Korea Ltd $million	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered First Bank Korea Ltd $million
Core Tier 1 capital						
Called up ordinary share capital	11,687	12	1,153	11,246	13	1,125
Eligible reserves	9,077	4,698	2,341	6,738	4,783	2,308
Non-controlling interests	-	9	-	-	3	-
Less: excess expected losses	(428)	(42)	-	(369)	(34)	-
Less: securitisations	(108)	(3)	-	(64)	(3)	(14)
Goodwill and other intangible assets	(1,429)	(183)	(24)	(1,356)	(119)	(24)
Other regulatory adjustments	(6)	(51)		98	(163)	-
Total Core Tier 1 capital	18,793	4,440	3,470	16,293	4,480	3,395
Innovative Tier 1 securities	2,508	-	300	2,537	-	300
Preference shares	2,414	-	-	2,424	-	-
Tax on excess expected losses	133	-	-	140	-	-
Less: material holdings	(6,231)	(292)	-	(6,475)	(243)	-
Total Tier 1 capital	17,617	4,148	3,770	14,919	4,237	3,695
Tier 2 capital						
Eligible revaluation reserves	214	-	29	51	10	11
Regulatory Reserve	-	17	88	-	13	28
Portfolio impairment provision (applicable to STD portfolio)	98	24	147	116	11	180
Less: excess expected losses	(428)	(42)	-	(369)	(34)	-
Qualifying subordinated liabilities:						
Perpetual subordinated debt	3,293	-	-	4,360	-	-
Other eligible subordinated debt	7,430	1,036	599	8,165	297	585
Less: amortisation of qualifying subordinated liabilities	-	-	(22)	-	-	(17)
Less: material holdings and total securitisations	(6,339)	(295)	-	(6,539)	(247)	(14)
Less: other regulatory deductions	-	(10)	-	-	(50)	-
Total Tier 2 capital	4,268	730	841	5,784	-	773
Deductions from Tier 1 and Tier 2 capital(1)	(2,162)	(26)	(150)	(2,126)	(26)	(235)
Total capital base	19,723	4,852	4,461	18,577	4,211	4,233

(1) Total deductions from Tier 1 and Tier 2 for Standard Chartered Bank primarily relate to lending of a capital nature.

3. Risk management

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

Risk management framework

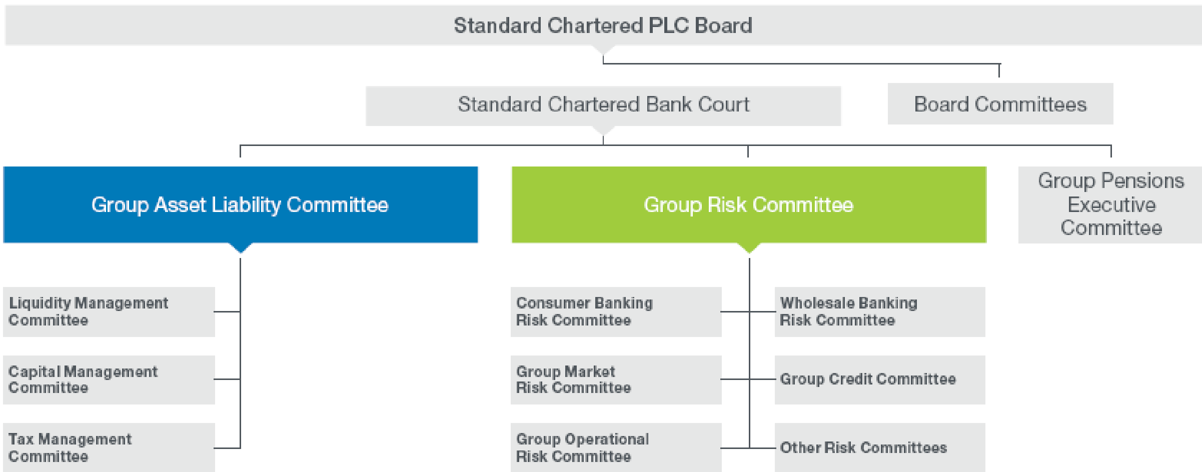
Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Group.

Through the risk management framework the Group manages enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within the Group's risk appetite.

As part of this framework, the Group uses a set of principles that describe the risk management culture it wishes to sustain:

- balancing risk and return: risk is taken in support of the requirements of stakeholders, in line with the Group's strategy and within the Group's risk appetite;
- Responsibility: it is the responsibility of all employees to ensure that risk-taking is disciplined and focused. The Group takes account of its social responsibilities, and its commitment 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: seek to anticipate future risks and ensure awareness of all known risks;
- Competitive advantage: seek to achieve competitive advantage through efficient and effective risk management and control.

The following diagram illustrates the high level risk committee structure:



Risk governance

Ultimate responsibility for setting the Group's 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 the Group's 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 term of reference.

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

The Court delegates authority for the management of risk to several committees.

The GRC is responsible for the management of all risks other than those delegated by the Court to the 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 the overall risk management framework.

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

The 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 organizational responsibilities. Business, function and geographic governance heads are accountable for risk management in their respective businesses and functions, and for countries where they have governance responsibilities.

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

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

The findings from the 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 :

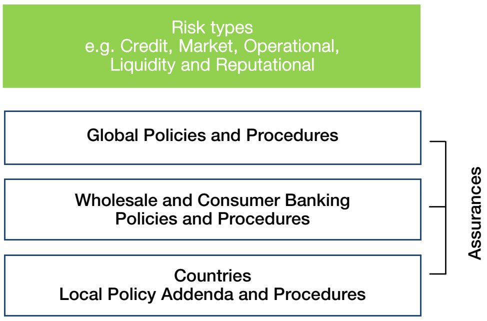
- To maintain the Risk Management Framework, ensuring it remains appropriate to the Group's activities, is effectively communicated and implemented across the Group and for administering related governance and reporting processes.
- To uphold the overall integrity of the Group's risk/return decisions, 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 GCRO, in respect of the business, geography or legal entity for which they are responsible. The roles of CROs are aligned at each level.

The Risk function is independent of the origination, trading and sales functions to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This is particularly important given that the significant majority of 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 policy framework



Risk appetite

The Group manages risks to build a sustainable franchise in the interests of all stakeholders.

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

Risk appetite is defined in terms of both volatility of earnings and the maintenance of minimum regulatory capital requirements under stress scenarios. The Group also defines risk appetite with respect to liquidity risk and reputational risk.

The Group's quantitative risk profile is assessed through a bottom-up analytical approach covering all of its 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 the Group's 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 the Group to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental and social factors.

The Group's stress testing framework is designed to:

- contribute to the setting and monitoring of risk appetite
- identify key risks to strategy, financial position, and reputation
- examine the nature and dynamics of the risk profile and assess the impact of stresses on 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.

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 the Group's business.

The Group's 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.

Credit risk mitigation

The Group's credit risk mitigation policy, processes and amounts of collateral held are discussed in section 4.5 Credit risk mitigation.

4. Credit risk

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

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

Credit policies

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

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

Credit rating and measurement

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

For IRB portfolios, a standard alphanumeric credit risk grade (CG) system is used in both Wholesale and Consumer Banking. The grading is based on the Group's 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.

The Group's 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 the Group's 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 the Group's exposures and are used extensively in assessing risks at customer and portfolio level, setting strategy and optimising the Group's risk-return decisions.

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

Credit approval

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

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

Concentration risk

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

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

Credit monitoring

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

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

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

Clients or portfolios are placed on early alert when they display signs of 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), the Group's specialist recovery unit.

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

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

4.1. Internal Ratings Based Approach to credit risk

The Group uses the AIRB approach to manage credit risk for the majority of its portfolios. This allows the Group to use its own internal estimates of Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Credit Conversion Factor (CCF) to determine an asset risk weighting.

PD is the likelihood that an obligor will default on an obligation. All banks must produce an internal estimate of PD for all borrowers in each borrower grade. EAD is the expected amount of exposure to a particular obligor at the point of default. CCF is an internally modeled 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. LGD is the percentage of EAD that a lender expects to lose in the event of obligor default.

All assets under the AIRB approach have sophisticated PD, LGD and EAD/CCF models developed to support the credit decision making process. RWA under the AIRB approach is determined by regulatory specified formulae dependent on the Group's estimates of PD, LGD, EAD and CCF. The development, use and governance of models under the AIRB approach is covered in more detail in section 4.6 Internal Ratings Based models.

Regulation BIPRU 4.2.30 allows AIRB banks to elect to permanently exclude certain exposures from the IRB approach and use the Standardised Approach. These are known as permanent exemptions, and are required to be no greater than 15 per cent of the Group's credit RWA.

The permanent exemptions for Consumer Banking include:

- Africa – all retail portfolios;
- Private banking; and
- Portfolios where the size or nature makes application of the advanced approach inefficient; mainly in the Middle East.

For Wholesale Banking, permanent exemptions apply to:

- Private equity;
- Development Organisations;
- Jordan and Lebanon; and
- Purchased receivables.

The Group also applies the Standardised Approach to portfolios that are currently being transitioned to the AIRB approach in accordance with the Group's 'AIRB Roll Out Plan'. Direct comparability between current and prior year data for certain portfolios may not be possible during this transition period.

Subject to FSA approval, the following portfolios are due to be incorporated fully into the AIRB coverage within the next 18 months.

- Mortgages and personal loans in Taiwan;
- Credit cards in Indonesia;
- Personal loans in Malaysia;
- Consumer Finance in Hong Kong.

4.2. Standardised Approach to credit risk

The Standardised Approach is applied to portfolios that are classified as permanently exempt from the AIRB approach, and those portfolios that are currently under transition to the AIRB approach in accordance with the Group's 'AIRB Roll Out Plan'. Section 4.1 provides details of such portfolios.

The Standardised Approach to credit risk measures credit risk pursuant to fixed risk weights and is the least sophisticated of the capital calculation methodologies. The risk weight applied under the Standardised Approach is given by the FSA and is based on the asset class to which the exposure is assigned.

For Sovereigns, Corporates and Institutions, external ratings are used to assign risk weights. These external ratings must come from FSA approved rating agencies, known as External Credit Assessment Institutions (ECAI); namely Moody's, Standard & Poor's and Fitch. The Group uses ratings from these agencies as part of its day to day business. External ratings for the counterparty are determined as soon as a relationship is established and these ratings are tracked and kept updated. Assessments provided by approved ECAI are mapped to credit quality steps as prescribed by the FSA.

The Group currently does not use assessments provided by export credit agencies for the purpose of evaluating RWA in the Standardised Approach.

4.3. Regulatory capital requirements

The below table presents the minimum regulatory credit risk capital requirements as at 31 December 2010, calculated as 8 per cent of RWA based on the approaches described above in sections 4.1 and 4.2.

	Regulatory Capital Requirement	
Credit Risk Capital	31.12.10 $million	31.12.09 $million
AIRB Exposure Class		
Central governments or central banks	722	703
Institutions	1,329	1,394
Corporates	7,214	6,115
Retail, of which	1,934	1,569
Secured by real estate collateral	628	519
Qualifying revolving retail	563	422
Retail SME	37	44
Other retail	706	584
Securitisation positions	223	195
Non-credit obligation assets	-	-
Total AIRB	11,422	9,976
Standardised Exposure Class		
Central governments or central banks	47	38
Institutions	46	61
Corporates	853	499
Retail	759	711
Secured on real estate property	714	487
Past due items	65	86
Items belonging to regulatory high risk categories	71	29
Other items[2]	1,104	955
Total Standardised	3,659	2,866
Counterparty credit risk capital component (credit risk in the trading book)	1,106	1,023
Concentration risk capital component[1]	-	-
Total	16,187	13,865

[1] The concentration risk capital component is the additional capital requirement to be held where exposure to a connected counterparty exceeds 25 per cent of capital resources.

[2] Other items' includes cash equity holdings, fixed assets, prepayments and accrued income.

The minimum credit risk capital requirements of the Group's significant subsidiaries are presented below in accordance with the regulatory requirements applicable in the countries in which they are incorporated.

	31.12.10			31.12.09		
Credit Risk Capital	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered First Bank Korea $million	Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered First Bank Korea $million
AIRB Exposure Class						
Central governments or central banks	294	12	-	284	15	-
Institutions	1,330	218	-	1,247	220	-
Corporates	4,498	1,126	648	3,672	821	778
Retail, of which	593	336	659	399	336	548
Secured by real estate collateral	261	90	150	197	109	99
Qualifying revolving retail	210	171	47	125	150	46
Retail SME	-	-		-	-	-
Other retail	122	75	462	77	77	403
Securitisation positions	133	11	15	127	2	18
Non-credit obligation assets	-	-	-	-	-	-
Other [1]	-	87	-	-	80	-
Total AIRB	6,848	1,790	1,322	5,729	1,474	1,344
Standardised Exposure Class						
Central governments or central banks	16	-	6	16	-	8
Institutions	37	17	44	9	11	58
Corporates	357	167	403	195	115	342
Retail	302	54	11	306	32	22
Secured on real estate property	116	67	-	77	36	-
Past due items	18	38	-	15	29	-
Items belonging to regulatory high risk categories	5	-	136	2	-	95
Securitisation positions	-	-	-	-	-	-
Other items	382	28	227	339	20	215
Total Standardised	1,233	371	827	959	243	740
Counterparty credit risk capital component (credit risk in the trading book)	974	1	169	902	2	313
Concentration risk capital component[2]	-	-	-	-	-	-
Total	9,055	2,162	2,318	7,590	1,719	2,397

(1) The AIRB exposure class 'Other' is an asset class under the Hong Kong Monetary Authority regulations.

(2) The concentration risk capital component is the additional capital requirement to be held where exposure to a connected counterparty exceeds 25 per cent of capital resources.

4.4. Exposure values

The following tables detail the Group's Exposure at Default (EAD) before the effect of credit risk mitigation, broken down by the relevant exposure class against the relevant industry, maturity and geography. EAD is based on the current outstandings and accrued interest and fees, plus a proportion of the undrawn component of the facility. The amount of the undrawn facility included is dependant on the product type, and for AIRB exposure classes this amount is modelled internally.

Geographical analysis

The below table provides EAD analysed by the booking location of the exposure. The Group's exposure to credit risk is concentrated in Hong Kong, Korea, Singapore, Other Asia Pacific region and Americas, UK & Europe. The increase in Americas, UK and Europe region was due to growth in the syndications and commodities businesses with customers in the Group's footprint countries, booked within our offshore banking unit. The Group sets limits on the exposure to any counterparty and credit risk is spread over a variety of different personal customers and commercial clients. 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 portfolio remains well diversified across geography.

	31.12.10									
	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	**Period End Total $million**	Average Total $million
AIRB Exposure Class										
Central governments or central banks	12,245	7,691	8,416	21,856	6,207	6,407	3,777	21,786	**88,385**	81,674
Institutions	25,364	15,114	8,398	16,055	3,319	4,986	1,032	44,871	**119,139**	118,906
Corporates	20,858	16,718	11,455	23,520	9,813	20,457	4,665	45,895	**153,381**	141,056
Retail	27,262	15,858	35,213	8,288	2,620	814	-	-	**90,055**	81,919
Securitisation positions	869	50	-	-	-	9	-	17,631	**18,559**	17,661
Non-credit obligation assets	-	-	-	-	-	-	-	-	**-**	-
Total AIRB	86,598	55,431	63,482	69,719	21,959	32,673	9,474	130,183	**469,519**	441,216
Standardised Exposure Class										
Central governments or central banks	-	-	-	652	-	371	-	-	**1,023**	922
Multilateral development banks	775	749	-	77	18	60	7	1,208	**2,894**	1,996
Institutions	169	995	-	80	38	-	1	256	**1,539**	1,626
Corporates	2,350	4,840	606	4,081	1,064	674	281	2,476	**16,372**	14,389
Retail	1,287	2,143	47	5,636	870	2,651	984	328	**13,946**	13,176
Secured on real estate	1,660	1,422	3	12,589	938	729	65	410	**17,816**	14,738
Past due items	104	27	18	432	105	118	22	3	**829**	960
Items belong to regulatory high risk category	490	5	-	51	44	-	2	19	**611**	380
Other items	2,882	874	3,123	2,176	974	1,761	645	3,358	**15,793**	14,617
Total Standardised	9,717	11,055	3,797	25,774	4,051	6,364	2,007	8,058	**70,823**	62,804
Total	96,315	66,486	67,279	95,493	26,010	39,037	11,481	138,241	**540,342**	504,020

	31.12.09									
	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	Period End Total $million	Average Total $million
AIRB Exposure Class										
Central governments or central banks	12,109	5,231	6,658	18,877	4,108	5,990	3,057	18,363	74,393	66,155
Institutions	30,855	13,040	7,822	12,732	2,923	5,999	917	42,095	116,383	117,803
Corporates	12,820	15,330	12,854	18,160	8,750	19,967	4,113	34,563	126,557	122,953
Retail	23,200	11,286	31,585	6,971	2,286	763	-	-	76,091	69,144
Securitisation positions	-	-	-	-	-	-	-	17,389	17,389	17,958
Non-credit obligation assets	-	-	-	-	-	-	-	-	-	-
Total AIRB	78,984	44,887	58,919	56,740	18,067	32,719	8,087	112,410	410,813	394,013
Standardised Exposure Class										
Central governments or central banks	1	-	3	472	-	368	-	-	844	784
Multilateral development banks	300	580	-	34	23	10	-	61	1,008	203
Institutions	147	61	102	72	27	-	-	1,491	1,900	2,466
Corporates	1,478	4,399	453	2,862	562	728	97	1,911	12,490	11,692
Retail	1,263	1,839	72	4,818	999	2,779	850	436	13,056	13,871
Secured on real estate	741	1,155	6	8,912	520	423	36	174	11,967	10,666
Past due items	219	19	101	521	67	154	26	14	1,121	1,227
Items belong to regulatory high risk category	155	18	-	68	19	-	-	14	274	594
Other items	2,539	367	2,231	1,973	1,034	1,561	823	3,601	14,129	13,193
Total Standardised	6,843	8,438	2,968	19,732	3,251	6,023	1,832	7,702	56,789	54,696
Total	85,827	53,325	61,887	76,472	21,318	38,742	9,919	120,112	467,602	448,709

Industry analysis

The mortgage portfolio, making up 69% of the Consumer Banking AIRB assets is well secured with an average loan to value of 51 per cent. The Wholesale Banking portfolio is well diversified across industry, with no significant concentration within the industry classifications of Manufacturing; Financing, insurance and business services; Commerce; or Transport, storage and communication.

	31.12.10										
	Loans to Individuals - Mortgage $million	Loans to Individuals - Other $million	SME $million	Commerce $million	Manufacturing $million	Commercial Real Estate $million	Government $million	Financing Insurance & Business Services $million	Transport & Storage & Communication $million	Other $million	Total $million
AIRB Exposure Class											
Central governments or central banks	-	-	-	481	-	-	85,555	1,844	-	505	88,385
Institutions	-	28	-	361	-	136	668	117,496	26	424	119,139
Corporates	3	95	5,563	30,981	40,030	8,605	1,465	14,416	16,032	36,191	153,381
Retail	62,564	26,377	1,114	-	-	-	-	-	-	-	90,055
Securitisation positions	-	-	-	39	-	-	-	2,135	-	16,385	18,559
Non-credit obligation assets	-	-	-		-	-	-	-	-	-	-
Total AIRB	62,567	26,500	6,677	31,862	40,030	8,741	87,688	135,891	16,058	53,505	469,519
Standardised Exposure Class											
Central governments or central banks	-	-	-	-	-	-	10	-	-	1,013	1,023
Multilateral development banks	-	-	-	-	-	-	425	161	-	2,308	2,894
Institutions	-	-	-	-	-	-	113	1,055		371	1,539
Corporates	-	-	11,591	848	1,575	-	-	234	130	1,994	16,372
Retail	-	8,445	5,501	-	-	-	-	-	-	-	13,946
Secured on real estate	14,916	-	2,865	-	-	-	-	-	-	35	17,816
Past due items	174	299	193	19	26	3	39	35	-	41	829
Items belonging to regulatory high risk category	-	-	157	111	90	-	-	35	-	218	611
Other items	1	154	-	461	582	43	-	245	70	14,237	15,793
Total Standardised	15,091	8,898	20,307	1,439	2,273	46	587	1,765	200	20,217	70,823
Total	77,658	35,398	26,984	33,301	42,303	8,787	88,275	137,656	16,258	73,722	540,342

	31.12.09										
	Loans to Individuals - Mortgage $million	Loans to Individuals - Other $million	SME $million	Commerce $million	Manufacturing $million	Commercial Real Estate $million	Government $million	Financing Insurance & Business Services $million	Transport & Storage & Communication $million	Other $million	Total $million
AIRB Exposure Class											
Central governments or central banks	-	-	-	1,174	-	321	70,702	714	27	1,455	74,393
Institutions	2	27	-	322	-	375	369	114,429	4	855	116,383
Corporates	10	174	4,585	28,779	33,788	6,630	529	13,695	11,700	26,667	126,557
Retail	53,177	21,896	1,018	-	-	-	-	-	-	-	76,091
Securitisation positions	-	-	-	38	-	-	-	2,641	-	14,710	17,389
Non-credit obligation assets	-	-	-	-	-	-	-	-	-	-	-
Total AIRB	53,189	22,097	5,603	30,313	33,788	7,326	71,600	131,479	11,731	43,687	410,813
Standardised Exposure Class											
Central governments or central banks	-	-	-	-	-	-	1	3	-	840	844
Multilateral development banks	-	-	-	-	-	-	15	130	-	863	1,008
Institutions	-	-	-	-	-	-	-	818	-	1,082	1,900
Corporates	-	-	8,185	1,228	1,160	-	80	186	159	1,492	12,490
Retail	-	7,896	5,160	-	-	-	-	-	-		13,056
Secured on real estate	10,065	-	1,887	-	-	-	-	-	-	15	11,967
Past due items	189	347	443	13	41	4	-	38	-	46	1,121
Items belonging to regulatory high risk category	-	-	39	3	38	102	-	3	-	89	274
Other items	2	474	-	180	195	2	-	321	62	12,893	14,129
Total Standardised	10,256	8,717	15,714	1,424	1,434	108	96	1,499	221	17,320	56,789
Total	63,445	30,814	21,317	31,737	35,222	7,434	71,696	132,978	11,952	61,007	467,602

Maturity analysis

Approximately 60 per cent (2009: 63 per cent) of the Group's exposure to customers is short term, having contractual maturity of one year or less. The Wholesale Banking portfolio is predominantly short term with 72 per cent (2009: 74 per cent) of EAD having a remaining contractual maturity of one year or less. In Consumer Banking the longer maturity profile of the AIRB portfolio is driven by the mortgage book which makes up 69 per cent (2009: 70 per cent) of the portfolio and 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 maturity of EAD by each principal category of exposure class.

	31.12.10			
	One year or less $million	One to five years $million	Over five years $million	Total $million
AIRB Exposure Class				
Central governments or central banks	73,235	13,123	2,027	88,385
Institutions	92,381	23,912	2,846	119,139
Corporates	102,994	40,786	9,601	153,381
Retail	10,305	19,362	60,388	90,055
Securitisation positions	6,158	10,821	1,580	18,559
Non-credit obligation assets	-	-	-	-
Total AIRB	285,073	108,004	76,442	469,519
Standardised Exposure Class				
Central governments or central banks	1,023	-	-	1,023
Multilateral development banks	249	2,505	140	2,894
Institutions	1,441	96	2	1,539
Corporates	13,394	691	2,287	16,372
Retail	6,017	4,034	3,895	13,946
Secured on real estate	1,581	493	15,742	17,816
Past due items	347	118	364	829
Items belonging to regulatory high risk category	318	290	3	611
Other items	15,298	40	455	15,793
Total Standardised	39,668	8,267	22,888	70,823
Total	324,741	116,271	99,330	540,342

	31.12.09			
	One year or less $million	One to five years $million	Over five years $million	Total $million
AIRB Exposure Class				
Central governments or central banks	59,117	13,030	2,246	74,393
Institutions	94,748	19,067	2,568	116,383
Corporates	88,054	30,632	7,871	126,557
Retail	9,885	15,684	50,522	76,091
Securitisation positions	5,413	10,082	1,894	17,389
Non-credit obligation assets	-	-	-	-
Total AIRB	257,217	88,495	65,101	410,813
Standardised Exposure Class				
Central governments or central banks	843	1	-	844
Multilateral development banks	131	843	34	1,008
Institutions	1,704	196	-	1,900
Corporates	10,190	546	1,754	12,490
Retail	5,953	3,257	3,846	13,056
Secured on real estate	6,702	310	4,955	11,967
Past due items	694	161	266	1,121
Items belonging to regulatory high risk category	230	34	10	274
Other items	10,859	25	3,245	14,129
Total Standardised	37,306	5,373	14,110	56,789
Total	294,523	93,868	79,211	467,602

4.5. Credit risk mitigation

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

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

Where guarantees or credit derivatives are used as Credit Risk Mitigation (CRM) the creditworthiness of the guarantor is assessed and established using the credit approval process in addition to that of the obligor or main counterparty. The main types of guarantors include bank guarantees, insurance companies, parent companies, shareholders and export credit agencies. Credit derivatives, due to their potential impact on income volatility are used in a controlled manner with reference to their expected volatility.

Collateral is valued in accordance with the 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.

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

Wholesale Banking

The process of managing and recognising credit risk mitigation is governed by policies which set out the eligibility criteria that must be met. The credit risk mitigation policy sets out clear criteria that must be satisfied if the mitigation is to be considered effective:

- Excessive exposure to any particular risk mitigants or counterparties should be avoided. Collateral concentration mitigation standards are maintained at both the portfolio and counterparty level;
- Risk mitigants should not be correlated with the underlying assets such that default would coincide with a lowering of the Forced Sale Value (FSV) of the collateral;
- Where there is a currency mismatch, haircuts should be applied to protect against currency fluctuations;
- Legal opinions and documentation must be in place; and
- Ongoing review and controls exist where there is a maturity mismatch between the collateral and exposure.

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

For further information regarding credit risk mitigation in the trading book see section 4.9 Counterparty credit risk in the trading book.

Consumer Banking

The effective use of collateral is a key tool by which credit risk is mitigated in Consumer Banking. All eligible collateral accepted by Consumer Banking is covered by a product proposal approved by senior credit officers delegated with the relevant authority. New collateral types have to be vetted through a stringent 'New Business Approval' process and approved by the Consumer Banking Risk Committee.

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

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

The following table discloses the amount of exposure after the effect of CRM (excluding the impact of guarantees and credit derivatives) in the AIRB portfolio. For the AIRB portfolios, there is no requirement to disclose the value of collateral as this is typically captured within the LGD models. The amount of the exposure that is covered by guarantees/credit derivatives is also shown by asset class.

	31.12.10		31.12.09	
	EAD after the effect of CRM $million	Of which: EAD covered by guarantees/credit derivatives $million	EAD after the effect of CRM $million	Of which: EAD covered by guarantees/credit derivatives $million
AIRB Exposure Class				
Central governments or central banks	82,811	68	73,461	90
Institutions	99,108	1,833	107,322	1,076
Corporates	126,873	9,361	99,973	7,109
Retail	30,269	-	25,297	-
Securitisation positions	17,646	1,342	16,915	1,670
Non-credit obligation assets	-	-	-	-
Total AIRB	356,707	12,604	322,968	9,945

For the purposes of this table 'EAD after the effect of CRM' is shown against the exposure class of the original counterparty rather than the guarantor.

The table below identifies the effect of credit risk mitigation on EAD for the standardised portfolio. Eligible financial collateral consists primarily of cash, debt securities, equities and gold. All collateral shown below meets FSA Handbook BIPRU Chapter 5 eligibility rules.

The main type of collateral for the Group's standardised portfolio is real estate property which accounts for 70 per cent (2009: 63 per cent) of all credit risk mitigants.

	31.12.10				
	EAD before the effect of CRM $million	EAD covered by eligible financial collateral $million	EAD covered by other eligible collateral $million	EAD after the effect of CRM $million	EAD covered by guarantees/credit derivatives $million
Standardised Exposure Class					
Central governments or central banks	1,023	-	-	1,023	11
Multilateral development banks	2,894	-	-	2,894	5
Institutions	1,539	-	-	1,539	1,300
Corporates	16,372	5,345	-	11,027	1
Retail	13,946	1,264	-	12,682	-
Secured on real estate property	17,816	73	15,862	1,881	-
Past due items	829	13	166	650	-
Items belonging to regulatory high risk categories	611	17	-	594	-
Other items	15,793	40	-	15,753	-
Total Standardised	70,823	6,752	16,028	48,043	1,317

	31.12.09				
	EAD before the effect of CRM $million	EAD covered by eligible financial collateral $million	EAD covered by other eligible collateral $million	EAD after the effect of CRM $million	EAD covered by guarantees/credit derivatives $million
Standardised Exposure Class					
Central governments or central banks	844	-	-	844	4
Multilateral development banks	1,008	-	-	1,008	-
Institutions	1,900	-	-	1,900	467
Corporates	12,490	4,478	-	8,012	1
Retail	13,056	1,164	-	11,892	-
Secured on real estate property	11,967	64	10,620	1,283	-
Past due items	1,121	31	192	898	-
Items belonging to regulatory high risk categories	274	32	-	242	-
Other items	14,129	290	-	13,839	-
Total Standardised	56,789	6,059	10,812	39,918	472

4.6. Internal Ratings Based models

Model governance

The AIRB models used by the Group calculate a conservative Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), as borne out by the model performance data contained in this section. The product of this is a conservative view of Regulatory Expected Loss, which is considered necessary for the prudent calculation of regulatory capital.

Models are developed by analytics teams within the Consumer Banking and Wholesale Banking risk functions. The model development process is conducted and documented in line with specific criteria setting out the minimum standards for model development. All AIRB models are validated annually by a model validation team reporting to the Group Chief Credit Officer, thereby maintaining independence from the model build processes. Model validation findings are presented to the Group Model Assessment Committee (MAC) which in turn makes approval recommendations to the Consumer Banking and Wholesale Banking Risk Committees. These decision making bodies are comprised of divisional senior management whose role is to challenge model assumptions and performance and agree on appropriate model use for business decision making. The GRC and BRC periodically review overall model performance.

The model validation process involves a qualitative and quantitative assessment of the model, data, systems and governance. This would typically include an assessment of the:

- Model assumptions;
- Validity of the technical approach used;
- Statistical and empirical measures of performance;
- Appropriateness of intended model use;
- Model application and infrastructure;
- Data integrity and history;
- Model response to changes in internal and external environment - the extent to which the model provides point in time or through the cycle measures of risk;
- Model monitoring standards and triggers; and
- Levels of conservatism applied.

Statistical testing is used to determine a model's discriminatory power, predicted versus actual performance and stability over time with pre-defined thresholds for passing such tests.

PD model development

The Group employs a variety of techniques to develop its PD models. In each case the appropriate approach is dictated by the availability and appropriateness of both internal and external data.

If there is a perceived weakness in the data, for example shorter histories or fewer instances of default, an appropriate amount of conservatism is applied to predicted default rates.

The general approaches fall into three categories:

Default History Based ('Good-Bad') – where a sufficient number of defaults are available, the Group deploys a variety of statistical methods to determine the likelihood of default on existing exposures. These methods afford very high discriminatory power by identifying exposure characteristics that have a significant predictive ability. The majority of the Group's consumer and corporate exposures are rated under such an approach.

Shadow Rating Approach – if it is determined that the Group's internal data does not provide a sufficient default history (for example, so called 'low default portfolios'), then the Group develops models which are designed to reflect ratings made by established external credit assessment institutions, those agencies having access to large databases of defaults on a variety of credit obligations. These external ratings are customised to develop the Group's own customer rating systems.

Constrained Expert Judgement – for certain types of exposure there is little or no internal or external default history, and therefore no reliable external ratings. In such rare cases, the Group develops quantitative frameworks which include the expert opinions of the Group's credit risk management personnel. These frameworks are called 'knowledge based systems' and are regularly reviewed with respect to historical outcomes.

LGD model development

The Group develops LGD models by assessing unsecured recoveries and the forced sale value of collateral together with the economic costs in securing these recoveries, and the timing with which such cash flows occur. All such cash values are then measured at net present value using a suitable discount rate to derive a recovery rate. LGD is therefore the EAD less these estimated recoveries.

Unsecured recoveries are estimated based upon empirical evidence which has shown that factors such as customer segment, product and geography have predictive content.

All LGD models are conservatively calibrated to a 'downturn' – with lower assumed collateral values and lower recoveries on unsecured exposures.

EAD model development

An EAD model is developed for uncertain exposure products such as lines of credit, credit cards, overdrafts and other commitments. Based on the Group's experience (and supplemented by external data), EAD models assess changes to limits and the likely draw-down of committed and uncommitted limits as an exposure approaches default. The factor generated by the model and applied to the undrawn limit is referred to as the credit conversion factor (CCF).

The Group has used conservative assumptions in assessing EAD, in keeping with the expected experience in an economic downturn.

Model use

In addition to supporting credit decisions, AIRB models also support risk-based pricing methodologies and measures used to assess business performance such as Economic Capital, Economic Revenue and Economic Profit.

The use of models is governed by a suite of policies:

- Each model is governed by a separate policy and procedure which defines the applicability of that model and details the procedure for use;
- The model review policy governs the regular review of models and specifies statistical thresholds and other triggers which determine when models need to be redeveloped;
- The model override policy sets the conditions and approval authority required to override model output; and
- The parental support policy, for Wholesale Banking, determines the extent to which parental support may be utilised to adjust

the credit grade of corporates' and financial institutions' subsidiaries.

Wholesale Banking model results

Wholesale Banking models have been developed from a data-set which runs to over a decade, including default and recovery experience from the 1997 Asian financial crisis. This data has been used to calibrate estimates of PD to the Group's long run experience. Actual ('point in time') default rates will typically differ from this 'through the cycle' experience as economies move above or below cyclical norms.

AIRB PD estimates are computed as of 1 January 2010 and are compared with default observations through 31 December 2010. The historical loss experience for institutions, central governments or central banks is minimal, so the predicted PD for these exposure classes reflects a particularly low number of defaults. For central governments or central banks, there were no defaults during 2010. The actual default rate among corporates and institutions exposures in 2010 was maintained below AIRB model predictions as at beginning of 2010 reflecting the positive out-turn of corporate performance in the Group's footprint and continual government support for institutions.

The predicted LGD is based on the model outputs as of 1 January 2010 compared with long run actual realisations of LGD including downturn periods, since 1995. The calculation of actual versus predicted LGD is affected by the fact that it takes a number of years for the workout process to complete. The recovery process on defaults in 2010 is too immature to compute meaningful actual versus realised outcomes.

The predicted LGD estimate takes into account the impact of enhanced risk mitigation techniques (e.g. netting) and proactive Early Alert risk management actions. These have been more prevalent in recent years and are therefore not reflected in the long run average LGD to the same extent as predicted LGD, resulting in the higher actual LGD percentages seen in the table below for both institutions and corporates. The effect of increased netting is particularly material in the predicted LGD for institutions. Furthermore, due to the low number of defaults historically in institutions the long run average LGD is not considered to be statistically significant.

EAD takes into consideration potential drawdown of commitment as a counterparty defaults by estimating the credit conversion factor (CCF, also known as k-factor) of undrawn commitments. The comparison of actual versus predicted CCF is summarised in the ratio of the EAD of defaulted assets, 1 year before default, to the outstanding at the point of default. The ratio for both corporates and institutions are larger than one, indicating that the predicted EAD is higher than actual outstanding at default. This is due to the regulatory requirement to assign conservatism to the CCF of certain exposure types, as well as the impact of management action to reduce actual EAD prior to default.

	Predicted PD %	Actual PD %	Predicted LGD %	Actual LGD %	Predicted EAD/ actual EAD
AIRB Exposure Class					
Central governments or central banks	0.19	-	28.1	-	-
Institutions	0.24	0.14	22.6	31.4	1.6
Corporates	1.93	1.00	40.1	50.8	1.2

Consumer Banking model results

Consumer Banking models have been developed from datasets which capture eight years of performance data for the majority of portfolios. This history includes 'credit bubbles' in various markets such as Taiwan, Hong Kong and Korea, as well as stresses that arose during the avian flu outbreak. This experience is therefore reflected in the calibration of the AIRB models.

Predicted PD was computed as at 1 January 2010 and compared to the actual default observations during the year to 31 December 2010. The observed default rate for all asset classes is in line with, or lower than, the predicted PD with the exception of the Corporate SME asset class. The predicted default for this asset class has been reduced to factor in government guarantees which are in place to mitigate risk within the book. Across all asset classes the actual default rates have decreased compared to the 2009 report. This has been driven by the economic recovery which resulted in net positive recovery across the major markets in 2010.

The actual LGD shown below is calculated based on recoveries that were realised as of December 2010. This is compared to the predicted LGD of these assets at a given time period. Actual LGDs are lower than the predicted values for all asset classes, primarily due to the models using 'downturn' parameter settings to predict LGD. This is most evident in the mortgage portfolios, where the predicted LGDs include a significant assumed reduction in property values along with an in-built conservatism that stresses low property price indexes that were apparent in 2009.

	Predicted PD %	Actual PD %	Predicted LGD %	Actual LGD %	Predicted EAD/ actual EAD
AIRB Exposure Class					
Secured by real estate collateral	0.71	0.36	17.73	4.12	1.0
Qualifying revolving retail (QRRE)	2.01	1.66	80.82	65.50	1.0
Other retail	3.16	2.39	77.79	57.74	1.1
Retail SME	2.92	2.11	47.68	40.80	1.2
Corporate SME	1.69	1.75	36.77	29.94	1.2

Regulatory Expected Loss versus Individual Impairment charges

The table below shows regulatory expected loss as at 31 December 2009 and net individual impairment charges raised during the 2010 financial year for the AIRB exposure classes. Regulatory expected loss is based on a through-the-cycle methodology using risk parameters and observations over a period of time. It is a conservative and appropriately prudent calculation underpinning regulatory capital requirements, and:

- does not take account of any benefit from management actions to reduce exposures to riskier customers, clients or segments as conditions deteriorate;
- does not take account of any diversification benefit; and
- is calculated in accordance with rules which enforce a certain level of conservatism.

The net individual impairment charge is a point in time actual charge raised in accordance with accounting standards that require the Group to either provide for or write-off debts when certain conditions are met as described in section 4.8 Problem credit management and provisioning. The gap between the two measures has increased through 2010 as a disciplined approach to risk and improving economic conditions in the Group's key markets have resulted in a significantly reduced impairment charge.

	31.12.09	31.12.10	31.12.08	31.12.09
	Regulatory expected loss $million	Net individual impairment charge $million	Regulatory expected loss $million	Net individual impairment charge $million
AIRB Exposure Class				
Central governments or central banks	60	-	27	-
Institutions	406	1	200	114
Corporates	1,680	329	1,056	691
Retail, of which	773	340	788	537
Secured by real estate collateral	101	6	111	13
Qualifying revolving retail	380	163	379	252
Retail SME	31	38	50	77
Other retail	261	133	248	195
Securitisation positions	-	-	-	-
Non-credit obligation assets	-	-	-	-
Total AIRB	2,919	670	2,071	1,342

4.7. Risk grade profile

Exposures by internal credit grading

For IRB portfolios a standard alphanumeric credit risk-grading system is used in both Wholesale and Consumer Banking. The grading is based on the Group's 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 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.

The Group's credit grades in Wholesale Banking are not intended to replicate external credit grades, and ratings assigned by external ratings agencies (ECAIs) are not used in determining internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an ECAI is typically assigned a weak internal credit grade.

As a guide the table below presents the Group's credit grades in relation to that of Standard and Poor's credit ratings.

	Standard and Poor's Mapping	
Credit Grade	Corp/NBFIs	Banks
1A	AAA	AAA, AA+
1B	AA+	AA, AA–
2A	AA	A+
2B	AA–	A
3A	A+	A–
3B	A	BBB+
4A	A–	BBB+, BBB
4B	BBB+	BBB
5A	BBB	BBB–
5B	BBB–	BB+
6A	BB+	BB+, BB
6B		BB
7A	BB	BB,BB–
7B		BB–
8A	BB–	B+
8B		B+, B
9A	B+	B
9B		B, B–
10A	B	B–
10B		B–, CCC
11A - C	B–	CCC
12A - C	N/A	N/A

Credit grades for Consumer Banking accounts covered by AIRB models are based on a probability of default. These models are based on application and behavioural scorecards which make use of credit bureau information as well as the Group's own data. For Consumer Banking portfolios where AIRB models have not yet been developed, the probability of default is calculated using historical portfolio delinquency flow rates and expert judgement, where applicable.

AIRB models cover a substantial majority of the Group's loans and are used extensively in assessing risks at customer and portfolio level, setting strategy and optimising the Group's risk-return decisions.

The Group makes use of internal risk estimates of PD, LGD and EAD in the areas of:

- Credit Approval and Decision – The level of authority required for the sanctioning of credit requests and the decision made is based on a combination of PD, LGD and EAD of the obligor with reference to the nominal exposure;
- Pricing – In Wholesale Banking a pre-deal pricing calculator is used which takes into consideration PD, LGD and EAD in the calculation of expected loss and economic capital for the proposed transactions to ensure appropriate return. In Consumer Banking a scorecard approach is taken to assess the level of risk using PD, LGD and EAD;
- Limit Setting – In Wholesale Banking concentration limits for some portfolios, as counterparty limits are determined by PD, LGD and EAD. The limits operate on a sliding scale to ensure that the Group does not have over concentration of low credit quality assets. This process operates similarly in Consumer Banking;
- Provisioning – Portfolio Impairment Provisions (PIP) are raised at the portfolio level and are set with reference to expected loss which is based on PD, LGD and EAD amongst other quantitative and qualitative factors;
- Risk Appetite – PD, LGD and EAD models provide some of the key inputs into the risk-based methodologies used in the assessment of business and market variables which in turn are key components in the approach taken in setting Risk Appetite; and
- Economic Capital –PD, LGD and EAD are key components of the model used to calculate Economic Capital which is used in the strategic planning, budgeting, pricing and performance measurement processes at business unit, portfolio and client relationship level.

The following table sets out analysis of EAD within the AIRB portfolios by internal credit grading and Basel II exposure classes. EAD has been calculated after taking into account the impact of credit risk mitigation. Where exposure is guaranteed or covered by credit derivatives, exposure is shown against the asset class of the guarantor or derivative counterparty. 71 per cent (2009: 72 per cent) of exposures are classified as credit grades 1 to 5.

	31.12.10					
	Grades 1-5 $million	Grades 6-8 $million	Grades 9-11 $million	Grade 12 $million	Grades 13-14 $million	Total $million
Total exposure						
Central government and central banks	80,720	3,541	1,400	-	-	85,661
Institutions	89,459	11,277	1,067	250	665	102,718
Corporates	59,480	45,810	10,974	1,520	2,629	120,413
Retail, of which	12,924	9,294	6,957	615	479	30,269
Retail exposures secured by real estate collateral	1,543	841	330	14	49	2,777
Qualifying revolving retail	8,575	3,769	3,346	434	250	16,374
Retail SME	361	648	77	10	19	1,115
Other retail	2,445	4,036	3,204	157	161	10,003
Securitisation positions	12,012	920	4,604	-	110	17,646
Non-credit obligation assets	-	-	-	-	-	-
Total AIRB	254,595	70,842	25,002	2,385	3,883	356,707

	31.12.09					
	Grades 1-5 $million	Grades 6-8 $million	Grades 9-11 $million	Grade 12 $million	Grades 13-14 $million	Total $million
Total exposure						
Central government and central banks	68,475	3,077	2,053	-	-	73,605
Institutions	97,397	9,875	1,481	178	767	109,698
Corporates	47,320	35,417	11,362	1,454	1,900	97, 453
Retail, of which	11,479	8,148	4,736	463	471	25,297
Retail exposures secured by real estate collateral	1,396	758	178	10	41	2,383
Qualifying revolving retail	7,489	2,920	2,211	318	248	13,186
Retail SME	280	611	74	21	32	1,018
Other retail	2,314	3,859	2,273	114	150	8,710
Securitisation positions	7,871	919	8,060	-	65	16,915
Non-credit obligation assets	-	-	-	-	-	-
Total AIRB	232,542	57,436	27,692	2,095	3,203	322,968

The following table sets out analysis of undrawn commitments by internal credit grading and Basel II exposure classes.

	31.12.10					
	Grades 1-5 $million	Grades 6-8 $million	Grades 9-11 $million	Grade 12 $million	Grades 13-14 $million	Total $million
Undrawn commitments						
Central government and central banks	25	18	49	-	-	92
Institutions	3,620	2,276	57	8	-	5,961
Corporates	20,036	17,142	3,356	115	35	40,684
Retail, of which	3,835	2,361	1,057	13	3	7,269
Retail exposures secured by real estate collateral	2,408	770	849	4	1	4,032
Qualifying revolving retail	-	-	-	-	-	-
Retail SME	8	146	-	-	-	154
Other retail	1,419	1,445	208	9	2	3,083
Securitisation positions	-	-	-	-	-	-
Non-credit obligation assets	-	-	-	-	-	-
Total AIRB	27,516	21,797	4,519	136	38	54,006

	31.12.09					
	Grades 1-5 $million	Grades 6-8 $million	Grades 9-11 $million	Grade 12 $million	Grades 13-14 $million	Total $million
Undrawn commitments						
Central government and central banks	858	14	-	-	-	872
Institutions	4,009	1,196	85	-	-	5,290
Corporates	22,790	14,336	3,553	30	199	40,908
Retail, of which	3,445	2,160	617	13	10	6,245
Retail exposures secured by real estate collateral	2,465	982	461	2	4	3,914
Qualifying revolving retail	-	-	-	-	-	-
Retail SME	9	142	-	-	-	151
Other retail	971	1,036	156	11	6	2,180
Securitisation positions	-	-	-	-	-	-
Non-credit obligation assets	-	-	-	-	-	-
Total AIRB	31,102	17,706	4,255	43	209	53,315

The following tables set out exposure weighted average LGD and exposure weighted average risk weight of the credit risk trading and non-trading books. These weighted averages have been calculated using EAD before taking into account the impact of credit risk mitigation. The average exposure weighted LGD across the AIRB portfolio is 36.0 per cent (2009: 35.1 per cent).

	31.12.10					
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	Total %
Exposure weighted average LGD						
Central government and central banks	27.1	40.5	41.2	-	-	27.8
Institutions	26.7	30.0	33.3	41.2	34.2	27.2
Corporates	45.2	39.6	28.7	53.6	56.6	41.1
Retail, of which	27.5	42.0	57.8	68.1	52.0	34.9
Retail exposures secured by real estate collateral	14.7	17.8	18.5	19.6	21.9	15.6
Qualifying revolving retail	84.7	81.9	80.2	80.8	76.0	82.9
Retail SME	21.8	38.6	75.6	57.9	60.9	36.3
Other retail	68.8	77.8	80.6	83.5	82.1	76.7
Securitisation positions	98.1	93.1	83.4	-	-	93.5
Non-credit obligation assets	-	-	-	-	-	-
Total AIRB	33.6	39.2	44.5	56.2	51.5	36.0

	31.12.09					
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	Total %
Exposure weighted average LGD						
Central government and central banks	27.2	38.5	41.5	-	-	28.1
Institutions	28.3	36.3	36.9	39.9	39.3	29.3
Corporates	44.8	40.6	27.7	51.5	56.3	40.5
Retail, of which	28.6	42.8	60.0	68.7	52.5	35.3
Retail exposures secured by real estate collateral	15.9	19.1	17.3	19.2	21.1	16.7
Qualifying revolving retail	83.8	81.7	81.1	81.6	77.5	82.7
Retail SME	21.2	49.3	75.6	73.5	77.8	44.8
Other retail	68.4	77.2	80.8	85.6	81.9	76.0
Securitisation positions	100.0	93.1	100.0	-	-	91.0
Non-credit obligation assets	-	-	-	-	-	-
Total AIRB	31.4	41.2	44.3	54.5	51.8	35.1

	31.12.10					
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	Total %
Exposure weighted average risk weight						
Central government and central banks	6.4	71.9	115.6	-	-	10.8
Institutions	11.8	50.7	101.5	221.3	120.8	18.9
Corporates	34.5	74.6	89.0	280.7	360.8	66.6
Retail, of which	6.3	37.4	98.3	205.2	132.6	26.8
Retail exposures secured by real estate collateral	4.6	23.0	60.7	117.8	116.3	12.5
Qualifying revolving retail	7.3	32.7	112.7	236.6	152.5	43.0
Retail SME	8.1	45.5	115.4	149.6	204.5	41.9
Other retail	34.2	83.5	127.2	212.3	130.4	88.2
Securitisation positions	9.6	15.3	20.8	-	-	14.5
Non-credit obligation assets	-	-	-	-	-	-
Total AIRB	14.1	62.7	88.2	255.9	272.3	34.3

	31.12.09					
	Grades 1-5 %	Grades 6-8 %	Grades 9-11 %	Grade 12 %	Grades 13-14 %	Total %
Exposure weighted average risk weight						
Central government and central banks	6.0	74.2	110.9	-	-	11.9
Institutions	11.1	58.3	116.2	218.4	147.0	18.5
Corporates	34.1	75.4	85.9	295.6	320.6	66.9
Retail, of which	6.4	40.8	101.1	205.7	134.9	25.8
Retail exposures secured by real estate collateral	4.8	25.3	59.6	114.2	116.9	12.2
Qualifying revolving retail	7.0	35.6	116.6	239.0	149.7	40.0
Retail SME	7.9	56.6	123.0	185.7	181.6	54.6
Other retail	30.5	84.6	126.2	215.4	144.0	83.8
Securitisation positions	8.5	28.9	12.8	-	-	13.7
Non-credit obligation assets	-	-	-	-	-	-
Total AIRB	13.6	64.8	81.7	270.8	242.8	34.6

4.8. 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 sized enterprises among SME customers and private banking customers) consist of a large number of comparatively small exposures. Mortgages are assessed for individual impairment on an account-by-account basis, but for other products it is impractical to monitor each delinquent loan individually and individual impairment is therefore assessed collectively.

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

The provisions are based on the estimated present values of future cash-flows, in particular those resulting from the realisation of security. Following such realisation any remaining loan will be written off. The days past due used to trigger write-offs and IIPs are broadly driven by past experience, which shows that once an account reaches the relevant number of days past due, the probability of recovery (other than by realising security where appropriate) is low. For all products there are certain situations where the individual impairment provisioning or write-off process is accelerated, such as in cases involving bankruptcy, fraud and death. Write-offs and IIPs are accelerated for all restructured accounts to 90 days past due (unsecured and automobile finance) and 120 days past due (secured) respectively.

Individually impaired loans for Consumer Banking will therefore not equate to those reported as non-performing on page 61 of the Group's Annual Report and Accounts, 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 sized enterprises in the SME segment of Consumer Banking are similar to those adopted in Wholesale Banking (described below).

The following table shows impaired loans and advances, and the movement in impairment provisions by each principal category of borrower for Consumer Banking. This section follows International Financial Reporting Standards (IFRS) definitions used in the Annual Report and Accounts.

	Impaired loans and advances as at 31.12.10 $million	Individual impairment provision held as at 01.01.10 $million	Net individual impairment charge 2010 $million	Amounts written off/other movements 2010 $million	Individual impairment provision held as at 31.12.10 $million
Loans to individuals					
Mortgages	322	107	47	(26)	128
Other	245	201	487	(508)	180
Small and medium enterprises	360	230	129	(161)	198
Consumer Banking	927	538	663	(695)	506

	Impaired loans and advances as at 31.12.09 $million	Individual impairment provision held as at 01.01.09 $million	Net individual impairment charge 2009 $million	Amounts written off/other movements 2009 $million	Individual impairment provision held as at 31.12.09 $million
Loans to individuals					
Mortgages	334	88	51	(32)	107
Other	198	192	744	(735)	201
Small and medium enterprises	498	263	203	(236)	230
Consumer Banking	1,030	543	998	(1,003)	538

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 a specialist recovery unit, GSAM, which is separate from the Group's 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.

The following table shows impaired loans and advances, and the movement in impairment provisions during the reporting period by each principal category of borrowers' business or industry for Wholesale Banking.

	Impaired loans and advances 31 December 2010 $million	Individual impairment provision 1 January 2010 $million	Net individual impairment charge/(release) $million	Amounts written off/other movements $million	Individual impairment provision 31 December 2010 $million
Agriculture, forestry and fishing	79	59	4	(21)	42
Banks	249	132	1	(40)	93
Construction	113	36	21	-	57
Commerce	653	425	95	(53)	467
Electricity, gas and water	11	7	-	-	7
Financing, insurance and business services	863	130	45	(55)	120
Mining and quarrying	10	6	-	(5)	1
Manufacturing	1,217	590	157	(189)	558
Commercial real estate	165	13	15	(6)	22
Transport, storage and communication	64	24	8	(9)	23
Other	34	25	4	(8)	21
Wholesale Banking	3,458	1,447	350	(386)	1,411

	Impaired loans and advances 31 December 2009 $million	Individual impairment provision 1 January 2009 $million	Net individual impairment charge/(release) $million	Amounts written off/other movements $million	Individual impairment provision 31 December 2009 $million
Agriculture, forestry and fishing	105	39	5	15	59
Banks	286	17	114	1	132
Construction	94	18	-	18	36
Commerce	686	134	238	53	425
Electricity, gas and water	11	28	-	(21)	7
Financing, insurance and business services	464	31	254	(155)	130
Mining and quarrying	-	-	-	6	6
Manufacturing	974	458	181	(49)	590
Commercial real estate	58	21	2	(10)	13
Transport, storage and communication	55	24	1	(1)	24
Other	27	11	11	3	25
Wholesale Banking	2,760	781	806	(140)	1,447

Impaired loans and advances by geography

The following table shows a geographical breakdown of the impaired loans and advances net of individual impairment provisions for the Group along with loans and advances that are past due but not individually impaired. Past due but not individually impaired loans total $3,959 million (2009: $3,929 million), of which 71 per cent (2009: 74 per cent) are 30 days or less past due.

	31.12.10								
	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 Impaired Loans	152	52	413	1,100	331	1,995	132	210	4,385
Individual impairment provision	(102)	(25)	(193)	(507)	(112)	(782)	(60)	(136)	(1,917)
Net Impaired Loans	50	27	220	593	219	1,213	72	74	2,468
Total past due but not individually impaired	254	292	707	1,191	323	941	208	43	3,959
Total past due & impaired loans net of individual impairment provisions	304	319	927	1,784	542	2,154	280	117	6,427

	31.12.09								
	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 Impaired Loans	276	49	492	1,200	246	1,060	184	283	3,790
Individual impairment provision	(181)	(27)	(267)	(620)	(91)	(560)	(63)	(176)	(1,985)
Net Impaired Loans	95	22	225	580	155	500	121	107	1,805
Total past due but not individually impaired	314	324	684	1,110	310	857	294	36	3,929
Total past due &impaired loans net of individual impairment provisions	409	346	909	1,690	465	1,357	415	143	5,734

Movement in Group Impairment provisions

The following table sets out the movements in the Group's total individual and portfolio impairment provisions against loans and advances.

	2010 $million	2009 $million
At 1 January	2,861	1,981
Exchange translation differences	52	70
Acquisitions	-	-
Amounts written off	(1,252)	(1,332)
Recoveries of acquisition fair values	(27)	(39)
Recoveries of amounts previously written off	236	191
Discount unwind	(62)	(58)
Other	(1)	53
New provisions	1,528	2,613
Recoveries/provisions no longer required	(656)	(618)
Net charge against profit	872	1,995
Provisions held at 31 December	2,679	2,861
Of which:		
Individual Impairment Provision	1,917	1,985
Portfolio Impairment Provision	762	876

Loans and advances past due

The following table sets out the industry analysis of loans and advances which are past due including those assets on which an individual impairment provision has been raised. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due does not necessarily mean that the counterparty is impaired. Past due but not individually impaired loans total $3,959 million (2009: $3,929 million), of which 71 per cent (2009: 74 per cent) are 30 days or less past due.

	31.12.10 $million	31.12.09 $million
Loans to individuals		
Mortgages	2,107	1,976
Other	1,405	1,463
Small and medium enterprises	818	982
Consumer Banking	4,330	4,421
Agriculture, forestry and fishing	93	111
Banks	255	286
Construction	116	133
Commerce	731	803
Electricity, gas and water	61	97
Financing, insurance and business services	996	482
Mining and quarrying	24	1
Manufacturing	1,424	1,206
Commercial real estate	119	77
Transport, storage and communication	107	59
Other	88	43
Wholesale Banking	4,014	3,298
Total	8,344	7,719

4.9. Counterparty credit risk in the trading book

Counterparty credit risk (CCR) is the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity or credit derivative contract defaults prior to maturity date of the contract and that the Group at the time has a claim on the counterparty. CCR arises predominantly in the trading book, but also arises in the non-trading book due to hedging of external funding.

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

The Group will seek to negotiate Credit Support Annexes (CSA) with counterparties on a case by case basis, where collateral is deemed a necessary or desirable mitigant to the exposure. The credit terms of the CSA are specific to each legal document and determined by the credit risk approval unit responsible for the counterparty. The nature of the collateral will be specified in the legal document and will typically be cash or highly liquid securities.

The Group further reduces its credit exposures to counterparties by entering into contractual netting agreements which result in a single amount owed by or to the counterparty through netting the sum of the positive (amounts owed by the counterparty) and negative (amounts owed by the Group) mark-to-market (MTM) values of these transactions. Following International Accounting Standard (IAS) 32 requirements, exposures are however presented on a gross basis in the financial statements as such transactions are not intended to be settled net in the ordinary course of business.

A daily operational process takes place to calculate the MTM on all trades captured under the CSA. Additional collateral will be called from the counterparty if total uncollateralised MTM exposure exceeds the threshold and minimum transfer amount specified in the CSA. Additional collateral may be required from the counterparty to provide an extra buffer to the daily variation margin process.

Credit reserves

Using risk factors such as PD and LGD a Regulatory Expected Loss is calculated for each counterparty across the CCR portfolio, and based on this calculation credit reserves are set aside for traded products. The reserve is a dynamic calculation based on the EAD risk profile for each counterparty, alongside PD and LGD factors.

In line with market convention, the Group negotiates CSA terms for certain counterparties where the thresholds related to each party are dependent on their Export Credit Assessment Institutions (ECAI) long term rating. Such clauses are typically mutual in nature. It is therefore recognised that a downgrade in the Group's rating could result in counterparties seeking additional collateral calls to cover negative MTM portfolios where thresholds are lowered.

Wrong way risk

Wrong way risk occurs when an EAD increase is coupled with a decrease in the credit quality of the obligor. For example, as the MTM on a derivative contract increases in favour of the Group, the counterparty may increasingly be unable to meet its payment, margin call or collateral posting requirements. The Group employs various policies and procedures to ensure that wrong way risk exposures are recognised upfront and closely monitored.

Exposure value calculation

Exposure values for regulatory capital purposes on over the counter traded products are calculated according to the CCR mark to market method. This is calculated as the sum of the current replacement cost and the potential future credit exposure. The current replacement cost is the USD equivalent amount owed by the counterparty to the Group for various financial derivative transactions. The potential future credit exposure is an add-on based on a percentage of the notional principal of each transaction. Such percentages are prescribed by the FSA in the BIPRU guidelines and vary according to the underlying asset class and tenor of each trade. The benefit from master netting agreements is applied to the portfolio of counterparty trades in the CCR calculation according to the Net to Gross Ratio rules provided in the FSA Handbook BIPRU 13 guidelines.

The following tables cover the credit exposure on derivative transactions after taking into account the benefits from legally enforceable netting agreements and collateral arrangements.

	31.12.10				
	Gross positive fair value of contracts $million	Netting benefits $million	Netted current credit exposure $million	Collateral held $million	Net derivatives credit exposure $million
Derivative contracts	73,501	38,890	34,611	2,251	32,360
Repo style transactions	15,322	-	15,322	11,485	3,837
Credit derivatives[1]	4,786	2,939	1,847	95	1,752
Total	93,609	41,829	51,780	13,831	37,949

[1] Of the $1,847 million netted current credit exposure, $1,439 million of protection has been purchased, and $408 million of protection has been sold.

	31.12.09				
	Gross positive fair value of contracts $million	Netting benefits $million	Netted current credit exposure $million	Collateral held $million	Net derivatives credit exposure $million
Derivative contracts	61,859	33,706	28,153	1,846	26,307
Repo style transactions	2,737	-	2,737	2,056	681
Credit derivatives[2]	2,336	296	2,040	26	2,014
Total	66,932	34,002	32,930	3,928	29,002

[2] Of the $2,040 million netted current credit exposure, $1,633 million of protection has been purchased and $407 million of protection has been sold.

The following tables cover the notional value, the credit exposure on derivative transactions after taking into account the benefits from legally enforceable netting agreements and collateral arrangements and the capital requirement by derivative type.

	31.12.10		
	Notional value $million	Netted current credit exposures $million	Regulatory capital requirement $million
Derivative contracts:			
Interest rate contracts	2,600,071	7,394	289
Foreign exchange contracts	1,553,761	23,877	561
Equity and stock index options	8,842	283	11
Commodity contracts	36,524	3,057	180
Credit derivatives:			
Credit default swaps	65,711	1,815	25
Total return swaps	275	32	1
Total derivatives	4,265,184	36,458	1,067
Repo style transactions:			
Repo		2,662	10
Reverse repo		12,660	29
Total		51,780	1,106

	31.12.09		
	Notional value $million	Netted current credit exposures $million	Regulatory capital requirement $million
Derivative contracts:			
Interest rate contracts	1,696,826	6,215	241
Foreign exchange contracts	1,150,891	19,185	628
Equity and stock index options	3,208	697	9
Commodity contracts	19,066	2,056	107
Credit derivatives:			
Credit default swaps	34,928	2,017	32
Total return swaps	205	23	-
Total derivatives	2,905,124	30,193	1,017
Repo style transactions:			
Repo		1,259	4
Reverse repo		1,478	2
Total		32,930	1,023

4.10. Securitisation

Securitisation is defined as a structure where the cash flow from a pool of assets is used to service obligations to at least two different tranches or classes of creditors.

Securitisations may be categorised as either:

- Traditional securitisation: assets are sold to a Special Purpose Entity (SPE), which finances the purchase by issuing notes in different tranches with different risk and return profiles. Cash flow arising from those assets is used by the SPE to service its debt obligations, or;
- Synthetic transaction: a securitisation whereby only the credit risk, or part of the credit risk of a pool of assets is transferred to a third party via credit derivatives. The pool of assets remains on the Group's balance sheet.

Securitisation activities undertaken by the Group are for a variety of purposes, by various businesses acting in a different capacity;

- Risk Mitigation, Funding and Capital Management (as Originator)
- Fee Generation (as Arranger/ Lead Manager)
- Risk Taking (as Investor)

The Group has $18.6 billion (2009: $17.4 billion) of EAD classified as securitisation positions, as detailed in Section 4.4 Exposure Values. These transactions meet the criteria to qualify as securitisation positions under the FSA's securitisation framework and the particulars of these transactions are discussed below. In addition to these positions, the Group has originated Residential Mortgage Backed Securities (RMBS) with a face value of $3.1 billion (2009: $3.6 billion), which do not qualify as securitisation positions under the FSA framework and are not detailed within this section.

Asset Backed Securities

Wholesale Banking through the Capital Markets unit has purchased as investments or arranged for clients and held Asset Backed Securities (ABS) of $2.7 billion (2009: $3.4 billion), the carrying value of which represents 0.5 per cent of the Group's total assets.

The credit quality of the ABS exposures remains strong. With the exception of those securities which have been 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+.

31 per cent of the overall portfolio is invested in Residential Mortgage Backed Securities (RMBS), with a weighted average credit rating of AA (AA in 2009). 38 per cent of the RMBS exposures were originated in 2005 or earlier.

27 per cent of the overall portfolio is in Commercial Mortgage Backed Securities (CMBS), of which $131 million is in respect of US CMBS with a weighted average credit grade of AA- (AAA in 2009). The weighted average credit rating of the remaining CMBS exposure is BBB+.

14 per cent of the overall portfolio is in Collateralised Debt Obligations (CDOs). This includes $65 million of exposures to CDOs of ABS (Mezzanine and High Grade), of which $50 million have been impaired. The remainder of the other CDOs amounting to $310 million has a weighted average credit rating of A+.

28 per cent of the overall portfolio is in Other ABS, which includes securities backed by credit card receivables, loans to corporates or corporate SMEs, student loans, auto loans, and diversified payment types, with a weighted credit rating of AA-.

The notional and carrying value of the asset backed securities purchased or retained by the Group are shown in the table below analysed by underlying asset type, alongside any recognised net gain or loss on sale in the period. ABS are accounted for as financial assets. For further details regarding recognition and impairment refer to Note 1 of the Group's Annual Report and Accounts. The ABS portfolio is assessed frequently for objective evidence of impairment. In 2010, $26 million of mezzanine CMBS, US RMBS and Trust Preferred CDO's were impaired.

Valuation of retained interest is initially and subsequently determined using market price quotations where available or internal pricing models that utilise variables such as yield curves, prepayment speeds, default rates, loss severity, interest rate volatilities and spreads. The assumptions used for valuation are based on observable transactions in similar securities and are verified by external pricing sources, where available.

The ABS portfolio is closely managed by a centralised dedicated team. This team has all the capabilities (Legal, Risk, GSAM, Credit Analysis, Asset Surveillance, Trading and Distribution) and authority to manage this portfolio effectively. The team has developed a detailed analysis and reporting framework of the underlying portfolio to allow senior management to make an informed holding decision with regards to specific assets, asset classes or parts of an asset class.

	31.12.10			
		Notional amount		
	Carrying value of asset backed securities $million	Traditional securitisation programmes $million	Synthetic securitisation programmes $million	Recognised net gain/(loss) on sale $million
Residential mortgages (RMBS)	772	844	-	-
Commercial mortgages (CMBS)	569	685	32	-
CDOs of ABS – RMBS	10	65	-	-
CDOs Other: Leveraged loans/Trust preferred/Real Estate	268	299	11	-
Other ABS:			-	-
Credit card receivables	20	21	-	-
Loans to corporates or Corporate SMEs	94	38	58	-
Student loans	172	189	-	-
Auto loans	183	185	-	-
Diversified payment types	83	90	-	-
Other assets	138	156	-	-
Total	2,309	2,572	101	-

	31.12.09			
		Notional amount		
	Carrying value of asset backed securities $million	Traditional securitisation programmes $million	Synthetic securitisation programmes $million	Recognised net gain/(loss) on sale $million
Residential mortgages (RMBS)	809	894	-	-
Commercial mortgages (CMBS)	602	769	34	-
CDOs of ABS – RMBS	13	77	-	(2)
CDOs Other: Leveraged loans/Trust preferred/Real Estate	285	342	11	-
Other ABS:				
Credit card receivables	114	116	-	-
Loans to corporates or Corporate SMEs	252	52	219	-
Student loans	212	230	-	-
Auto loans	391	400	-	-
Diversified payment types	107	120	-	-
Other assets	151	178	-	-
Total	2,936	3,178	264	(2)

Wholesale Banking Portfolio Management
Wholesale Banking via its Portfolio Management unit buys synthetic protection for its banking book credit portfolio. Securitisation provides capacity for client-focused growth and improves efficiency of economic and regulatory capital. The Group as the originator performs multiple roles, including protection buyer, calculation agent and credit event monitor agent. The protection buyer executes and maintains securitisation transactions. The calculation agent computes periodic coupon payments and loss payouts. The credit event monitor agent validates and provides notifications of credit events.

The Asset & Liability Management unit (ALM), performs a different role, and acts as deposit taker for funds collected from the credit protection provider for certain funded securitisation transactions. Deposits collected enhance the liquidity position of the Group and eliminates counterparty risk for deals where the Group is the protection buyer.

Wholesale Banking has eight securitisation transactions listed in the following table, with an aggregate hedge capacity of $16.9 billion (2009: $15.3 billion). Of the eight transactions, five are private deals with bilateral investors and three are public deals distributed to a broad spectrum of investors. The Group originated four synthetic securitizations in 2010 with an aggregate hedge capacity of up to $9 billion.

As of 31 December 2010 $110 million (2009: $65 million) of securitised exposures were classified as impaired and past due.

All eight transactions are structured as synthetic protection to facilitate the hedging of commercial loans and trade finance facilities extended to clients by the Group's branches and subsidiaries. All transactions are also structured as non-disclosed pools for reason of client confidentiality.

The table below provides detail of securitisation programmes that have been originated by the Group.

							31.12.10	
	Underlying facilities hedged	ECAI	Public/ Private	Start date	Scheduled maturity	Max notional $million	Outstanding exposures[1] $million	Retained exposures[2] $million
SEALANE[3]	Trade Finance	Moody's & S&P	Public	Nov 2007	May 2011	2,996	2,104	1,808
Mana	Trade Finance	Not Rated	Private	Sep 2010	Dec 2011	3,500	3,253	3,290
START V	Commercial Loan	Moody's & S&P	Public	July 2008	Jan 2012	1,000	938	928
SHANGREN	Trade Finance	Moody's	Private	Aug 2008	Feb 2012	2,495	2,250	2,230
ASIAMEA	Commercial Loan	S&P	Private	Dec 2007	Dec 2012	1,500	1,405	1,399
SUPRA TF	Trade Finance	Not Rated	Private	Apr 2010	Oct 2013	850	825	799
START VI	Commercial Loan	Not Rated	Public	Nov 2010	Apr 2014	1,250	1,209	1,163
Sumeru	Commercial Loan	Not Rated	Private	Jun 2010	Sep 2014	3,353	3,222	3,093
Total						16,944	15,206	14,710

							31.12.09	
	Underlying facilities hedged	ECAI	Public/ private	Start date	Scheduled maturity	Max notional $million	Outstanding exposures[1] $million	Retained exposures[2] $million
START III	Commercial Loan	Moody's & S&P & Fitch	Public	Dec 2006	June 2010	1,230	629	949
START IV	Commercial Loan	Moody's & S&P	Public	June 2007	Dec 2010	1,500	1,307	1,219
TF5	Trade Finance	Not Rated	Private	May 2008	Dec 2010	2,999	2,673	2,851
SEALANE	Trade Finance	Moody's & S&P	Public	Nov 2007	May 2011	2,993	2,757	2,701
START II	Commercial Loan	Moody's & S&P & Fitch	Public	June 2006	June 2011	1,600	1,273	1,370
START V	Commercial Loan	Moody's & S&P	Public	July 2008	Jan 2012	1,000	943	928
SHANGREN	Trade Finance	Moody's	Private	Aug 2008	Feb 2012	2,495	2,271	2,230
ASIAMEA	Commercial Loan	S&P	Private	Dec 2007	Dec 2012	1,500	1,441	1,399
Total						15,317	13,294	13,647

(1) Underlying exposures that have been securitised in the programmes.

(2) Exposures that have not been sold to investors but have been retained by the Group.

(3) Sealane is in its amortisation phase.

As at 31 December 2010, Start III, IV and TF5 have passed their scheduled maturity date. The Group no longer applies the securitisation framework set out in BIPRU 9 when determining regulatory capital requirements of Start II.

The Group has engaged in structures such as the ones outlined in the table above in order to transfer credit risk of a pool of assets to a third party via credit derivatives. These structures are synthetic transactions which the Group deems to be a type of securitisation transaction

Typically, these synthetic securitisation transactions are facilitated through entities which are considered to be Special Purpose Entities (SPEs) for accounting purposes.

In these transactions, the underlying assets are not sold into the relevant SPE. The performance of the underlying assets is transferred into the SPE as the SPE issues various tranches of notes or credit linked notes to third party investors which offer exposure to these underlying assets held by the Group. The investors claim is to the proceeds of the sale of the notes, the yield on the proceeds and the fee received from the Group for the credit protection sold by the SPE via a waterfall structure.

These securitisation transactions are outlined in the table above. For all transactions except Mana, notes were issued by SPEs. For the Mana transaction, notes were issued directly by Standard Chartered Bank.

Accounting policy

The SPEs associated with the programmes above are not consolidated into the Group. SPEs are only consolidated when the Group has control of the SPE. Control is assessed based on the Group's exposure to the majority of the risks of the SPE and the right to obtain the majority of the benefits of the SPE. The assessment of risks and benefits is based on the assessed risk exposures at inception and these risks and benefits are re-considered if and when circumstances change. These circumstances may include situations when the Group acquires additional interests in the SPE, or the Group acquires control of the financial and operating policies of the SPE.

In the synthetic securitisation tranches such as those listed above, the underlying assets are not transferred into the associated SPE. This means that the assets are not de-recognised from the balance sheet of the Group, because the Group is still exposed to significantly all of the risks and rewards relating to these assets. The assets are only transferred to the relevant SPE when substantially all the risks and rewards relating to the assets have been transferred (thereby achieving full de-recognition from the Group balance sheet), or when a significant portion of the risks and rewards have been transferred (where the assets are only recognised to the extent of the Group's continuing involvement).

Retained notes are initially valued at cost and subsequently determined using market price quotations where available, or in their absence, dealer quotes. The assumptions used for valuation are based on observable transactions in similar securities and are verified by external pricing sources, where available.

Governance of securitisation activities

Securitisation transactions proposed for funding and capital management must first obtain support from the respective Balance Sheet Committee (BSC), that manages the capital requirements of the business, before going to Group Capital Management Committee (GCMC) for final approval and Liquidity Management Committee (LMC) for noting.

Execution of each securitisation transaction must either be under an individual Transaction Programme Authorisation or Product Program Framework; such that all relevant support, control and risk functions are involved in the transaction. Specifically, Compliance covers issues like confidentiality of clients' information and insider information, Finance advises on the accounting treatment, Credit Risk advises on the regulatory treatment, Group Tax provides an opinion on taxation and Group Regulatory Reporting facilitates communication with the regulator.

Basel II for securitisation positions

The calculation of risk-weighted exposure amounts for securitisation positions is based on the following two calculation methods advised by the FSA:

- IRB method for third party senior securitisation positions bought and securitization positions originated and retained by SCB (including haircuts due to currency and collateral mismatch); and
- Standardised Approach for the residual risk-weighted exposure amounts for all other securitisation positions originated by the Group and sold.

All existing securitisation transactions originated by Wholesale Banking, in the table above, meet the credit risk transfer requirement to be accounted for as securitisation under the Basel II regulatory capital regime.

The table below presents a summary of the securitisation positions retained and the notional value of ABS purchased or arranged by the Group, analysed by risk weight band. The majority of the exposures are rated AAA.

	31.12.10		
Risk weight bands	Securitisation programmes(1) $million	ABS(2) $million	Total $million
0% – 20%	14,464	1,849	16,313
20% – 40%	-	295	295
40% – 60%	-	117	117
60% – 80%	20	86	106
80% – 100%	-	64	64
100% and above	55	78	133
1250% or Deducted	171	184	355
Total	14,710	2,673	17,383

	31.12.09		
Risk weight bands	Securitisation programmes(1) $million	ABS(2) $million	Total $million
0% – 20%	13,334	2,510	15,844
20% – 40%	-	383	383
40% – 60%	-	111	111
60% – 80%	75	74	149
80% – 100%	1	69	70
100% and above	75	104	179
1250% or Deducted	162	191	353
Total	13,647	3,442	17,089

(1) Retained exposures that are included in the securitisation programmes originated by the Group and have not been sold to investors.

(2) ABS exposures purchased from a third party by the Group.

5. Market risk

Standard Chartered recognises market risk as the risk of loss resulting from changes in market prices and rates. The Group is exposed to market risk arising principally from customer-driven transactions. The objective of the Group's market risk policies and processes is to obtain the best balance of risk and return while 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; and
- 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 the Group's market risk appetite taking account of market volatility, the range of products and asset classes, business volumes and transaction sizes. Market risk exposures have remained broadly stable in 2010.

The Group Market Risk Committee (GMRC) is responsible, under authority delegated by the GRC, for setting VaR limits at a business level and recommends Group level VaR and stress loss limits for market risk. 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 options' value.

Value at Risk

The Group measures 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 which applies recent historic 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.

The Group applies two VaR methodologies:

- Historic simulation: involves the revaluation of all unmatured contracts 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 historic 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 the Group's 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 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.

Back testing is conducted daily against clean profit and loss, which is the actual profit and loss for a given business day adjusted to remove the effect of certain items unrelated to market risk. Back testing is also conducted against clean hypothetical profit and loss which is the clean profit and loss that would have occurred for a given business day if the portfolio on which the VaR number for that business day is based remained unchanged.

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.

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 stress testing results as part of its supervision of risk appetite. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in liquidity that often occurs.

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 non-trading 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 with one-year 2009. This stemmed mainly from the non-trading book VaR, and reflected decreasing volatility of credit spreads that followed the 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. 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. This resulted in a $3.6 million 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 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.

Market risk regulatory capital

At Group and Solo Consolidated levels, the FSA specifies minimum capital requirements against market risk in the trading book. Interest rate risk in the non-trading book is covered separately under the Pillar 2 framework. The FSA has granted the Group CAD2 internal model approval covering the majority of interest rate and foreign exchange risk in the trading book. In 2008 the scope was extended to include precious and base metals market risk and in November 2010 the scope was extended further to cover energy and agriculture risks. Positions outside the CAD2 scope are assessed according to standard FSA rules.

At 31 December 2010 the Group's market risk regulatory capital requirement was $1,262 million (31 December 2009: $1,593 million). The reduction was due to the transfer of energy and agriculture risks from standard rules to CAD2 internal model.

Valuation framework

Products may only be traded subject to a formally approved Product Programme which identifies the risks, controls and regulatory treatment. The control framework is assessed by the relevant Group functions as well as Group Internal Audit on an ongoing basis.

Valuation of financial assets and liabilities held at fair value are subject to an independent review by Valuation Control within the Finance function. 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 by Valuation Control against external market data and consensus services. Valuation Control also ensures adherence to the valuation adjustment policies to incorporate counterparty risk, bid/ask spreads, market liquidity, model risk and other reserves, where appropriate, to mark all positions on a prudent basis. The GMRC, and Valuation Committee which is a sub-committee of GMRC, provides oversight and governance of all valuation adjustment and price testing policies and reviews the results of the valuation control process on a monthly basis.

The minimum regulatory market risk capital requirements for the trading book are presented below for the Group.

	31.12.10		31.12.09	
Market Risk Capital Requirements for Trading Book	Regulatory capital requirement $million	Risk Weighted Assets $million	Regulatory capital requirement $million	Risk Weighted Assets $million
Interest rate[1]	540	6,748	516	6,448
Equity	19	233	32	400
Options	219	2,739	416	5,200
Collective investment schemes	-	-	-	-
Commodity[2]	14	175	252	3,151
Foreign exchange[1],[2]	164	2,052	137	1,713
Internal Models Approach	306	3,825	240	3,000
Total	1,262	15,772	1,593	19,912

[1] Interest rate and foreign currency capital requirements for positions which are not within the scope of permission to use a VaR model granted by the FSA.

[2] Commodity and foreign currency covers all business activities across trading and non-trading books.

The minimum regulatory market risk capital requirement for the trading book is presented below for the Group's significant subsidiaries in accordance with local regulatory requirements applicable in the countries in which they are incorporated.

Market Risk Capital Requirements for Trading Book	31.12.10 Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered First Bank Korea Ltd $million	31.12.09 Standard Chartered Bank $million	Standard Chartered Bank (HK) Ltd $million	Standard Chartered First Bank Korea Ltd $million
Interest rate[1]	474	85	-	428	53	-
Equity	19	-	-	31	-	-
Options	219	-	-	413	-	-
Collective investment schemes	-	-	-	-	-	-
Commodity[2]	14	-	-	252	-	-
Foreign exchange[1],[2]	186	33	-	135	5	-
Internal Models Approach	295	9	40	237	8	60
Total	1,207	127	40	1,496	66	60
Market Risk – RWA	15,088	1,586	505	18,759	845	750

(1) Interest rate and foreign currency capital requirements for positions which are not within the scope of permission to use a VaR model granted by the FSA.

(2) Commodity and foreign currency covers all business activities across trading and non-trading books.

The tables below show the average, high and low trading and non-trading VAR over the year 2010, and the actual position on 31 December 2010. The highest and lowest VaR are independent and could have occurred on different days.

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

	2010				2009			
Trading and Non-trading	Average $million	High[3] $million	Low[3] $million	Actual [4] $million	Average $million	High[3] $million	Low[3] $million	Actual [4] $million
Interest rate risk[1]	20.1	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.

Interest rate risk in the non-trading book

Interest rate risk from the non-trading book portfolios is 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). The 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 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 and are match funded, so market price movements have no effect on either the profit and loss account or reserves.

Basis risk, or the risk arising from hedging exposure to one interest rate with exposure to a rate which re-prices under slightly different conditions, is also analysed.

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

	31.12.10 $million	31.12.09 $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.

6. Operational risk

Operational risk is defined as the 'potential for loss arising from the failure of people, process or technology or the impact of external events'.

Objective

The Group's exposure to operational risk arises as a consequence of the Group's business activities. It is the Group's objective to minimise exposure to operational risk, subject to cost trade-offs. To facilitate proactive risk identification and assessment, the Group further sub-divides operational risk into specific risk sub-types, where each risk sub-type represents a grouping of material potential operational risk losses that need to be managed. Designated operational risk control owners ensure that the risk sub-types are managed within appetite across their respective risk control areas.

Governance Structure

Governance over operational risk management at the Group level is achieved through a defined structure of Operational Risk Control Committees, which are responsible for overseeing all material risks, responses to risk issues and the adequacy and effectiveness of controls within a given Operational Risk Control Area. The Group Operational Risk Committee is responsible for overseeing the adequacy of risk governance and control by the Operational Risk Control Committees. Operational risk governance is also ensured at business and country levels via a defined structure of risk committees that integrate into the Group's overall risk committee structure at each level. All operational risk committees operate on the basis of a defined structure of delegated authorities and terms of reference, derived from the GRC.

Roles and Responsibilities

Responsibility for the management of operational risk rests with business and function management as an integral component of their first line risk management responsibilities. They are assisted in their responsibilities by embedded unit operational risk managers. An independent Group Operational Risk function (part of the Group Risk function) along with operational risk control owners, constitutes the second line of defence and ensures that the Group's exposure to operational risk is controlled within acceptable residual risk levels through a framework of effective controls.

Operational Risk Processes

Effective and timely risk management is facilitated through the following key operational risk processes:

- Risk registers – business units use the risk register to document their gross risk exposures, mitigating controls and monitor residual risk exposures to ensure they are managed within appetite;
- Control self assessments – first line business units perform regular self assessments to ensure key controls are being complied with and are effective;
- Event/issue reporting and management – operational risk related events and issues are reported to the appropriate level of management to ensure that they are understood, receive necessary attention and are appropriately managed;
- New product approval – operational risk exposures related to the introduction of new products and services are thoroughly assessed, addressed during the product approval process and monitored during the product lifecycle;
- Key risk indicators – specific measures are developed and monitored against set thresholds for possible risk trends.

Identified operational risk exposures are classified as 'Low', 'Medium', 'High' or 'Extreme', based on their risk assessment and accepted accordingly by designated operational risk committees.

A framework of policies, procedures and controls drives proactive management of the gross risk exposures down to acceptable residual levels. The Group Operational Risk Policy and Procedures are aligned to the Group Risk Management Framework and establish clear rules and standards for the effective management of operational risk group-wide. Operational risk policies for Risk Control Areas, business units and countries ensure consistency with the Group Operational Risk Policy and Procedures. Operational risk policies and procedures are challenged and revised regularly to ensure their ongoing effectiveness and alignment to the Group's operational risk profile and appetite.

Management Information

The Board and senior management proactively manage and control the Group's operational risk profile through anticipatory and forward-looking management information reporting and intelligence on the material risk exposures, operational loss experience and the results of key assurance outcomes. Timely operational risk reporting and escalation underpins risk decision-making across the key operating levels within the Group.

Measurement

The Group uses the Standardised Approach consistent with the FSA's BIPRU 6.4 requirements to assess its regulatory and internal capital requirements for operational risk. Under the Standardised Approach, a pre-determined beta is applied to the average income for the previous three years across each of the eight prescribed business lines, to determine the operational risk capital requirement. The table below details the operational risk capital requirement for the Group.

	31.12.10 Operational risk capital requirement $million	31.12.09 Operational risk capital requirement $million
Consumer Banking	776	667
Wholesale Banking	1,382	989
Total	2,158	1,656

The table below details the operational risk capital requirement for the Group's significant subsidiaries presented in accordance with the regulatory requirements applicable in the countries in which they are incorporated.

	31.12.10 Operational risk capital requirement $million	31.12.09 Operational risk capital requirement $million
Standard Chartered Bank	977	665
Standard Chartered Bank (HK) Ltd	326	303
Standard Chartered First Bank Korea Ltd	249	219

7. Remuneration

The following tables show the remuneration decisions made by the Group in respect of 2010 and the subsequent sections provide brief information on the decision-making policies for remuneration and the links between pay and performance. More detailed information on the Group's remuneration process and policies is contained in the directors' remuneration report (DRR) of the Group's Annual Report and Accounts.

These disclosures reflect the requirements of the Financial Services Authority (FSA) Policy Statement PS10/21 'Implementing CRD3 requirements on the disclosure of remuneration' issued in December 2010. Comparative data has not been provided as this is the first year of disclosure.

Aggregate remuneration expenditure for Code Staff in 2010	Consumer Banking $000's	Wholesale Banking $000's	Other [2] $000's
Aggregate remuneration expenditure [1]	15,001	138,369	92,572

[1] Includes base salary and other cash allowances, plus any annual performance awards and the expected value of any performance share awards. Performance share awards will be granted under the 2011 Standard Chartered Share Plan in May 2011 subject to shareholder approval at the Annual General Meeting. In the case of non-executive directors, this is the base fee.

[2] Includes all support functions and general management positions, executive and non-executive directors.

[3] Code staff defined below.

Analysis of 2010 remuneration for Code Staff employees split between fixed and variable compensation	Senior Management[2]	Other Code Staff employees	Total
Number of code staff	73	33	106
Fixed compensation ($000's)[1]	37,036	14,442	51,478
Variable compensation ($000's)	108,541	85,923	194,464
Cash ($000's)	19,773	17,448	37,221
Up front shares ($000's)	19,773	17,448	37,221
Deferred shares ($000's)	46,372	47,101	93,473
Performance shares ($000's)[3]	22,623	3,926	26,549

[1] Fixed compensation includes base salary and other cash allowances, and in the case of non-executive directors, any base fee.

[2] Senior Management is defined below in the section on Code Staff on page 50.

[3] Includes the expected value of any performance shares award to be granted in respect of 2010 performance.

Analysis of deferred remuneration	Senior Management ($000's)	Other Code Staff employees ($000's)	Total ($000's)
Deferred remuneration as at 31 December 2009[1]	179,489	53,630	233,119
Awarded during the financial year[2]	88,841	51,266	140,107
Vested during the year[3]	32,776	5,079	37,855
Non vested due to performance adjustments[4]	5,002	104	5,106
Deferred remuneration as at 31 December 2010[5]	262,631	109,264	371,895

[1] Value of both deferred and performance shares unvested at 31 December 2009. Held by those employees designated Code Staff as at 31 December 2010. Based on a share price as at 31 December 2009.

[2] Value of deferred and performance shares awards granted during 2010, based on share price as at grant.

[3] Value of deferred and performance shares awards vested during 2010, based on the share price as at 31 December 2010.

[4] Value of both deferred and performance shares which have lapsed as a result of (i) performance conditions not being satisfied or (ii) claw-back policy. Based on share price as at 31 December 2010.

[5] Value of both deferred and performance shares unvested at December 2010. Based on a share price as at 31 December 2010. There are no outstanding vested shares as at 31 December 2010.

Analysis of sign-on payments and severance	Senior Management	Other Code Staff employees	Total
Sign-on payments ($000's)[1]	671	7,158	7,829
No of employees	1	1	2
Severance payments ($000's)[2]	1,826	-	1,826
No of employees	2	-	2

[1] Includes the value of any guaranteed performance awards (cash or shares) which were made on appointment.

[2] Highest single severance payment was $1,102,000.

Governance and alignment to regulatory best practice

The Group's Remuneration Committee (the Committee) has oversight of all reward policies for the Group's employees. It reviews and is responsible for setting the principles and governance framework for all compensation decisions.

In particular the Committee:

- determines and agrees the remuneration of the senior executives and employees with the potential to have a material impact on the risk profile of the Group;
- approves any proposal to award a high remuneration package to new recruits or a high level individual bonus award to a Group employee;
- ensures that the remuneration policy is appropriate and consistent with effective risk management; the Group Chief Risk Officer attends key meetings of the Committee during the year.

The Committee's terms of reference are available at www.standardchartered.com

To ensure that there is appropriate, formal input to the decision making process for each of the Group's plans there are a number of business specific Reward Plan Committees (RPCs) responsible for making sure that information from the risk, compliance and human resources functions are taken into account. Decisions on reward for control function employees are determined independently of the business and control function, and the RPC members do not personally participate in any business specific plan to maintain independence.

The accuracy of finance data used in the decision making process is overseen by risk and finance representatives jointly. Human Resources provide independent input to minimise any potential conflict of interests and control functions input into RPC meetings on compensation.

The Group Reward Plan Committee (GRPC), which includes the Group Chief Executive, the Group Finance Director, the Group Head of Human Resources and Communications and the Group Chief Risk Officer (GCRO), oversees each of the business specific RPCs to ensure consistency across the Group. The GRPC ensures compensation decision making is in accordance with the Group's established reward strategy and acts as a link to the Committee, providing feedback on other RPCs as necessary.

Further information on how the Group's remuneration practices are aligned to regulatory best practice are set out on page 108 of the DRR in the Group's Annual Report and Accounts.

Performance and reward philosophy and principles

The Group's success depends upon the performance and commitment of talented employees. The Group's performance, reward and benefits approach supports and drives the Group's business strategy and reinforces values in the context of a clearly articulated risk appetite and a One Bank framework.

The Group's approach:

- supports a strong performance-oriented culture, ensuring that individual reward and incentives relate directly to: (i) the performance and behaviour of the individual (ii) the performance of the business; and (iii) the interests of shareholders;
- maintains a competitive reward package that reflects the Group's international nature and enables us to attract, retain and motivate employees;
- reflects the fact that many of the Group's employees bring international experience and expertise, and the Group recruits from a global marketplace.

The Committee reviews the policy on a regular basis against significant regulatory developments, market practice and shareholder views and makes appropriate adjustments.

Aligning performance and reward

The Group's One Bank philosophy, which applies to all employees including Code Staff employees, ensures that behaviours including prudent risk management and values are rewarded as well as business performance and is central to the Group's remuneration policy. It means that we seek to ensure the Group's approach to reward and performance management is consistent across all employees. We believe that performance and related reward outcomes should be a consequence of both how performance is delivered and what is delivered. This is taken into account in all personal objectives, performance assessments and reward decisions made within the Group and has a tangible impact on the reward that employees receive.

Target total compensation is benchmarked to the relevant market in which each individual is employed, while the potential total compensation is set at upper quartile or higher for excellent individual and business performance.

All employees have the opportunity to receive an element of performance-related compensation, subject to their contractual entitlement. Typically, the higher the total compensation, the greater the proportion delivered in variable form (either through a cash award, deferred shares and/or performance shares).

The variable compensation element is differentiated by performance. The Group's aim is to achieve a high performance culture in which every employee has a clear set of objectives, receives ongoing feedback on performance and behaviour and is appropriately rewarded for their individual contribution. Differentiating performance and values ratings at all levels enables targeting of spend towards those who have made the most effective contribution to the Group's performance and unique culture, recognises and aids retention of the Group's highest performers and balances this with affordability considerations. There is no direct formulaic link between business income generated by an individual and that individual's reward.

Variable compensation funding
The Group's total variable compensation (TVC) spend is calculated after sufficient profit has been accrued to accord capital (shareholders) an adequate risk adjusted return. Determination of the overall TVC pool for 2010 was established in a similar way to previous years, although in 2010 there was greater reliance on pool determination based on risk adjusted profit (as outlined below). The two key elements to pool determination are overall payout, and allocation of the TVC spend between respective businesses and functions.

The Committee approves the total TVC spend, including the amount to be spent on any performance share awards, for the Group taking into account a submission it receives from the GRPC. The Committee exercises its judgement to ensure that the overall payout appropriately reflects Group performance, the control environment, and any other qualitative factors that the Committee considers appropriate including: performance relative to peers, the latest remuneration guidelines, political and investor sentiment on banking compensation and emerging market intelligence on what other banks are paying out. The Committee then uses this information and exercises discretion to determine the final pool and approve allocations to business and support functions.

In arriving at its decision the Committee looks at the proposed aggregate payouts relative to both operating profit and adjusted economic profit. However, the Committee is also informed by the underlying funding frameworks for individual pools and has oversight for the allocation of the overall Group pool across businesses. The GRPC is responsible for allocating the approved pools to each business specific RPC, which then oversees the allocation of variable compensation spend within its area. About 80 per cent of the Group's discretionary variable compensation in the business was delivered under adjusted economic profit-based plans this year.

Understanding the Code Staff criteria
The following groups of employees have been identified as meeting the FSA's criteria for Code Staff:

- Employees performing a Significant Influence Function (SIF) within the Group;
- Other Senior Management whose roles are judged as falling within the FSA Code Staff definition. Using the definition of "Senior Manager" within the PS 10/20 the governing body has been identified as Standard Chartered Bank (the regulated entity) and this population of Code Staff therefore consists of direct reports to a director of Standard Chartered Bank who (i) is the head of a significant business function or business group with risk and/or profit and loss accountability and (ii) have not previously been classified as SIFs; and
- Other code staff.

The combination of the first two categories above are referred to in this report as "senior management".

Other code staff are characterised, per the FSA's definition, as "risk takers", as their professional activities are deemed to have a potential material impact on the firm's risk profile.

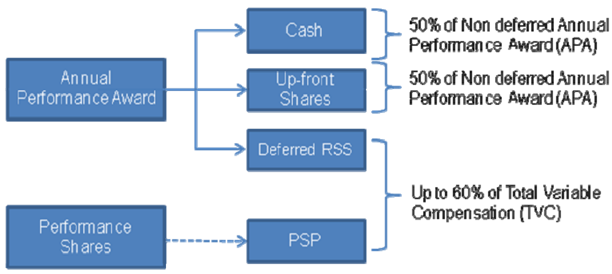
The employees in this category are drawn from the following areas:

- heads of material support or control functions (not already classified as senior managers or SIFs);
- heads of significant corporate finance (CF) and financial markets (FM) units (this includes all product sales or trading businesses) and who sit on the CF or FM leadership teams;
- other designated risk professionals not otherwise caught above;
- other designated wholesale banking employees not otherwise caught above.

Structure of remuneration for Code Staff
Remuneration for Code Staff is typically delivered via a combination of base salary, benefits and variable compensation (split between an annual performance award and a performance share award). More information is contained in the DRR. Non-executive directors only receive a base fee.

Following the publication of the 2010 FSA's remuneration code (the Code) in December 2010, the Group decided to review its remuneration arrangements for those executives designated "Code Staff". Under the Code a certain amount of an employee's annual performance award is delivered in the form of a deferred share award, normally restricted shares. In future a portion of each Code Staff's non deferred annual performance award will be delivered in the form of "up-front" shares which is an additional requirement of the Code. Any employee designated a Code Staff employee (under the Code) will receive fifty per cent of the non deferred element of their annual performance award in the form of up-front shares. The disposal of up-front shares and vested deferred shares will also be subject to the Group's new shareholding requirements policy which is described in the DRR.

For Code Staff, 40 to 60 per cent of variable compensation is deferred over a period of three years, in line with the FSA requirements, and more information on deferral and claw-back is contained in the DRR.



To ensure that the interests of the Group and its employees are aligned with those of the Group's shareholders, and the Group's approach to risk management supports the interests of all stakeholders, the vesting of deferred and performance share awards is subject to continued employment (which may be terminated by the Group in the event of material misconduct) and, in the case of deferred awards, subject to the Group's claw-back policy. Prospective performance share awards will be subject to the satisfaction of conditions being met over a three year performance period - one third of each award will be subject to a Total Shareholder Return, Earnings per Share and a Return on Risk Weighted Assets measure.

8. Group entities

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 Bank, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100.00
Standard Chartered First Bank Korea Limited, Korea	Korea	100.00
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100.00
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100.00
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	100.00
Standard Chartered Bank (China) Limited, China	China	100.00
Standard Chartered Bank (Thai) Public Company Limited, Thailand	Thailand	99.99
Standard Chartered Bank Nigeria Limited	Nigeria	100.00
Standard Chartered Bank Kenya Limited	Kenya	73.90
Standard Chartered Private Equity Limited, Hong Kong	Hong Kong	100.00

The below table lists the entities where accounting treatment differs from the prudential treatment as described on page 4.

Associate	Prudential treatment	Main areas of operation	Group interest in ordinary share capital %
Asia Commercial Bank	Deducted from capital resources	Vietnam	15.00
China Bohai Bank	Deducted from capital resources	China	19.99
Fleming Family & Partners	Proportionally consolidated	Asia	20.00
MCashback Limited	Proportionally consolidated	UK	30.00
Merchant Solutions Limited	Proportionally consolidated	Hong Kong	44.00

9. Immaterial portfolios

Non Trading Book Equities & Specialised Lending Exposures
For the purposes of BIPRU requirements 11.5.15 & 11.5.11 the holdings of non-trading book equities and the specialised lending portfolio are considered immaterial. At 31 December 2010, non-trading book equity holdings amount to $2.2 billion and specialised lending exposure total $3.0 billion, which together total less than 1 per cent of the Group's total exposure.

10. Forward looking statements

It is possible that this document could or may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are several factors that could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in the forward looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

The Group undertakes no obligation to revise or update any forward looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

11. Acronyms

ABS	Asset Backed Security
AIRB	Advanced Internal Ratings Based
ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
ARROW	Advanced Risk Response Operating Framework
BIPRU	Prudential Sourcebook for Banks, Building Societies and Investment Firms
BRC	Board Risk Committee
CAD2	Capital Adequacy Directive 2
CCF	Credit Conversion Factor
CCR	Counterparty Credit Risk
CDOs	Collateralised Debt Obligations
CMBS	Commercial Mortgage Backed Securities
CMC	Capital Management Committee
CRD	Capital Requirements Directive
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CSA	Credit Support Annexes
DRR	Directors Remuneration Report
EAD	Exposure at Default
ECAI	External Credit Assessment Institutions
FSA	Financial Services Authority (UK)
FSS	Financial Supervisory Service (Korea)
FSV	Forced Sale Value
GALCO	Group Asset and Liability Committee
GCC	Group Credit Committee
GCMC	Group Capital Management Committee
GCRO	Group Chief Risk Officer
GENPRU	General Prudential Sourcebook for Banks, Building Societies, Insurers, and Investment Firms
GIA	Group Internal Audit
GMR	Group Market Risk
GMRC	Group Market Risk Committee
GORC	Group Operational Risk Committee
GRC	Group Risk Committee
GRPC	Group Reward Plan Committee
GSAM	Group Special Asset Management
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IIP	Individual Impairment Provision
IRB	Internal Ratings Based
IFRS	International Financial Reporting Standards
LGD	Loss Given Default
LMC	Liquidity Management Committee
MAC	Model Assessment Committee
MTM	Mark-to-Market
PD	Probability of Default
PEC	Group Pensions Executive Committee
PIP	Portfolio Impairment Provision
RMBS	Residential Mortgage Backed Securities
RMF	Risk Management Framework
RPC	Reward Plan Committee
RTO	Risk Type Owner
RWA	Risk Weighted Assets
SIF	Significant Influence Funtion
SME	Small and Medium Enterprises
SPE	Special Purpose Entity
SREP	Supervisory Review and Evaluation Process
VaR	Value at Risk