# Standard Chartered PLC – Highlights

For the year ended 31 December 2011

### Reported results

- Profit before taxation of $6,775 million, up 11 per cent (2010: $6,122 million)
- Profit attributable to ordinary shareholders[1] of $4,748 million, up 12 per cent (2010: $4,231million)
- Operating income of $17,637 million, up 10 per cent (2010: $16,062 million)
- Strong balance sheet growth. Customer advances up 9 per cent to $269 billion and customer deposits up 11 per cent to $352 billion

### Performance metrics[2]

- Dividend per share increased 10 per cent to 76.00 cents per share (2010: 69.15[4] cents per share)
- Normalised earnings per share marginally up 0.5 per cent at 198.0 cents (2010: 197.0 cents)
- Normalised return on ordinary shareholders' equity of 12.2 per cent (2010: 14.1 per cent)

### Capital and liquidity metrics

- Tangible net asset value per share increased 6.5 per cent to 1,355.6 cents (2010: 1,273.4 cents[3])
- Core Tier 1 capital ratio at 11.8 per cent (2010: 11.8 per cent)
- Total capital ratio at 17.6 per cent (2010: 18.4 per cent)
- Advances-to-deposits ratio of 76.4 per cent (2010: 77.9 per cent)
- Liquid asset ratio of 27.5 per cent (2010: 26.6 per cent)

### Significant highlights

- Ninth successive year of record income and profit with compound annual growth of 16 per cent in income and 21 per cent in profit over this period
- Wholesale Banking delivering over $5 billion of profit in a year for the first time and Consumer Banking growing profit by 26 per cent
- Delivered a strong broad-based and diverse performance, with 24 markets generating income in excess of $100 million
- Expense growth in line with revenue growth whilst continuing to invest
- A highly liquid, well diversified and strong balance sheet with limited exposure to problem asset classes
- Capital ratios continue to position the Group well to meet evolving regulatory requirements whilst continuing to grow

Commenting on these results, the Chairman of Standard Chartered PLC, Sir John Peace, said:

**"Once again, our performance has shown that we are in the right markets, with the right strategy and have the right leadership in place to deliver consistent value for our shareholders. We have diversified sources of quality income growth throughout our Consumer and Wholesale Banking businesses and an obsessive focus on the basics of banking. We enter 2012 in great shape."**

[1] Profit attributable to ordinary shareholders is after the deduction of dividends payable to the holders of those non-cumulative redeemable preference shares classified as equity (see note 10 on page 68).

[2] Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the 'Group') excluding items set out in note 11 on page 69.

[3] Amounts have been restated as explained in note 34 on page 91.

[4] The 2010 interim dividend per share was restated following the rights issue in October 2010. Further details are set out in note 10 on page 68.

Standard Chartered PLC – Stock Code: 02888

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

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

# Standard Chartered PLC – Summary of results

For the year ended 31 December 2011

| | 2011 $million | 2010 $million |
|---|---|---|
| **Results** | | |
| Operating income | **17,637** | 16,062 |
| Impairment losses on loans and advances and other credit risk provisions | **(908)** | (883) |
| Other impairment | **(111)** | (76) |
| Profit before taxation | **6,775** | 6,122 |
| Profit attributable to parent company shareholders | **4,849** | 4,332 |
| Profit attributable to ordinary shareholders[1] | **4,748** | 4,231 |
| **Balance sheet** | | |
| Total assets | **599,070** | 516,560 |
| Total equity | **41,375** | 38,865 |
| Total capital base | **47,507** | 45,062 |
| **Information per ordinary share** | **Cents** | Cents |
| Earnings per share – normalised[2] | **198.0** | 197.0 |
| – basic | **200.8** | 196.3 |
| Dividend per share[3] | **76.00** | 69.15 [4] |
| Net asset value per share | **1,653.2** | 1,573.2 |
| Tangible net asset value per share | **1,355.6** | 1,273.4 [5] |
| **Ratios** | | |
| Return on ordinary shareholders' equity – normalised basis[2] | **12.2%** | 14.1% |
| Cost income ratio – normalised basis[2] | **56.5%** | 55.9% |
| Capital ratios | | |
| Core Tier 1 capital | **11.8%** | 11.8% |
| Tier 1 capital | **13.7%** | 14.0% |
| Total capital | **17.6%** | 18.4% |

1 Profit attributable to ordinary shareholders is after the deduction of dividends payable to the holders of those non-cumulative redeemable preference shares classified as equity (see note 10 on page 68).

2 Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the 'Group') excluding items set out in note 11 on page 69.

3 For 2011 and 2010 respectively, represents the recommended final dividend per share for the year ended 31 December 2011 / 31 December 2010, together with the interim dividend per share declared and paid for the six months ended 30 June 2011 / 30 June 2010.

4 The 2010 interim dividend per share was restated following the rights issue in October 2010. Further details are set out in note 10 on page 68.

5 Amounts have been restated as explained in note 34 on page 91.

# Standard Chartered PLC – Chairman's statement

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

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

The Board is recommending a final dividend of 51.25 cents per share, bringing the total annual dividend to 76.0 cents per share, up 10 per cent.

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

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

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

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

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

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

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

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

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

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

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

**Sir John Peace**
**Chairman**
**29 February 2012**

These results represent our ninth consecutive year of record income and profits.

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

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

**Global macroeconomic outlook**

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

Working through these problems will be painful and take time. Governments are struggling to control borrowing, without undermining growth and employment. Regulators are wrestling with how to make the banking system safer without triggering too much deleveraging. Central bankers are pumping money in but, in doing so, risk laying the seeds for the next crisis. Ugly tones of protectionism and populism are being heard everywhere.

Amidst all this, two facts are clear. One is that we are witnessing a profound shift in economic power and dynamism from the developed world to the emerging giants of the developing world. The second is that banks need to get out of the box of being part of the problem and get into the mode of being part of the solution.

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

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

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

**A fragile financial system**

Some banks have little choice but to deleverage, downsize and retreat. Others, like us, have the liquidity, capital and business model to turn the turbulence to our advantage.

But all of us face the challenge of the ongoing avalanche of regulation. None of us can be complacent about the continuing fragility of the system.

We are supportive of Basel III. Yet we worry about the increasing profusion of national or regional variations. This is creating incredible complexity, huge costs, and a multitude of unintended consequences, not least the fragmentation of the global financial system and the emergence of new forms of financial protectionism.

We also worry about the extent to which the regulatory agenda is driven through the rear view mirror. All the attention has been on avoiding another Lehman's or RBS. Very little of the Basel III agenda is relevant to the eurozone crisis. Even less has been done that might protect us from the longer term consequences of quantitative easing, the LTRO, the extraordinary expansion of the role of central banks.

At Standard Chartered, our approach is straightforward. Stand above the fray. Stick to our strategy and proven business model. Focus on our customers and clients. Keep a tight grip on the basic disciplines of good banking.

But it is easier to say than it is to execute. Whilst we are rarely the specific target of regulatory changes, they do affect us. They do erode our economics. Regulatory drag was a headwind in 2011, and will be again in 2012.

### Turning the turmoil to our advantage

Yet for all the negatives – regulatory drag, slowing growth in Asia, the risk of political and economic stress in the eurozone, the Middle East or elsewhere – we remain confident about our ability to grow and perform. Even as economic growth in our markets slows to more sustainable levels, we can win more market share. Our capital and funding strength allows us to be open for business whilst others are pulling down the shutters. We are taking share in core products like trade finance, with volume growth of 25 per cent.

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

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

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

### Sticking to our strategy

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

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

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

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

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

### Korea

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

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

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

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

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

### India

India was the second of our big markets to see a decline in profits in 2011. However, unlike in Korea this followed a spectacular year, with India being our most profitable market in 2010. That 2011 proved challenging in India was no surprise. To tackle inflation, the Reserve Bank of India hiked interest rates 13 times in two years. This had a predictable impact on economic growth – down from 8.5 per cent in

2010 to 7 per cent in 2011 – and also affected business confidence. In addition, a combination of protracted political and corporate governance issues further sapped business confidence, resulting in many investment projects being delayed or cancelled.

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

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

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

**Greater China**

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

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

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

**Singapore**

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

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

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

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

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

### Diversified sources of growth

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

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

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

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

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

**Outlook**

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

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

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

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

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

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

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

**Peter Sands**
**Group Chief Executive**
**29 February 2012**

## Group summary

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

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

Normalised earnings per share (EPS) was 198.0 cents, marginally up from 197.0 cents in 2010, reflecting the full year impact of the rights issue launched in October 2010. Further details of basic and diluted earnings per share are provided in note 11 on page 69.

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

The Group's balance sheet is well diversified and conservative, with limited exposure to problem asset classes. We have no direct sovereign exposure to Greece, Ireland, Italy, Portugal or Spain and our direct sovereign exposure to the rest of the eurozone is immaterial. Further detail on these exposures is set out on page 42.

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

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

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

## Operating income and profit

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

## Group performance

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

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

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

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

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

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

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

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

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

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

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

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

The Group's effective tax rate (ETR) was 27.2 per cent, down from 27.9 per cent in 2010. This reflects changing profit mix and reducing statutory rates across our footprint. Further, net utilisation of foreign tax credits relating to branch profits have increased, partly offset by the write down of deferred tax assets on election into the Branch Profit Exemption Regime in the UK referred to in note 9 on page 67.

**Acquisitions**

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

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

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

## Consumer Banking

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

**2011**

| | Asia Pacific | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Consumer Banking Total $million |
| Operating income | **1,326** | **924** | **1,153** | **1,613** | **482** | **723** | **422** | **148** | **6,791** |
| Operating expenses | **(702)** | **(503)** | **(1,023)** | **(1,104)** | **(352)** | **(487)** | **(268)** | **(166)** | **(4,605)** |
| Loan impairment | **(71)** | **(29)** | **(166)** | **(117)** | **(32)** | **(89)** | **(17)** | **(3)** | **(524)** |
| Other impairment | **-** | **-** | **(5)** | **-** | **-** | **(1)** | **(6)** | **-** | **(12)** |
| Operating profit/(loss) | **553** | **392** | **(41)** | **392** | **98** | **146** | **131** | **(21)** | **1,650** |

2010

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

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

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

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

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

Net interest income increased by $546 million, or 14 per cent, to $4,584 million, largely driven by increased volumes. Asset margins remained under pressure, particularly in the mortgage book and Term Deposit margins also continued to be under pressure as competition intensified in a number of our markets. However, increasing interest rates enabled higher CASA margins which helped offset the impact of broader margin compression.

The business continued to focus on liquidity and managing its deposits mix. CASA balances remain robust, and constitute 56 per cent of Consumer Banking deposits compared to 59 per cent at the end of 2010.

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

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

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

**Product performance**

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

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

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

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

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

**Geographic performance**

**Hong Kong**

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

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

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

**Singapore**

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

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

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

**Korea**

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

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

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

**Other Asia Pacific (Other APR)**

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

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

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

**India**

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

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

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

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

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

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

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

**Africa**

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

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

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

**Americas, UK & Europe**

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

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

### Wholesale Banking

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

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

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

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

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

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

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

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

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

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

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

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

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

**Product performance**

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

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

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

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

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

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

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

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

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

**Geographic performance**

**Hong Kong**

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

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

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

**Singapore**

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

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

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

**Korea**

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

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

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

**Other APR**

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

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

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

**India**

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

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

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

**MESA**

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

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

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

**Africa**

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

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

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

**Americas, UK & Europe**

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

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

## Group Summary Consolidated Balance Sheet

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

### Balance Sheet

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

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

#### Cash and balances at central banks

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

#### Loans and advances

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

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

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

#### Investment securities

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

#### Derivatives

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

#### Deposits

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

#### Debt securities in issue, subordinated liabilities and other borrowed funds

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

#### Equity

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

## Risk overview

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

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

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

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

We also have low exposure to asset classes and segments outside of our core markets and target customer base. We have no direct sovereign exposure to Greece, Ireland, Italy, Portugal or Spain. Our total gross exposure to all counterparties in these countries, more than half of which relates to currency and interest rate derivatives, is 0.5 per cent of total assets. Our direct sovereign exposure (as defined by the European Banking Authority (EBA)) to the remainder of the eurozone is immaterial. Please refer to page 42 for details.

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

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

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

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

## Risk performance review

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

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

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

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

## Principal uncertainties

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

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

### Deteriorating macroeconomic conditions in footprint countries

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

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

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

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

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

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

### Regulatory changes and compliance

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

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

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

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

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

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

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

### Financial markets dislocation

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

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

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

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

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

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

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

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

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

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

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

## Risk management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**The Risk function**

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

The role of the Risk function is:

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

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

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

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

**Risk appetite**

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

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

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

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

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

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

### Stress testing

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

Our stress testing framework is designed to:

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

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

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

Stress tests are also performed at country and business level.

## Credit risk

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

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

### Credit policies

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

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

### Credit rating and measurement

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

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

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

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

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

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

### Credit approval

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

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

### Concentration risk

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

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

### Credit monitoring

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

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

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

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

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

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

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

### Credit mitigation

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

Risk mitigation policies determine the eligibility of collateral types. Further details on collateral are set out on page 29.

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

### Traded products

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

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

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

In addition, we enter into Credit Support Annexes (CSAs) with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure. Further details on CSAs are set out on page 29.

### Securities

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

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

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

**Maximum exposure to credit risk**

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

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

The Group's maximum exposure to credit risk has increased by $73.9 billion when compared to 2010. Exposure to loans and advances to banks and customers has increased by $37.3 billion since 2010 due to growth in the mortgage portfolio and broad based growth across several industry sectors in Wholesale Banking. Further details of the loan portfolio are set out on page 31. Improving customer appetite for derivatives has increased the Group's exposure by $20.1 billion when compared to 2010.

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

[1] Excludes equity shares.

**Collateral**

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

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

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

**Loans and advances**

The requirement for collateral is not a substitute for the ability to pay, which is the primary consideration for any lending decisions. In determining the financial effect of collateral held against loans neither past due or impaired, we have assessed the significance of the collateral held in relation to the type of lending. For loans and advances to banks and customer (including those held at fair value through profit or loss), the Group held the following amounts of collateral, adjusted where appropriate as discussed above.

| | Consumer Banking | | | Wholesale Banking | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Past due but not individually impaired loans | Individually impaired loans | Total | Past due but not individually impaired loans | Individually impaired loans | Total | Past due but not individually impaired loans | Individually impaired loans |
| As at 31 December 2011 | $million | $million | $million | $million | $million | $million | $million | $million | $million |
| Collateral | **88,471** | **2,481** | **568** | **53,790** | **328** | **459** | **142,261** | **2,809** | **1,027** |
| Amount outstanding[1] | **122,225** | **4,035** | **1,089** | **213,839** | **984** | **3,494** | **336,064** | **5,019** | **4,583** |
| As at 31 December 2010 | | | | | | | | | |
| Collateral | 86,418 | 2,244 | 381 | 49,436 | 268 | 460 | 135,854 | 2,512 | 841 |
| Amount outstanding[1] | 117,150 | 3,403 | 927 | 183,280 | 556 | 3,458 | 300,430 | 3,959 | 4,385 |

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

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

Wholesale Banking includes collateral held in respect of reverse repo transactions undertaken by the Group, further details of which are set out in note 31 to the financial statements on page 89.

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

**Collateral and other credit enhancements possessed or called upon**
The Group obtains assets by taking possession of collateral or calling upon other credit enhancements (such as guarantees). Repossessed properties are sold in an orderly fashion. Where the proceeds are in excess of the outstanding loan balance they are returned to the borrower. Certain equity securities acquired may be held by the Group for investment purposes and are classified as available-for-sale, and the related loan written off. The table below details the carrying value of collateral possessed and held by the Group at 31 December 2011 and 31 December 2010:

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

**Traded products**
With respect to derivatives the Group enters into master netting arrangements which result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions. At 31 December 2011 $40,605 million (2010: $26,789 million) is available for offset as a result of master netting agreements. Under a variation margin process, additional collateral is called from the counterparty if total uncollateralised mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is reciprocal and requires us to post collateral if the overall mark-to-market values of positions is in the counterparty's favour and exceeds an agreed threshold. The Group holds $2,452 million (2010: $2,128 million) under CSAs.

The Group holds cash collateral against derivative and other financial instruments of $3,145 million (2010: $2,527 million) as disclosed in note 23 on page 83.

**Off-balance sheet exposures**
For certain types of exposures such as Letters of credit and Guarantees the Group obtains collateral such as cash depending on internal credit risk assessments.

However, for trade finance products such as Letters of credit the Group will also hold legal title to the underlying assets should a default take place.

**Other risk mitigants**
The Group has transferred to third parties by way of securitisation the rights to any collection of principal and interest on customer loan assets with a face value of $2,212 million (2010: $3,072 million). The Group continues to be exposed to related credit and foreign exchange risk on these assets. The Group continues to recognise these assets in addition to the proceeds and related liability of $1,843 million (2010: $2,385 million) arising from the securitisations.

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

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

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

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

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

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

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

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

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

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

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

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

## Loan portfolio continued

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

[1] Amounts include financial instruments held at fair value through profit or loss (see note 12 on page 70).

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

[1] Amounts include financial instruments held at fair value through profit or loss (see note 12 on page 70).

## Maturity analysis

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

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

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

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

### Problem credit management and provisioning

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

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

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables. Individually impaired loans are those loans against which individual impairment provisions have been raised.

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

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

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

#### Consumer Banking

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

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

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

The provisions are based on the estimated present values of future cashflows, in particular those resulting from the realisation of security. Following such realisation any remaining loan will be written off. The days past due used to trigger write offs and IIPs are broadly driven by past experience, which shows that once an account reaches the relevant number of days past due, the probability of recovery (other than by realising security where appropriate) is low. For all products there are certain situations where the individual impairment provisioning or write off process is accelerated, such as in cases involving bankruptcy, customer fraud and death. Write off and IIPs are accelerated for all restructured accounts to 90 days past due (unsecured and automobile finance) and 120 days past due (secured) respectively. Individually impaired loans for Consumer Banking will therefore not equate to those reported as non-performing on page 34, because non-performing loans include all those over 90 days past due. This difference reflects the fact that, while experience shows that an element of delinquent loans are impaired it is not possible to identify which individual loans the impairment relates to until the delinquency is sufficiently prolonged that loss is almost certain, which, in the Group's experience, is generally around 150 days in Consumer Banking. Up to that point the inherent impairment is captured in portfolio impairment provision (PIP).

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

The procedures for managing problem credits for the Private Bank and the medium-sized enterprises in the SME segment of Consumer Banking are similar to those adopted in Wholesale Banking (described on page 35).

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

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

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

The cover ratio is a common metric used in considering trends in provisioning and non-performing loans. It should be noted, as explained above, a significant proportion of the PIP is intended to reflect losses inherent in the loan portfolio that is less than 90 days delinquent and hence recorded as performing. This metric should be considered in conjunction with other credit risk information including that contained in page 39.

## Consumer Banking continued

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

**2011**

| | Asia Pacific | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Loans and advances | | | | | | | | | |
| Gross non-performing | **48** | **52** | **194** | **345** | **72** | **291** | **28** | **66** | **1,096** |
| Individual impairment provision[1] | **(17)** | **(14)** | **(68)** | **(113)** | **(32)** | **(159)** | **(16)** | **(39)** | **(458)** |
| Non-performing loans net of individual impairment provision | **31** | **38** | **126** | **232** | **40** | **132** | **12** | **27** | **638** |
| Portfolio impairment provision | | | | | | | | | **(434)** |
| Net non-performing loans and advances | | | | | | | | | **204** |
| Cover ratio | | | | | | | | | **81%** |

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

2010

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

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

**2011**

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

2010

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

**Wholesale Banking**

Loans are classified as impaired and considered non-performing in line with definition on page 33 and where analysis and review indicates that full payment of either interest or principal is questionable, or as soon as payment of interest or principal is 90 days overdue. Impaired accounts are managed by our specialist recovery unit, GSAM, which is separate from our main businesses. Where any amount is considered irrecoverable, an individual impairment provision is raised. This provision is the difference between the loan carrying amount and the present value of estimated future cash flows.

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

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

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

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

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

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

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

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

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

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

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

**Wholesale banking** continued

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

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

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

### Impairment provisions on loans and advances

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

| | 2011 $million | 2010 $million |
|---|---|---|
| Loans to individuals | | |
| Mortgages | 137 | 128 |
| Other | 152 | 180 |
| Small and medium enterprises | 202 | 198 |
| Consumer Banking | 491 | 506 |
| Agriculture, forestry and fishing | 40 | 42 |
| Construction | 68 | 57 |
| Commerce | 473 | 467 |
| Electricity, gas and water | 6 | 7 |
| Financing, insurance and business services | 167 | 120 |
| Mining and quarrying | 1 | 1 |
| Manufacturing | 551 | 558 |
| Commercial real estate | 24 | 23 |
| Transport, storage and communication | 40 | 23 |
| Other | 29 | 20 |
| Wholesale Banking | 1,399 | 1,318 |
| Individual impairment provision against loans and advances to customers (note 16) | 1,890 | 1,824 |
| Individual impairment provision against loans and advances to banks (note 15) | 82 | 93 |
| Portfolio impairment provision (note 15, 16) | 762 | 762 |
| Total impairment provisions on loans and advances | 2,734 | 2,679 |

**Impairment provisions on loans and advances** continued

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

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

**Movement in individual impairment by geography**

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

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

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

### Forbearance and other renegotiated loans

### Forbearance

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

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

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

At 31 December 2011, $708 million (2010: $747 million) of Consumer Banking loans were subject to forbearance programmes, which represents 0.5 per cent of total loans and advances to Consumer Banking customers. These loans were largely concentrated in countries that have active government sponsored forbearance programmes. Provision coverage against these loans was 16 per cent (2010: 18 per cent), reflecting collateral held and expected recovery rates.

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

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

If the terms of the restructure are such that an independent party in the same geographic area would not be prepared to provide financing on substantially the same terms and conditions, or where the present value of the new cash flows is lower than the present value of the original cash flows, the loan would be considered to be impaired and at a minimum a discount provision would be raised. These accounts are monitored as described on page 28.

### Renegotiated loans that would otherwise be past due or impaired

Renegotiated loans, which are included within forborne loans, that would otherwise be past due or impaired if their terms had not been renegotiated were $834 million (2010: $1,475 million), $225 million (2010: $312 million) of which relates to Consumer Banking loans to customers and $609 million (2010: $1,163 million) of which relates to Wholesale Banking loans to customers. Loans whose terms have been renegotiated to include concessions that the Group would not ordinarily make will usually be classified as impaired. Renegotiated loans that have not defaulted on interest or principal payments for 180 days post renegotiation and against which no loss of principal is expected are excluded from non-performing loans but remain impaired because they are subject to discount provisions.

## Analysis of the loan portfolio

The table on page 39 sets out an analysis of the loan portfolio between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired.

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

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

Total loans to Wholesale Banking customers increased by $17.3 billion, or 13 per cent, since December 2010. As at 31 December 2011 only 2.9 per cent of the loans are either past due or individually impaired remaining stable from 31 December 2010. The increase in loans to customers is due to increased commercial lending, corporate finance and trade financing activity as Wholesale Banking deepens relationships in core markets.

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

**Analysis of the loan portfolio** continued

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

## Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

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

[1] See note 12, 13 and 17 of the financial statements for further details.

The impaired debt securities includes the Group's holdings of asset backed securities, on which a $7 million (2010: $22 million) impairment charge was taken in 2011. The increase in impaired securities in 2011 is due to a bond investment in India arising from credit concerns around the issuer. The movement in impairment provision for securities classified as loans and receivables is set out in note 17 to the financial statements.

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

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

## Asset backed securities

### Total exposures to asset backed securities

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

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

The carrying value of Asset Backed Securities (ABS) represents 0.3 per cent (2010: 0.5 per cent) of our total assets.

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

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

The Group reclassified some ABS from trading and available-for-sale to loans and receivables with effect from 1 July 2008. The securities were reclassified at their fair value on the date of reclassification. Note 12 to the financial statements provides details of the remaining balance of those assets reclassified in 2008. No assets have been reclassified since 2008.

### Financial statement impact of asset backed securities

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

## Selected European country exposures

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

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

The Group's non-sovereign exposures to GIIPS is $3.2 billion ($1.8 billion after collateral and netting). Non-sovereign exposure to other eurozone countries is $23.2 billion after collateral and netting, and primarily relates to France, Germany and the Netherlands. Of this, $16 billion relates to banks (including central banks) and other financial institutions.

The Group conducts stress tests around eurozone scenarios in order to assess second order impact on the portfolio and take mitigating actions.

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

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

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

Approximately 70 per cent of the Group's gross exposures to GIIPS relate to derivatives, and this also forms nearly all of the exposures in Ireland. Derivative exposures to GIIPS are primarily interest rate and foreign exchange related. Of the remaining 30 per cent, the majority represents trade-related instruments carried at amortised cost or held off-balance sheet. The amount of gross off-balance sheet exposures included in the table above is $1.1 billion. The majority of the GIIPS total exposures have a tenor of less than 3 years. There was no objective evidence of impairment in respect of these exposures as at 31 December 2011.

## Country cross-border risk

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

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

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

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

Our cross-border exposure to China, Hong Kong, India, Indonesia and Singapore has risen significantly over the past year, reflecting our business focus and continued expansion in our core countries.

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

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

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

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

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

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

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

| | **31.12.11** | | | 31.12.10 | | |
|---|---|---|---|---|---|---|
| | **One year or less $million** | **Over one year $million** | **Total $million** | One year or less $million | Over one year $million | Total $million |
| China | **24,351** | **10,497** | **34,848** | 12,623 | 7,131 | 19,754 |
| India | **12,061** | **16,904** | **28,965** | 13,117 | 12,706 | 25,823 |
| US | **17,581** | **4,728** | **22,309** | 13,857 | 4,226 | 18,083 |
| Hong Kong | **16,796** | **4,586** | **21,382** | 12,781 | 5,542 | 18,323 |
| Singapore | **13,372** | **5,158** | **18,530** | 11,692 | 3,514 | 15,206 |
| United Arab Emirates | **6,691** | **10,687** | **17,378** | 5,927 | 10,717 | 16,644 |
| South Korea | **6,931** | **7,138** | **14,069** | 7,488 | 5,846 | 13,334 |
| Switzerland | **4,897** | **3,939** | **8,836** | 3,918 | 2,362 | 6,280 |
| Indonesia | **3,949** | **3,395** | **7,344** | 2,782 | 2,231 | 5,013 |

## Market risk

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

The primary categories of market risk for Standard Chartered are:

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

**Market risk governance**

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

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

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

**Value at Risk**

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

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

We apply two VaR methodologies:

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

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

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

**Back testing**

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

**Stress testing**

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

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

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

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

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

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

## Market risk continued

### Market risk changes

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

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

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

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

### Average daily income earned from market risk related activities

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

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

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

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

Equity risk relating to non-listed Private Equity and strategic investments is not included within the VaR. It is separately managed through delegated limits for both investment and divestment, and is also subject to regular review by an investment committee. These are included as Level 3 assets as disclosed in note 12 to the financial statements.

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

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

**NII sensitivity to parallel shifts in yield curves**

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

Group Treasury also manages the structural foreign exchange risk that arises from non-US dollar currency net investments in branches and subsidiaries. The impact of foreign exchange movements is taken to reserves which form part of the capital base. The effect of exchange rate movements on the capital ratio is partially mitigated by the fact that both the value of these investments and the risk weighted assets in those currencies follow broadly the same exchange rate movements. With the approval of CMC, Group Treasury may hedge the net investments if it is anticipated that the capital ratio will be materially affected by exchange rate movements. At 31 December 2011, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial instruments) of $1,115 million (2010: $1,112 million) to partly cover its exposure to Korean won.

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

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

An analysis has been performed on these exposures to assess the impact of a one per cent fall in the US dollar exchange rates adjusted to incorporate the impacts of correlations of these currencies to the US dollar. The impact on the positions above would be an increase of $221 million (2010: $197 million). Changes in the valuation of these positions are taken to reserves.

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

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

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

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

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

### Hedging

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

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

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

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

## Liquidity risk

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

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

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

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

### Policies and procedures

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

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

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

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

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

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

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

### Primary sources of funding

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

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

### Encumbered Assets

Encumbered assets include those assets pledged or used as collateral and primarily relate to assets pledged as collateral in respect of repo transactions. Details of the amount and types of assets pledged in relation to repos is set out in note 31 on page 89. Hong Kong government certificates of indebtedness (included within other assets) are also considered to be encumbered as they secure the equivalent amount of Hong Kong currency notes in circulation (included with other liabilities). Taken together, these encumbered assets comprise 1 per cent (2010: 1 per cent) of total assets.

### Liquidity metrics

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

### Advances to deposits ratio

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

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

[1] see note 16 to the financial statements on page 78.
[2] see note 21 to the financial statements on page 83.

### Liquid asset ratio

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

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

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

### Liquidity analysis of the Group's balance sheet

### Contractual maturity of assets and liabilities

This table analyses assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date, on a discounted basis. Contractual maturities do not necessarily reflect actual repayments or cash flow.

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Three months or less $million | Between three months and one year $million | Between one year and five years $million | More than five years and undated $million | Total $million |
| **Assets** | | | | | |
| Cash and balances at central banks | 37,402 | - | - | 9,962 | 47,364 |
| Derivative financial instruments | 12,952 | 18,283 | 24,679 | 12,019 | 67,933 |
| Loans and advances to banks[1] | 46,369 | 16,381 | 3,269 | 530 | 66,549 |
| Loans and advances to customers[1] | 85,480 | 42,266 | 65,405 | 75,602 | 268,753 |
| Investment securities[1] | 20,695 | 32,456 | 41,208 | 10,196 | 104,555 |
| Other assets | 14,898 | 5,966 | 310 | 22,742 | 43,916 |
| Total assets | 217,796 | 115,352 | 134,871 | 131,051 | 599,070 |
| **Liabilities** | | | | | |
| Deposits by banks[1] | 34,092 | 1,488 | 524 | 284 | 36,388 |
| Customer accounts[1] | 297,054 | 40,242 | 7,284 | 7,239 | 351,819 |
| Derivative financial instruments | 11,621 | 19,232 | 23,251 | 11,822 | 65,926 |
| Debt securities in issue[1] | 24,549 | 7,993 | 16,518 | 2,513 | 51,573 |
| Other liabilities | 19,139 | 2,316 | 951 | 12,866 | 35,272 |
| Subordinated liabilities and other borrowed funds | 26 | - | 923 | 15,768 | 16,717 |
| Total liabilities | 386,481 | 71,271 | 49,451 | 50,492 | 557,695 |
| Net liquidity gap | (168,685) | 44,081 | 85,420 | 80,559 | 41,375 |

[1] Amounts include financial instruments held at fair value through profit or loss (see note 12 on page 70).

## Liquidity risk continued

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

[1] Amounts include financial instruments held at fair value through profit or loss (see note 12 on page 70).
[2] Amounts have been restated. See note 34.

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

**Behavioural maturity of financial liabilities**

As discussed on pages 48 the Group seeks to manage its liabilities both on a contractual and behavioural basis primarily by matching the maturity profiles of assets and liabilities. The cash flows presented on page 48 reflect the cash flows which will be contractually payable over the residual maturity of the instruments. In practice, however, certain liability instruments behave differently from their contractual terms and typically, for short term customer accounts, extend to a longer period than their contractual maturity. The Group's expectation of when such liabilities are likely to become payable is provided in the table below:

| | **2011** | | | | |
|---|---|---|---|---|---|
| | **Three months or less $million** | **Between three months and one year $million** | **Between one year and five years $million** | **More than five years and undated $million** | **Total $million** |
| Deposits by banks | **33,717** | **1,745** | **628** | **298** | **36,388** |
| Customer accounts | **139,369** | **57,673** | **125,291** | **29,486** | **351,819** |
| Total | **173,086** | **59,418** | **125,919** | **29,784** | **388,207** |

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

## Operational risk

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

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

Group Operational Risk is responsible for setting and maintaining standards for operational risk management and measurement. In addition specialist operational risk control owners have responsibility for the management of operational risk arising from the following activities Group-wide: legal processes, people management, technology management, vendor management, property management, security management, accounting and financial control, tax management, corporate authorities and structure and regulatory compliance. (See additional information relating to regulatory compliance under "Regulatory changes and compliance" on page 24).

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

## Reputational risk

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

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

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

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

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

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

## Pension risk

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

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

## Capital management

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

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

The capital plan takes the following into account:

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

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

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

### Current compliance with Capital Adequacy Regulations

Our lead supervisor is the UK's Financial Services Authority (FSA). The capital that we are required to hold by the FSA is determined by our balance sheet, off-balance sheet, counterparty and other risk exposures. Further detail on counterparty and risk exposures is included in the Risk review on pages 23 to 50.

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

The table on page 52 summarises the consolidated capital position of the Group.

### Basel II

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

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

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

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

### Basel III

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

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

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

[1] Consists of perpetual subordinated debt $1,489 million (2010: $1,494 million) and other eligible subordinated debt $9,859 million (2010: $9,602 million).

[2] Excess of expected losses in respect of advanced IRB portfolios are shown gross.

### Movement in Core Tier 1 capital

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

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

### Risk weighted assets and capital ratios

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

### Risk weighted assets by business and geography

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

[1] Intra-group balances are netted in calculating capital ratios.

### Risk weighted contingent liabilities and commitments[2]

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

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

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

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

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

The FSA has granted the Group CAD2 internal model approval covering the majority of interest rate, foreign exchange risk, energy and agricultural trading, as well as market risk arising from precious and base metals trading. Positions outside the CAD2 scope are assessed according to standard FSA rules.

At 31 December 2011 our market risk RWA was $21.4 billion (2010: $15.8 billion). The increase was primarily driven by the introduction of CRD 3 which increased the market risk RWA by $3.5 billion. Also the equities derivatives RWA increased by $2.1 billion as the business grew during the year. The Equity business is not covered under CAD 2 and therefore follows the standard capital rules. There was also movement in RWA caused by changes in the underlying positions with structured products increasing $0.5 billion offset by bonds and credit derivatives decreasing $0.5 billion. Of the total market risk RWA, 30 per cent is subject to CAD2 internal models and 70 per cent is under standard rules.

Operational risk RWA increased by $1.8 billion, or 7 per cent. Given that this is primarily determined by the change in income over a rolling three year time horizon, the growth reflects the strong performance of the Group over that period.

**Basel III**

The Group estimates that the impact of adjustments to risk-weighted assets and regulatory capital as a result of Basel III will reduce the Group's future Core Tier 1 capital ratio by around 100 basis points. The actual outcome will depend on how the emerging rules are implemented, what the future shape of the Group is and the extent to which the Group's regulators give recognition to the Group's schedule of model-based calculation of RWA.

# Consolidated income statement

For the year ended 31 December 2011

| | Notes | 2011 $million | 2010 $million |
|---|---|---|---|
| Interest income | | **16,584** | 13,500 |
| Interest expense | | **(6,431)** | (5,030) |
| **Net interest income** | | **10,153** | 8,470 |
| Fees and commission income | | **4,466** | 4,556 |
| Fees and commission expense | | **(420)** | (318) |
| Net trading income | 3 | **2,645** | 2,577 |
| Other operating income | 4 | **793** | 777 |
| **Non-interest income** | | **7,484** | 7,592 |
| **Operating income** | | **17,637** | 16,062 |
| Staff costs | 5 | **(6,630)** | (5,765) |
| Premises costs | 5 | **(862)** | (800) |
| General administrative expenses | 5 | **(1,804)** | (1,899) |
| Depreciation and amortisation | 6 | **(621)** | (559) |
| **Operating expenses** | | **(9,917)** | (9,023) |
| **Operating profit before impairment losses and taxation** | | **7,720** | 7,039 |
| Impairment losses on loans and advances and other credit risk provisions | 7 | **(908)** | (883) |
| Other impairment | 8 | **(111)** | (76) |
| Profit from associates | | **74** | 42 |
| **Profit before taxation** | | **6,775** | 6,122 |
| Taxation | 9 | **(1,842)** | (1,708) |
| **Profit for the year** | | **4,933** | 4,414 |

| | Notes | 2011 $million | 2010 $million |
|---|---|---|---|
| **Profit attributable to:** | | | |
| Non-controlling interests | 27 | **84** | 82 |
| Parent company shareholders | | **4,849** | 4,332 |
| **Profit for the year** | | **4,933** | 4,414 |

| | Notes | **Cents** | Cents |
|---|---|---|---|
| **Earnings per share:** | | | |
| Basic earnings per ordinary share | 11 | **200.8** | 196.3 |
| Diluted earnings per ordinary share | 11 | **198.2** | 193.0 |
| **Dividends per ordinary share:** | | | |
| Interim dividends paid | 10 | **24.75** | 22.50 [2] |
| Final proposed dividends[1] | 10 | **51.25** | 46.65 |

| | **$million** | $million |
|---|---|---|
| **Total dividend:** | | |
| Interim dividend paid | **586** | 481 |
| Final proposed dividend[1] | **1,216** | 1,089 |

[1] The final proposed dividend in respect of 2011 will be accounted for in 2012 as explained in note 10.

[2] The 2010 interim dividend per share was restated following the rights issue in October 2010. Further details are set out in note 10.

# Consolidated statement of comprehensive income

For the year ended 31 December 2011

| | Notes | 2011 $million | 2010 $million |
|---|---|---|---|
| **Profit for the year** | | **4,933** | 4,414 |
| **Other comprehensive income:** | | | |
| Exchange differences on translation of foreign operations: | | | |
| Net (losses)/gains taken to equity | | **(1,003)** | 842 |
| Net gains/(losses) on net investment hedges | | **5** | (77) |
| Reclassified to income statement on change of control | | **-** | 4 |
| Actuarial (losses)/gains on retirement benefit obligations | 25 | **(189)** | 83 |
| Share of other comprehensive income from associates | | **1** | (5) |
| Available-for-sale investments: | | | |
| Net valuation (losses)/gains taken to equity | | **(212)** | 786 |
| Reclassified to income statement | | **(267)** | (284) |
| Cash flow hedges: | | | |
| Net gains taken to equity | | **4** | 42 |
| Reclassified to income statement | | **(94)** | 17 |
| Taxation relating to components of other comprehensive income | | **98** | (101) |
| Other comprehensive income for the year, net of taxation | | **(1,657)** | 1,307 |
| **Total comprehensive income for the year** | | **3,276** | 5,721 |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| Non-controlling interests | 27 | **56** | 112 |
| Parent company shareholders | | **3,220** | 5,609 |
| | | **3,276** | 5,721 |

# Consolidated balance sheet

As at 31 December 2011

| | Notes | 2011 $million | 2010 $million |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | 12, 29 | **47,364** | 32,724 |
| Financial assets held at fair value through profit or loss | 12, 13 | **24,828** | 27,021 |
| Derivative financial instruments | 12, 14 | **67,933** | 47,859 |
| Loans and advances to banks | 12, 15 | **65,981** | 52,058 |
| Loans and advances to customers | 12, 16 | **263,765** | 240,358 |
| Investment securities | 12, 17 | **85,283** | 75,796 |
| Other assets | 12, 18 | **27,286** | 25,356 |
| Current tax assets | | **232** | 179 |
| Prepayments and accrued income | | **2,521** | 2,127 |
| Interests in associates | | **903** | 631 |
| Goodwill and intangible assets | | **7,061** | 6,998[1] |
| Property, plant and equipment | | **5,078** | 4,507 |
| Deferred tax assets | | **835** | 946 |
| **Total assets** | | **599,070** | 516,560 |
| **Liabilities** | | | |
| Deposits by banks | 12, 20 | **35,296** | 28,551 |
| Customer accounts | 12, 21 | **342,701** | 306,992 |
| Financial liabilities held at fair value through profit or loss | 12, 13 | **19,599** | 20,288 |
| Derivative financial instruments | 12, 14 | **65,926** | 47,133 |
| Debt securities in issue | 12, 22 | **47,140** | 31,381 |
| Other liabilities | 12, 23 | **23,834** | 21,094 |
| Current tax liabilities | | **1,005** | 981 |
| Accruals and deferred income | | **4,458** | 4,528 |
| Subordinated liabilities and other borrowed funds | 12, 24 | **16,717** | 15,939 |
| Deferred tax liabilities | | **131** | 183[1] |
| Provisions for liabilities and charges | | **369** | 315 |
| Retirement benefit obligations | 25 | **519** | 310 |
| **Total liabilities** | | **557,695** | 477,695 |
| **Equity** | | | |
| Share capital | 26 | **1,192** | 1,174 |
| Reserves | | **39,522** | 37,038 |
| **Total parent company shareholders' equity** | | **40,714** | 38,212 |
| Non-controlling interests | 27 | **661** | 653 |
| **Total equity** | | **41,375** | 38,865 |
| **Total equity and liabilities** | | **599,070** | 516,560 |

[1] Amounts have been restated. See note 34.

# Consolidated statement of changes in equity

For the year ended 31 December 2011

| | Share capital | Share premium account | Capital and capital redemption reserve[1] | Merger reserve | Available-for-sale reserve | Cash flow hedge reserve | Translation reserve | Retained earnings | Parent company shareholders equity | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $million | $million | $million | $million | $million | $million | $million | $million | $million | $million | $million |
| At 1 January 2010 | 1,013 | 4,828 | 18 | 7,284 | (93) | 15 | (1,185) | 15,460 | 27,340 | 580 | 27,920 |
| Profit for the year | - | - | - | - | - | - | - | 4,332 | 4,332 | 82 | 4,414 |
| Other comprehensive income | - | - | - | - | 401 | 42 | 773 | 61[2] | 1,277 | 30 | 1,307 |
| Distributions | - | - | - | - | - | - | - | - | - | (54) | (54) |
| Shares issued, net of expenses | 147 | 572 | - | 5,137 | - | - | - | - | 5,856 | - | 5,856 |
| Net own shares adjustment | - | - | - | - | - | - | - | (135) | (135) | - | (135) |
| Share option expense, net of taxation | - | - | - | - | - | - | - | 296 | 296 | - | 296 |
| Capitalised on scrip dividend | 14 | (14) | - | - | - | - | - | - | - | - | - |
| Dividends, net of scrip | - | - | - | - | - | - | - | (745) | (745) | - | (745) |
| Other increases | - | - | - | - | - | - | - | (9) | (9) | 15 | 6 |
| **At 31 December 2010** | **1,174** | **5,386** | **18** | **12,421** | **308** | **57** | **(412)** | **19,260** | **38,212** | **653** | **38,865** |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **4,849** | **4,849** | **84** | **4,933** |
| Other comprehensive income | **-** | **-** | **-** | **-** | **(417)** | **(70)** | **(982)** | **(160)[3]** | **(1,629)** | **(28)** | **(1,657)** |
| Distributions | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(69)** | **(69)** |
| Shares issued, net of expenses | **6** | **58** | **-** | **-** | **-** | **-** | **-** | **-** | **64** | **-** | **64** |
| Net own shares adjustment | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(64)** | **(64)** | **-** | **(64)** |
| Share option expense, net of taxation | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **434** | **434** | **-** | **434** |
| Capitalised on scrip dividend | **12** | **(12)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Dividends, net of scrip | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,152)** | **(1,152)** | **-** | **(1,152)** |
| Other increases | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **21** | **21** |
| At 31 December 2011 | **1,192** | **5,432** | **18** | **12,421** | **(109)** | **(13)** | **(1,394)** | **23,167** | **40,714** | **661** | **41,375** |

1 Includes capital reserve of $5 million and capital redemption reserve of $13 million.

2 Comprises actuarial gains, net of taxation and non-controlling interests, of $66 million and share of comprehensive income from associates of $(5) million.

3 Comprises actuarial losses, net of taxation and non-controlling interests, of $161 million and share of comprehensive income from associates of $1 million.

# Consolidated cash flow statement

For the year ended 31 December 2011

| | Notes | 2011 $million | 2010 [1] $million |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | **6,775** | 6,122 |
| Adjustments for: | | | |
| Non-cash items included within income statement | 28 | **2,823** | 2,202 |
| Change in operating assets | 28 | **(68,011)** | (82,352) |
| Change in operating liabilities | 28 | **78,478** | 58,964 |
| Contributions to defined benefit schemes | 25 | **(77)** | (150) |
| UK and overseas taxes paid | | **(1,618)** | (1,421) |
| **Net cash from/(used in) operating activities** | | **18,370** | (16,635) |
| **Net cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(286)** | (370) |
| Disposal of property, plant and equipment | | **139** | 183 |
| Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired | | **(906)** | (545) |
| Purchase of investment securities | 17 | **(131,260)** | (114,076) |
| Disposal and maturity of investment securities | | **119,831** | 116,658 |
| Dividends received from investment in associates | | **10** | 22 |
| **Net cash (used in)/from investing activities** | | **(12,472)** | 1,872 |
| **Net cash flows from financing activities** | | | |
| Issue of ordinary and preference share capital, net of expenses | | **64** | 5,856 |
| Purchase of own shares[2] | | **(146)** | (182) |
| Exercise of share options through ESOP | | **57** | 47 |
| Interest paid on subordinated liabilities | | **(842)** | (773) |
| Gross proceeds from issue of subordinated liabilities | | **929** | 770 |
| Repayment of subordinated liabilities | | **(540)** | (1,549) |
| Interest paid on senior debts | | **(894)** | (956) |
| Gross proceeds from issue of senior debts | | **15,594** | 13,853 |
| Repayment of senior debts | | **(8,092)** | (11,146) |
| Dividends paid to non-controlling interests and preference shareholders, net of scrip | | **(170)** | (155) |
| Dividends paid to ordinary shareholders, net of scrip | | **(1,051)** | (644) |
| **Net cash from financing activities** | | **4,909** | 5,121 |
| **Net increase/(decrease) in cash and cash equivalents** | | **10,807** | (9,642) |
| Cash and cash equivalents at beginning of year | | **59,734** | 68,073 |
| Effect of exchange rate movements on cash and cash equivalents | | **(91)** | 1,303 |
| **Cash and cash equivalents at end of year** | 29 | **70,450** | 59,734 |

[1] Amounts have been reclassified. See note 34.
[2] Net of proceeds from sale of rights by the trusts for 2010.

# Notes to the financial statements

## 1. Basis of preparation

The Group financial statements consolidate those of Standard Chartered PLC (the Company) and its subsidiaries (together referred to as the Group), equity account the Group's interest in associates and proportionately consolidate interests in jointly controlled entities.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the EU (together adopted IFRS).

On 1 January 2011, the Group adopted retrospectively IAS 24 *Related Party Disclosures* (revised). This widens the scope of the definition of related parties to include an investor, its subsidiaries and associates as related parties to each other. These changes have not had a material impact on the Group's financial statements.

On 1 January 2011, the Group adopted improvements to IFRS (2010), a collection of amendments to a number of IFRS. Of these, the amendments to IFRS 7 *Financial Instruments: Disclosures*, IAS 1 *Presentation of Financial Statements*, IAS 34 *Interim Financial Reporting* and IFRIC 13 *Customer Loyalty Programmes* have been applied on a retrospective basis and the amendments to IFRS 3 *Business Combinations* have been applied on a prospective basis. The amendments to IFRS 7 include a requirement to disclose the financial effect of collateral held against assets on the Group's balance sheet, and this disclosure is set out on pages 29 to 30 of the Risk review. None of the other amendments have had a material impact on the Group's financial statements.

A summary of the Group's significant accounting policies will be included in the 2011 Annual Report and Accounts.

## 2. Segmental Information

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

The Group's entity-wide disclosure comprises geographic areas, classified by the location of the customer, except for Financial Market products which are classified by the location of the dealer.

Transactions between the business segments and geographic areas are carried out on an arms length basis. Apart from the entities that have been acquired in the last two years, Group central expenses have been distributed between the business segments and geographic areas in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their average risk weighted assets. In the year in which an acquisition is made, the Group does not charge or allocate the benefit of the Group's capital. The distribution of central expenses is phased in over two years, based on the estimate of central management costs associated with the acquisition.

## 2. Segmental Information continued

### By class of business

| | 2011 | | | | | 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Consumer Banking $million | Wholesale Banking $million | Total reportable segments $million | Corporate items not allocated[2] $million | Total $million | Consumer Banking $million | Wholesale Banking $million | Total reportable segments $million | Corporate items not allocated[3] $million | Total $million |
| Internal income | (44) | 44 | - | - | - | (28) | 28 | - | - | - |
| Net interest income | 4,628 | 5,525 | 10,153 | - | 10,153 | 4,066 | 4,404 | 8,470 | - | 8,470 |
| Other income | 2,207 | 5,277 | 7,484 | - | 7,484 | 2,041 | 5,547 | 7,588 | 4 | 7,592 |
| **Operating income** | 6,791 | 10,846 | 17,637 | - | 17,637 | 6,079 | 9,979 | 16,058 | 4 | 16,062 |
| **Operating expenses** | (4,605) | (5,147) | (9,752) | (165) | (9,917) | (4,176) | (4,840) | (9,016) | (7) | (9,023) |
| **Operating profit before impairment losses and taxation** | 2,186 | 5,699 | 7,885 | (165) | 7,720 | 1,903 | 5,139 | 7,042 | (3) | 7,039 |
| Impairment losses on loans and advances and other credit risk provisions | (524) | (384) | (908) | - | (908) | (578) | (305) | (883) | - | (883) |
| Other impairment | (12) | (99) | (111) | - | (111) | (12) | (64) | (76) | - | (76) |
| Profit from associates | - | - | - | 74 | 74 | - | - | - | 42 | 42 |
| **Profit before taxation** | 1,650 | 5,216 | 6,866 | (91) | 6,775 | 1,313 | 4,770 | 6,083 | 39 | 6,122 |
| **Total assets employed** | 132,129 | 464,971 | 597,100 | 1,970 | 599,070 | 125,589 | 389,215 | 514,804 | 1,756 | 516,560 |
| **Total liabilities employed** | 169,685 | 386,874 | 556,559 | 1,136 | 557,695 | 160,991 | 315,540 | 476,531 | 1,164 | 477,695 |
| Other segment items: | | | | | | | | | | |
| Capital expenditure[1] | 178 | 1,397 | 1,575 | - | 1,575 | 249 | 816 | 1,065 | - | 1,065 |
| Depreciation | 169 | 199 | 368 | - | 368 | 163 | 166 | 329 | - | 329 |
| Investment in associates | - | - | - | 903 | 903 | - | - | - | 631 | 631 |
| Amortisation of intangible assets | 73 | 180 | 253 | - | 253 | 83 | 147 | 230 | - | 230 |

1 Includes capital expenditure in Wholesale Banking of $1,049 million in respect of operating lease assets (2010: $498 million).
2 Relates to UK bank levy, and the Group's share of profit from associates.
3 Relates to UK payroll tax, gains on change in control, and the Group's share of profit from associates.

## 2. Segmental Information continued

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

| | 2011 $million | 2010 $million |
|---|---|---|
| **Consumer Banking** | | |
| Cards, Personal Loans and Unsecured Lending | 2,422 | 2,044 |
| Wealth Management | 1,272 | 1,138 |
| Deposits | 1,409 | 1,202 |
| Mortgage and Auto Finance | 1,478 | 1,513 |
| Other | 210 | 182 |
| | 6,791 | 6,079 |
| **Wholesale Banking** | | |
| Lending and Portfolio Management | 841 | 868 |
| Transaction Banking | | |
| Trade | 1,595 | 1,467 |
| Cash Management and Custody | 1,652 | 1,303 |
| Global Markets | | |
| Financial Markets | 3,688 | 3,303 |
| Asset and Liability Management (ALM) | 921 | 912 |
| Corporate Finance | 1,873 | 1,710 |
| Principal Finance | 276 | 416 |
| | 6,758 | 6,341 |
| | 10,846 | 9,979 |

### Entity-wide information

### By geography

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

| | 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe[1] $million | Total $million |
| Internal income | 70 | (98) | (66) | 17 | 96 | 51 | 87 | (157) | - |
| Net interest income | 1,532 | 1,075 | 1,430 | 2,331 | 889 | 1,146 | 598 | 1,152 | 10,153 |
| Fees and commissions income, net | 752 | 509 | 197 | 766 | 423 | 443 | 340 | 616 | 4,046 |
| Net trading income | 559 | 571 | 77 | 289 | 275 | 488 | 287 | 99 | 2,645 |
| Other operating income | 136 | 129 | 80 | 150 | 122 | 91 | 28 | 57 | 793 |
| **Operating income** | 3,049 | 2,186 | 1,718 | 3,553 | 1,805 | 2,219 | 1,340 | 1,767 | 17,637 |
| **Operating expenses** | (1,395) | (1,105) | (1,335) | (2,076) | (829) | (1,085) | (703) | (1,389) | (9,917) |
| **Operating profit before impairment losses and taxation** | 1,654 | 1,081 | 383 | 1,477 | 976 | 1,134 | 637 | 378 | 7,720 |
| Impairment losses on loans and advances and other credit risk provisions | (103) | (48) | (198) | (134) | (112) | (286) | (25) | (2) | (908) |
| Other impairment | - | (31) | (13) | 31 | (60) | (14) | (16) | (8) | (111) |
| Profit from associates | - | - | - | 73 | - | - | - | 1 | 74 |
| **Profit before taxation** | 1,551 | 1,002 | 172 | 1,447 | 804 | 834 | 596 | 369 | 6,775 |
| **Capital expenditure[2]** | 781 | 221 | 25 | 74 | 60 | 20 | 25 | 369 | 1,575 |

1 Americas UK & Europe includes operating income of $799 million in respect of the UK, the Company's country of domicile.

2 Includes capital expenditure in Hong Kong of $724 million and in the UK of $325m in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment and software related intangibles including any post-acquisition additions made by the acquired entities.

## 2. Segmental Information continued

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong | Singapore | Korea | Other Asia Pacific | India | Middle East & Other S Asia | Africa | Americas UK & Europe[1] | Total |
| | $million | $million | $million | $million | $million | $million | $million | $million | $million |
| Internal income | 5 | (47) | (49) | 64 | 349 | 2 | 82 | (406) | - |
| Net interest income | 1,229 | 907 | 1,158 | 1,833 | 767 | 1,145 | 517 | 914 | 8,470 |
| Fees and commissions income, net | 700 | 400 | 233 | 737 | 464 | 589 | 359 | 756 | 4,238 |
| Net trading income | 521 | 367 | 293 | 340 | 267 | 343 | 263 | 183 | 2,577 |
| Other operating income | 45 | 111 | 63 | 191 | 181 | 88 | 25 | 73 | 777 |
| **Operating income** | 2,500 | 1,738 | 1,698 | 3,165 | 2,028 | 2,167 | 1,246 | 1,520 | 16,062 |
| **Operating expenses** | (1,355) | (986) | (1,080) | (1,970) | (749) | (995) | (653) | (1,235) | (9,023) |
| **Operating profit before impairment losses and taxation** | 1,145 | 752 | 618 | 1,195 | 1,279 | 1,172 | 593 | 285 | 7,039 |
| Impairment losses on loans and advances and other credit risk provisions | (43) | (33) | (226) | (152) | (79) | (302) | (24) | (24) | (883) |
| Other impairment | 1 | (1) | (4) | (2) | (3) | (29) | (10) | (28) | (76) |
| Profit from associates | - | - | - | 42 | - | - | - | - | 42 |
| **Profit before taxation** | 1,103 | 718 | 388 | 1,083 | 1,197 | 841 | 559 | 233 | 6,122 |
| **Capital expenditure** [2] | 23 | 286 | 60 | 74 | 38 | 18 | 57 | 509 | 1,065 |

1 Americas UK & Europe includes operating income of $739 million in respect of the UK, the Company's country of domicile.
2 Includes capital expenditure in Americas, UK and Europe of $498 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment and software related intangibles including any post-acquisition additions made by the acquired entities.

### Net interest margin and yield

| | 2011 | 2010 |
|---|---|---|
| | $million | $million |
| Net interest margin (%) | **2.3** | 2.2 |
| Net interest yield (%) | **2.2** | 2.1 |
| Average interest earning assets | **441,892** | 383,359 |
| Average interest bearing liabilities | **410,602** | 347,058 |

### Net interest margin by geography

| | 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | | |
| | Hong Kong | Singapore | Korea | Other Asia Pacific | India | Middle East & Other S Asia | Africa | Americas UK & Europe[1] | Intra-group/ tax assets | Total |
| | $million | $million | $million | $million | $million | $million | $million | $million | $million | $million |
| Total assets employed | **117,245** | **102,768** | **63,134** | **115,588** | **42,300** | **56,223** | **17,276** | **157,473** | **(72,937)** | **599,070** |
| Of which : loans to customers | **50,541** | **42,574** | **38,072** | **54,196** | **23,379** | **23,299** | **10,004** | **26,688** | **-** | **268,753** |
| Average interest-earning assets | **91,923** | **67,952** | **57,031** | **95,513** | **31,299** | **33,851** | **12,389** | **96,396** | **(44,462)** | **441,892** |
| Net interest income | **1,631** | **1,011** | **1,348** | **2,346** | **985** | **1,202** | **675** | **955** | **-** | **10,153** |
| Net interest margin (%) | **1.8** | **1.5** | **2.4** | **2.5** | **3.1** | **3.6** | **5.4** | **1.0** | **-** | **2.3** |

1 Americas, UK & Europe includes total assets employed of $103,300 million in respect of the UK, the Company's country of domicile.

## 2. Segmental Information continued

| | 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe[1] $million | Intra-group/ tax assets $million | Total $million |
| Total assets employed | 102,674 | 82,007 | 63,936 | 101,915 | 39,631 | 48,028 | 15,962 | 117,916 | (55,509) | 516,560 |
| Of which : loans to customers | 43,632 | 36,106 | 40,083 | 48,225 | 24,384 | 23,571 | 8,138 | 22,265 | - | 246,404 |
| Average interest-earning assets | 81,975 | 55,530 | 55,505 | 79,634 | 28,798 | 31,318 | 12,543 | 76,774 | (38,718) | 383,359 |
| Net interest income | 1,272 | 821 | 1,099 | 1,885 | 965 | 1,172 | 598 | 658 | - | 8,470 |
| Net interest margin (%) | 1.6 | 1.5 | 2.0 | 2.4 | 3.4 | 3.7 | 4.8 | 0.9 | - | 2.2 |

[1] Americas, UK & Europe includes total assets employed of $75,930 million in respect of the UK, the Company's country of domicile.

The following tables set out the structure of the Group’s deposits by principal geographic areas:

| | **2011** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Asia Pacific** | | | | | | | | |
| | **Hong Kong $million** | **Singapore $million** | **Korea $million** | **Other Asia Pacific $million** | **India $million** | **Middle East & Other S Asia $million** | **Africa $million** | **Americas UK & Europe $million** | **Total $million** |
| Non-interest bearing current and demand accounts | **6,956** | **9,013** | **66** | **4,289** | **2,557** | **8,813** | **3,778** | **3,038** | **38,510** |
| Interest bearing current accounts and savings deposits | **48,088** | **23,314** | **19,381** | **28,232** | **1,978** | **3,874** | **2,915** | **22,378** | **150,160** |
| Time deposits | **33,951** | **32,730** | **19,337** | **42,336** | **6,706** | **10,964** | **2,564** | **44,447** | **193,035** |
| Other deposits | **283** | **295** | **748** | **1,681** | **1,691** | **352** | **110** | **1,342** | **6,502** |
| Total | **89,278** | **65,352** | **39,532** | **76,538** | **12,932** | **24,003** | **9,367** | **71,205** | **388,207** |
| Deposits by banks | **2,025** | **2,299** | **1,603** | **5,881** | **175** | **2,059** | **532** | **21,814** | **36,388** |
| Customer accounts | **87,253** | **63,053** | **37,929** | **70,657** | **12,757** | **21,944** | **8,835** | **49,391** | **351,819** |
| | **89,278** | **65,352** | **39,532** | **76,538** | **12,932** | **24,003** | **9,367** | **71,205** | **388,207** |
| Debt securities in issue | **1,820** | **770** | **7,998** | **5,501** | **363** | **56** | **228** | **34,837** | **51,573** |
| Total | **91,098** | **66,122** | **47,530** | **82,039** | **13,295** | **24,059** | **9,595** | **106,042** | **439,780** |

The above table includes financial instruments held at fair value (see note 12).

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Asia Pacific | | | | | | | | |
| | Hong Kong $million | Singapore $million | Korea $million | Other Asia Pacific $million | India $million | Middle East & Other S Asia $million | Africa $million | Americas UK & Europe $million | Total $million |
| Non-interest bearing current and demand accounts | 7,045 | 5,927 | 74 | 5,167 | 3,175 | 7,907 | 3,917 | 7,608 | 40,820 |
| Interest bearing current accounts and savings deposits | 43,302 | 22,843 | 18,981 | 27,060 | 2,324 | 3,834 | 2,212 | 16,699 | 137,255 |
| Time deposits | 26,338 | 23,793 | 18,015 | 35,660 | 6,469 | 10,341 | 2,431 | 39,605 | 162,652 |
| Other deposits | 130 | 112 | 733 | 843 | 2,058 | 332 | 121 | 920 | 5,249 |
| Total | 76,815 | 52,675 | 37,803 | 68,730 | 14,026 | 22,414 | 8,681 | 64,832 | 345,976 |
| Deposits by banks | 2,540 | 1,130 | 2,484 | 4,006 | 512 | 1,555 | 470 | 16,777 | 29,474 |
| Customer accounts | 74,275 | 51,545 | 35,319 | 64,724 | 13,514 | 20,859 | 8,211 | 48,055 | 316,502 |
| | 76,815 | 52,675 | 37,803 | 68,730 | 14,026 | 22,414 | 8,681 | 64,832 | 345,976 |
| Debt securities in issue | 22 | 535 | 9,860 | 1,812 | 241 | 52 | 413 | 21,756 | 34,691 |
| Total | 76,837 | 53,210 | 47,663 | 70,542 | 14,267 | 22,466 | 9,094 | 86,588 | 380,667 |

The above table includes financial instruments held at fair value (see note 12).

## 3. Net trading income

| | 2011 $million | 2010 $million |
|---|---|---|
| Gains less losses on instruments held for trading: | | |
| Foreign currency [1] | 1,789 | 1,677 |
| Trading securities | 23 | 349 |
| Interest rate derivatives | 333 | 339 |
| Credit and other derivatives | 632 | 38 |
| | 2,777 | 2,403 |
| Gains less losses from fair value hedging: | | |
| Gains less losses from fair value hedged items | (808) | (256) |
| Gains less losses from fair value hedging instruments | 795 | 272 |
| | (13) | 16 |
| Gains less losses on instruments designated at fair value: | | |
| Financial assets designated at fair value through profit or loss | 52 | 201 |
| Financial liabilities designated at fair value through profit or loss | (438) | (14) |
| Derivatives managed with financial instruments designated at fair value through profit or loss | 267 | (29) |
| | (119) | 158 |
| | 2,645 | 2,577 |

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

## 4. Other operating income

| | 2011 $million | 2010 $million |
|---|---|---|
| Other operating income includes: | | |
| Gains less losses on disposal of financial assets: | | |
| Available-for-sale | 267 | 284 |
| Loans and receivables | 27 | 16 |
| Dividend income | 73 | 53 |
| Gains arising on assets fair valued at acquisition | 12 | 29 |
| Rental income from operating lease assets | 268 | 213 |
| Gains on disposal of property, plant and equipment | 52 | 65 |
| Gain arising on change of control | - | 4 |

Gains arising on assets fair valued at acquisition relates to acquisitions completed prior to 1 January 2010, and primarily consists of recoveries of fair value adjustments on loans and advances.

## 5. Operating expense

| | 2011 $million | 2010 $million |
|---|---|---|
| Staff costs: | | |
| Wages and salaries | 4,973 | 4,465 |
| Social security costs | 155 | 124 |
| Other pension costs (note 25) | 282 | 182 |
| Share based payment costs | 392 | 390 |
| Other staff costs | 828 | 604 |
| | 6,630 | 5,765 |
| Number of employees | 86,865 | 85,231 |
| Premises and equipment expenses: | | |
| Rental of premises | 420 | 387 |
| Other premises and equipment costs | 410 | 386 |
| Rental of computers and equipment | 32 | 27 |
| | 862 | 800 |

## 5. Operating expense continued

| | 2011 $million | 2010 $million |
|---|---|---|
| General administrative expenses: | | |
| UK bank levy | **165** | - |
| Other general administrative expenses | **1,639** | 1,899 |
| | **1,804** | 1,899 |

The UK Finance (No.3) Act 2011 (the 2011 Act) that was enacted on 19 July 2011 introduced a levy on certain qualifying liabilities of the Group with effect from January 2011, based on the balance sheet at the end of the financial year. The levy, which is not deductible for corporation tax, but is charged on total liabilities excluding Tier 1 capital, insured or guaranteed retail deposits and repos secured on certain sovereign debt. There is also a deduction from chargeable liabilities for an amount equal to certain high quality liquid assets and an allowance of GBP 20 billion before the levy is due. The rate of the levy for 2011 was set at 0.078 per cent of qualifying liabilities, with a lower rate of 0.039 per cent applied to liabilities with a maturity greater than one year and any deposits not otherwise excluded from the scope of levy (except for those from financial institutions and financial traders). The rate for 2012 has been set as 0.088 per cent of qualifying liabilities, with a lower rate of 0.044 per cent applicable as per above.

## 6. Depreciation and amortisation

| | 2011 $million | 2010 $million |
|---|---|---|
| Premises | **123** | 118 |
| Equipment: | | |
| Operating lease assets | **100** | 71 |
| Others | **145** | 140 |
| Intangibles: | | |
| Software | **184** | 168 |
| Acquired on business combinations | **69** | 62 |
| | **621** | 559 |

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

The following table reconciles the charge for impairment provisions on loans and advances to the total impairment charge and other credit risk commitments:

| | 2011 $million | 2010 $million |
|---|---|---|
| Net charge against profit on loans and advances: | | |
| Individual impairment charge | **867** | 1,002 |
| Portfolio impairment charge/(release) | **14** | (130) |
| | **881** | 872 |
| Provisions related to credit commitments | **2** | 9 |
| Impairment charges relating to debt securities classified as loans and receivables | **25** | 2 |
| Total impairment losses and other credit risk provisions | **908** | 883 |

An analysis of impairment provisions on loans and advances by geography and business is set out within the Risk review on pages 33 to 37.

## 8. Other impairment

| | 2011 $million | 2010 $million |
|---|---|---|
| Impairment losses on available-for-sale financial assets : | | |
| - Asset backed securities | **7** | 22 |
| - Other debt securities | **52** | - |
| - Equity shares | **42** | 10 |
| | **101** | 32 |
| Other | **40** | 45 |
| | **141** | 77 |
| Recovery of impairment on disposal of equity instruments | **(30)** | (1) |
| | **111** | 76 |

Recoveries of impairments of $30 million (2010: $1 million) are in respect of private and strategic equity investments sold during the period which had impairment provisions raised against them in previous periods.

## 9. Taxation

Analysis of taxation charge in the year:

| | 2011 $million | 2010 $million |
|---|---|---|
| The charge for taxation based upon the profits for the year comprises: | | |
| **Current tax:** | | |
| United Kingdom corporation tax at 26.5 per cent (2010: 28 per cent): | | |
| Current tax on income for the year | **1,037** | 865 |
| Adjustments in respect of prior periods (including double taxation relief) | **(101)** | 6 |
| Double taxation relief | **(912)** | (697) |
| Foreign tax: | | |
| Current tax on income for the year | **1,645** | 1,310 |
| Adjustments in respect of prior periods | **8** | 36 |
| | **1,677** | 1,520 |
| **Deferred tax:** | | |
| Origination/reversal of temporary differences | **207** | 303 |
| Adjustments in respect of prior periods | **(42)** | (115) |
| | **165** | 188 |
| Tax on profits on ordinary activities | **1,842** | 1,708 |
| Effective tax rate | **27.2%** | 27.9% |

The UK corporation tax rate has been changed from 28 per cent to 26 per cent with an effective date of 1 April 2011 giving a blended rate of 26.5 per cent for the year. A further reduction in the UK corporation tax rate to 25 per cent with an effective date of 1 April 2012 has been enacted at the balance sheet date. The rate reduction to 25 per cent has reduced the UK deferred tax asset by $28 million.

Foreign taxation includes taxation on Hong Kong profits of $170 million (2010: $109 million) provided at a rate of 16.5 per cent (2010: 16.5 per cent) on the profits assessable in Hong Kong. Deferred taxation includes origination/(reversal) of temporary differences in Hong Kong profits of $28 million (2010: $25 million) provided at a rate of 16.5 per cent (2010: 16.5 per cent) on the profits assessable in Hong Kong.

The Group elected into the Branch Profit Exemption Regime which takes effect for the accounting period commencing from 1 January 2012. The current period impact is to reduce the UK deferred tax asset by $138 million.

## 10. Dividends

| Ordinary equity shares | 2011 Cents per share | 2011 $million | 2010 Pre-rights cents per share | 2010 $million |
|---|---|---|---|---|
| 2010 / 2009 final dividend declared and paid during the year | **46.65** | **1,089** | 44.80 | 904 |
| 2011 / 2010 interim dividend declared and paid during the year | **24.75** | **586** | 23.35 | 481 |
| | | **1,675** | | 1,385 |

The amounts in the table above reflect the actual dividend per share declared and paid to shareholders in 2011 and 2010. Dividends on ordinary equity shares are recorded in the period in which they are declared and, in respect of the final dividend, have been approved by the shareholders. Accordingly, the final ordinary equity share dividends set out above relate to the respective prior years. The 2010 final dividend of 46.65 cents per ordinary share ($1,089 million) was paid to eligible shareholders on 11 May 2011 and the 2011 interim dividend of 24.75 cents per ordinary share ($586 million) was paid to eligible shareholders on 7 October 2011.

**2011 recommended final ordinary equity share dividend**

The 2011 final ordinary equity share dividend recommended by the Board is 51.25 cents per share ($1,216 million), which makes the total dividend for 2011 76.00 cents per share (2010: 70.00 cents per share, 2009: 66.03 cents per share; both on a pre-rights basis). The final dividend will be paid in either pounds sterling, Hong Kong dollars or US dollars on 15 May 2012 to shareholders on the UK register of members at the close of business in the UK (10:00 pm London time) on 9 March 2012, and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9:00 am Hong Kong time) on 9 March 2012. The 2011 final ordinary equity share dividend will be paid in Indian rupees on 15 May 2012 to Indian Depository Receipt holders on the Indian register at the close of business in India on 9 March 2012.

It is intended that shareholders on the UK register and Hong Kong branch register will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 23 March 2012. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

### Impact of the 2010 rights issue

On 13 October 2010, the Company announced the issue of 260,525,763 new ordinary shares by way of rights to qualifying shareholders at 1280 pence per new ordinary share. The issue was on the basis of 1 ordinary share for every 8 ordinary shares held on 21 October 2010.

In the absence of specific guidance in IFRS, the dividend per share amounts in the table below have been adjusted for the bonus element included within the 2010 rights issue in line with the restatement of prior period earnings per share amounts required by IAS 33 'Earnings per share' (see note 11).

| | Post-rights cents per share |
|---|---|
| 2009 final dividend declared and paid during 2010 | **43.16** |
| 2010 interim dividend declared and paid during 2010 | **22.50** |

Total dividend recommended and declared relating to 2010 on a post-rights basis is 69.15 cents per share (2009: 63.61 cents per share), comprising interim dividend per share of 22.50 cents (2009: 20.45 cents) and final dividend per share of 46.65 cents (2009: 43.16 cents).

For the 98.5 per cent of shareholders who exercised their rights, a comparison of the actual cash payments received by the shareholders is better reflected by adjusting the dividend per share amounts by the ratio of shares outstanding immediately before the rights issue to the number of shares outstanding immediately following the rights issue as set out in the table below. This approach is consistent with the adjustments to the dividend per share amounts following the rights issue in 2008.

| | Adjusted cents per share |
|---|---|
| 2009 final dividend declared and paid during 2010 | **39.82** |
| 2010 interim dividend declared and paid during 2010 | **20.76** |

Total dividend recommended and declared relating to 2010 adjusted using the ratio above is 67.41 cents per share (2009: 58.69 cents per share), comprising interim dividend per share of 20.76 cents (2009: 18.87 cents) and final dividend per share of 46.65 cents (2009: 39.82 cents).

| Preference shares | | 2011 $million | 2010 $million |
|---|---|---|---|
| Non-cumulative irredeemable preference shares: | 7 3/8 per cent preference shares of £1 each[1] | **11** | 11 |
| | 8 1/4 per cent preference shares of £1 each[1] | **13** | 13 |
| Non-cumulative redeemable preference shares: | 8.125 per cent preference shares of $5 each[1] | **75** | 75 |
| | 7.014 per cent preference shares of $5 each[2] | **53** | 53 |
| | 6.409 per cent preference shares of $5 each[2] | **48** | 48 |

[1] Dividends on these preference shares are treated as interest expense and accrued accordingly.

[2] Dividends on those preference shares classified as equity are recorded in the period in which they are declared.

## 11. Earnings per ordinary share

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Profit[1] | Weighted average number of shares | Per share amount | Profit[1] | Weighted average number of shares | Per share amount |
| | $million | ('000) | cents | $million | ('000) | cents |
| **Basic earnings per ordinary share** | | | | | | |
| Pre-rights issue bonus earnings per ordinary share | **4,748** | **2,364,445** | **200.8** | 4,231 | 2,048,759 | 206.5 |
| Impact of rights issue[2] | **–** | **-** | **–** | – | 106,559 | – |
| **Post-rights issue bonus basic earnings per ordinary share** | **4,748** | **2,364,445** | **200.8** | 4,231 | 2,155,318 | 196.3 |
| Effect of dilutive potential ordinary shares: | | | | | | |
| Options[3] | **–** | **31,408** | **–** | – | 37,322 | – |
| **Diluted earnings per ordinary share** | **4,748** | **2,395,853** | **198.2** | 4,231 | 2,192,640 | 193.0 |

There were no ordinary shares issued after the balance sheet date that would have significantly affected the number of ordinary shares used in the above calculation had they been issued prior to the end of the balance sheet date.

**Normalised earnings per ordinary share**

The Group measures earnings per share on a normalised basis. This differs from earnings defined in IAS 33 'Earnings per share (IAS 33)'.

The table below provides a reconciliation.

| | 2011 $million | 2010 $million |
|---|---|---|
| Profit attributable to ordinary shareholders | **4,748** | 4,231 |
| Amortisation of intangible assets arising on business combinations | **69** | 62 |
| Gain on disposal of property | **(49)** | (45) |
| Profit arising on change of control | **-** | (4) |
| Recovery on structured notes | **(96)** | - |
| UK bank payroll tax | **-** | 7 |
| Tax on normalised items | **10** | (6) |
| **Normalised earnings** | **4,682** | 4,245 |
| **Normalised basic earnings per ordinary share (cents)** | **198.0** | 197.0[2] |
| **Normalised diluted earnings per ordinary share (cents)** | **195.4** | 193.6[2] |

1 The profit amounts represent the profit attributable to ordinary shareholders, which is profit for the year after non-controlling interest and the declaration of dividends payable to the holders of the non-cumulative redeemable preference shares classified as equity (see note 10).

2 On 13 October 2010 the Company announced the issue of 260,525,763 new ordinary shares by way of rights to qualifying shareholders at 1280 pence per share. The issue was made as 1 share for every 8 shares held on 21 October 2010. As required by IAS 33 the impact of the bonus element included within the rights issue has been included in the calculations of the basic and diluted earnings per share for 2010.

3 The impact of anti-dilutive options has been excluded from this amount as required by IAS 33.

## 12. Financial instruments

### Classification

Financial assets are classified between four measurement categories: held at fair value through profit or loss (comprising trading and designated), available-for-sale, loans and receivables and held-to-maturity; and two measurement categories for financial liabilities: held at fair value through profit or loss (comprising trading and designated) and amortised cost. Instruments are classified in the balance sheet in accordance with their legal form, except for instruments that are held for trading purposes and those that the Group has designated to hold at fair value through the profit and loss account. The latter are combined on the face of the balance sheet and disclosed as financial assets or liabilities held at fair value through profit or loss.

The Group's classification of its principal financial assets and liabilities is summarised in the table below.

| | | Assets at fair value | | | | Assets at amortised cost | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | Notes | Trading $million | Derivatives held for hedging $million | Designated at fair value through profit or loss $million | Available-for-sale $million | Loans and receivables $million | Held-to-maturity $million | Non-financial assets $million | Total $million |
| Cash and balances at central banks | | **-** | **-** | **-** | **-** | **47,364** | **-** | **-** | **47,364** |
| **Financial assets held at fair value through profit or loss** | | | | | | | | | |
| Loans and advances to banks[1] | | **463** | **-** | **105** | **-** | **-** | **-** | **-** | **568** |
| Loans and advances to customers[1] | | **4,676** | **-** | **312** | **-** | **-** | **-** | **-** | **4,988** |
| Treasury bills and other eligible bills | 13 | **4,609** | **-** | **-** | **-** | **-** | **-** | **-** | **4,609** |
| Debt securities | 13 | **13,025** | **-** | **45** | **-** | **-** | **-** | **-** | **13,070** |
| Equity shares | 13 | **1,028** | **-** | **565** | **-** | **-** | **-** | **-** | **1,593** |
| | | **23,801** | **-** | **1,027** | **-** | **-** | **-** | **-** | **24,828** |
| Derivative financial instruments | 14 | **65,894** | **2,039** | **-** | **-** | **-** | **-** | **-** | **67,933** |
| Loans and advances to banks[1] | 15 | **-** | **-** | **-** | **-** | **65,981** | **-** | **-** | **65,981** |
| Loans and advances to customers[1] | 16 | **-** | **-** | **-** | **-** | **263,765** | **-** | **-** | **263,765** |
| **Investment securities** | | | | | | | | | |
| Treasury bills and other eligible bills | 17 | **-** | **-** | **-** | **21,680** | **-** | **-** | **-** | **21,680** |
| Debt securities | 17 | **-** | **-** | **-** | **55,567** | **5,475** | **18** | **-** | **61,060** |
| Equity shares | 17 | **-** | **-** | **-** | **2,543** | **-** | **-** | **-** | **2,543** |
| | | **-** | **-** | **-** | **79,790** | **5,475** | **18** | **-** | **85,283** |
| Other assets | 18 | **-** | **-** | **-** | **-** | **20,554** | **-** | **6,732** | **27,286** |
| Total at 31 December 2011 | | **89,695** | **2,039** | **1,027** | **79,790** | **403,139** | **18** | **6,732** | **582,440** |
| Cash and balances at central banks | | - | - | - | - | 32,724 | - | - | 32,724 |
| **Financial assets held at fair value through profit or loss** | | | | | | | | | |
| Loans and advances to banks[1] | | 1,206 | - | - | - | - | - | - | 1,206 |
| Loans and advances to customers[1] | | 5,651 | - | 395 | - | - | - | - | 6,046 |
| Treasury bills and other eligible bills | 13 | 5,933 | - | 265 | - | - | - | - | 6,198 |
| Debt securities | 13 | 11,781 | - | 36 | - | - | - | - | 11,817 |
| Equity shares | 13 | 1,329 | - | 425 | - | - | - | - | 1,754 |
| | | 25,900 | - | 1,121 | - | - | - | - | 27,021 |
| Derivative financial instruments | 14 | 46,256 | 1,603 | - | - | - | - | - | 47,859 |
| Loans and advances to banks[1] | 15 | - | - | - | - | 52,058 | - | - | 52,058 |
| Loans and advances to customers[1] | 16 | - | - | - | - | 240,358 | - | - | 240,358 |
| **Investment securities** | | | | | | | | | |
| Treasury bills and other eligible bills | 17 | - | - | - | 17,895 | - | - | - | 17,895 |
| Debt securities | 17 | - | - | - | 50,555 | 4,804 | 25 | - | 55,384 |
| Equity shares | 17 | - | - | - | 2,517 | - | - | - | 2,517 |
| | | - | - | - | 70,967 | 4,804 | 25 | - | 75,796 |
| Other assets | 18 | - | - | - | - | 19,628 | - | 5,728 | 25,356 |
| Total at 31 December 2010 | | 72,156 | 1,603 | 1,121 | 70,967 | 349,572 | 25 | 5,728 | 501,172 |

[1] Further analysed in Risk review on pages 30 to 39.

## 12. Financial instruments continued

### Classification continued

| Liabilities | Notes | Trading $million | Derivatives held for hedging $million | Designated at fair value through profit or loss $million | Amortised cost $million | Non-financial liabilities $million | Total $million |
|---|---|---|---|---|---|---|---|
| | | Liabilities at fair value | | | | | |
| **Financial liabilities held at fair value through profit or loss** | | | | | | | |
| Deposits by banks | | **973** | **-** | **119** | **-** | **-** | **1,092** |
| Customer accounts | | **1,518** | **-** | **7,600** | **-** | **-** | **9,118** |
| Debt securities in issue | | **2,441** | **-** | **1,992** | **-** | **-** | **4,433** |
| Short positions | | **4,956** | **-** | **-** | **-** | **-** | **4,956** |
| | | **9,888** | **-** | **9,711** | **-** | **-** | **19,599** |
| Derivative financial instruments | 14 | **64,850** | **1,076** | **-** | **-** | **-** | **65,926** |
| Deposits by banks | 20 | **-** | **-** | **-** | **35,296** | **-** | **35,296** |
| Customer accounts | 21 | **-** | **-** | **-** | **342,701** | **-** | **342,701** |
| Debt securities in issue | 22 | **-** | **-** | **-** | **47,140** | **-** | **47,140** |
| Other liabilities | 23 | **-** | **-** | **-** | **19,169** | **4,665** | **23,834** |
| Subordinated liabilities and other borrowed funds | 24 | **-** | **-** | **-** | **16,717** | **-** | **16,717** |
| Total at 31 December 2011 | | **74,738** | **1,076** | **9,711** | **461,023** | **4,665** | **551,213** |
| **Financial liabilities held at fair value through profit or loss** | | | | | | | |
| Deposits by banks | | 885 | - | 38 | - | - | 923 |
| Customer accounts | | 2,307 | - | 7,203 | - | - | 9,510 |
| Debt securities in issue | | 2,256 | - | 1,054 | - | - | 3,310 |
| Short positions | | 6,545 | - | - | - | - | 6,545 |
| | | 11,993 | - | 8,295 | - | - | 20,288 |
| Derivative financial instruments | 14 | 46,192 | 941 | - | - | - | 47,133 |
| Deposits by banks | 20 | - | - | - | 28,551 | - | 28,551 |
| Customer accounts | 21 | - | - | - | 306,992 | - | 306,992 |
| Debt securities in issue | 22 | - | - | - | 31,381 | - | 31,381 |
| Other liabilities | 23 | - | - | - | 15,890 | 5,204 | 21,094 |
| Subordinated liabilities and other borrowed funds | 24 | - | - | - | 15,939 | - | 15,939 |
| Total at 31 December 2010 | | 58,185 | 941 | 8,295 | 398,753 | 5,204 | 471,378 |

### Valuation of financial instruments

#### Valuation hierarchy

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

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

## 12. Financial instruments continued

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2011 and 31 December 2010.

| Assets | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Loans and advances to banks | 110 | 458 | - | 568 |
| Loans and advances to customers | 5 | 4,983 | - | 4,988 |
| Treasury bills and other eligible bills | 4,502 | 107 | - | 4,609 |
| Debt securities | 7,516 | 5,261 | 293 | 13,070 |
| Equity shares | 1,027 | - | 566 | 1,593 |
| | 13,160 | 10,809 | 859 | 24,828 |
| Derivative financial instruments | 396 | 67,261 | 276 | 67,933 |
| **Investment securities** | | | | |
| Treasury bills and other eligible bills | 18,831 | 2,800 | 49 | 21,680 |
| Debt securities | 17,938 | 36,884 | 745 | 55,567 |
| Equity shares | 1,116 | 9 | 1,418 | 2,543 |
| | 37,885 | 39,693 | 2,212 | 79,790 |
| At 31 December 2011 | 51,441 | 117,763 | 3,347 | 172,551 |

| Liabilities | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Deposit by banks | 104 | 988 | - | 1,092 |
| Customer accounts | - | 9,118 | - | 9,118 |
| Debt securities in issue | - | 4,261 | 172 | 4,433 |
| Short positions | 4,483 | 473 | - | 4,956 |
| | 4,587 | 14,840 | 172 | 19,599 |
| Derivative financial instruments | 549 | 65,193 | 184 | 65,926 |
| At 31 December 2011 | 5,136 | 80,033 | 356 | 85,525 |

There were no significant transfers between level 1 and level 2 in 2011.

| Assets | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Loans and advances to banks | 406 | 800 | - | 1,206 |
| Loans and advances to customers | 19 | 6,027 | - | 6,046 |
| Treasury bills and other eligible bills | 6,055 | 143 | - | 6,198 |
| Debt securities | 7,257 | 4,333 | 227 | 11,817 |
| Equity shares | 1,434 | 19 | 301 | 1,754 |
| | 15,171 | 11,322 | 528 | 27,021 |
| Derivative financial instruments | 135 | 47,537 | 187 | 47,859 |
| **Investment securities** | | | | |
| Treasury bills and other eligible bills | 15,335 | 2,560 | - | 17,895 |
| Debt securities | 20,631 | 29,342 | 582 | 50,555 |
| Equity shares | 1,020 | 446 | 1,051 | 2,517 |
| | 36,986 | 32,348 | 1,633 | 70,967 |
| At 31 December 2010 | 52,292 | 91,207 | 2,348 | 145,847 |

| Liabilities | Level 1 $million | Level 2 $million | Level 3 $million | Total $million |
|---|---|---|---|---|
| **Financial instruments held at fair value through profit or loss** | | | | |
| Deposit by banks | 320 | 603 | - | 923 |
| Customer accounts | - | 9,510 | - | 9,510 |
| Debt securities in issue | - | 2,999 | 311 | 3,310 |
| Short positions | 6,072 | 473 | - | 6,545 |
| | 6,392 | 13,585 | 311 | 20,288 |
| Derivative financial instruments | 105 | 46,746 | 282 | 47,133 |
| At 31 December 2010 | 6,497 | 60,331 | 593 | 67,421 |

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

## 12. Financial instruments continued

### Level 3 movement tables

### Financial assets

| Assets | Held at fair value through profit or loss: Debt securities $million | Held at fair value through profit or loss: Equity shares $million | Derivative financial instruments $million | Investment securities: Treasury bills $million | Investment securities: Debt securities $million | Investment securities: Equity shares $million | Total $million |
|---|---|---|---|---|---|---|---|
| At 1 January 2011 | 227 | 301 | 187 | - | 582 | 1,051 | 2,348 |
| Total (losses)/gains recognised in income statement | (30) | 73 | 136 | - | (52) | 69 | 196 |
| Total losses recognised in other comprehensive income | - | - | - | (4) | (52) | (199) | (255) |
| Purchases | 223 | 210 | 68 | - | 226 | 416 | 1,143 |
| Sales | (73) | (18) | (7) | - | (189) | (142) | (429) |
| Settlements | (89) | - | (88) | - | (33) | (41) | (251) |
| Transfers out | (94) | - | (33) | - | (246) | (71) | (444) |
| Transfers in | 129 | - | 13 | 53 | 509 | 335 | 1,039 |
| At 31 December 2011 | 293 | 566 | 276 | 49 | 745 | 1,418 | 3,347 |
| Total gains recognised in the income statement relating to assets held at 31 December 2011 | 13 | 62 | 187 | - | - | - | 262 |

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

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year.

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

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

## 12. Financial instruments continued

### Financial liabilities

| Liabilities | 2011 Debt securities in issue $million | 2011 Derivative financial instruments $million | 2011 Total $million | 2010 Debt securities in issue $million | 2010 Derivative financial instruments $million | 2010 Total $million |
|---|---|---|---|---|---|---|
| At 1 January | 311 | 282 | 593 | - | 150 | 150 |
| Total (gains)/losses recognised in income statement | (8) | 38 | 30 | 32 | 93 | 125 |
| Issues | 65 | 51 | 116 | 69 | 33 | 102 |
| Settlements | (242) | (128) | (370) | (2) | - | (2) |
| Transfers out | (34) | (59) | (93) | - | (23) | (23) |
| Transfers in | 80 | - | 80 | 212 | 29 | 241 |
| At 31 December | 172 | 184 | 356 | 311 | 282 | 593 |
| Total (gains)/losses recognised in the income statement relating to liabilities held at 31 December | (38) | 37 | (1) | 32 | 163 | 195 |

Transfers in during the periods primarily relate to certain financial instruments which parameters became unobservable during the year.

### Instruments carried at amortised cost

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. The fair values in the table below are stated as at 31 December and may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument.

| | 2011 Carrying value $million | 2011 Fair value $million | 2010 Carrying value $million | 2010 Fair value $million |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances at central banks | 47,364 | 47,364 | 32,724 | 32,724 |
| Loans and advances to banks | 65,981 | 65,964 | 52,058 | 51,942 |
| Loans and advances to customers | 263,765 | 264,529 | 240,358 | 239,446 |
| Investment securities | 5,493 | 5,241 | 4,829 | 4,765 |
| Other assets | 20,554 | 20,554 | 19,628 | 19,628 |
| **Liabilities** | | | | |
| Deposits by banks | 35,296 | 35,259 | 28,551 | 28,501 |
| Customer accounts | 342,701 | 342,544 | 306,992 | 305,560 |
| Debt securities in issue | 47,140 | 46,836 | 31,381 | 30,710 |
| Subordinated liabilities and other borrowed funds | 16,717 | 16,599 | 15,939 | 16,298 |
| Other liabilities | 19,169 | 19,169 | 15,890 | 15,890 |

## 12. Financial instruments continued

### Reclassification of financial assets

In 2008 the Group reclassified certain non-derivative financial assets classified as held for trading into the available-for-sale ('AFS') category as these were no longer considered to be held for the purpose of selling or repurchasing in the near term. At the time of transfer, the Group identified the rare circumstances permitting such a transfer as the impact of the credit crisis in financial markets, particularly from the beginning of 2008, which significantly impacted the liquidity in certain markets. The Group also reclassified certain eligible financial assets from trading and available-for-sale categories to loans and receivables where the Group had the intent and ability to hold the reclassified assets for the foreseeable future or until maturity. There have been no reclassifications since 2008.

The following tables provide details of the remaining balances of assets reclassified during 2008:

| For assets reclassified: | Carrying amount at 31 December 2011 $million | Fair value at 31 December 2011 $million | If assets had not been reclassified, fair value gains/(losses) from 1 January 2011 to 31 December 2011 which would have been recognised within: Income $million | AFS reserve $million | Income recognised in income statement in 2011 $million | Effective interest rate at date of reclassification % | Estimated amounts of expected cash flows $million |
|---|---|---|---|---|---|---|---|
| From trading to AFS | **176** | **176** | **1** [1] | **-** | **9** | **5.8** | **316** |
| From trading to loans and receivables | **816** | **711** | **(44)** | **-** | **27** | **5.6** | **961** |
| From AFS to loans and receivables | **856** | **796** | **-** | **1** | **27** | **5.5** | **1,118** |
| | **1,848** | **1,683** | **(43)** | **1** | **63** | | |
| Of which asset backed securities: | | | | | | | |
| reclassified to AFS | **114** | **114** | **(1)** [1] | **-** | **5** | | |
| reclassified to loans and receivables | **1,304** | **1,195** | **(11)** | **1** | **43** | | |

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

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

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

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

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

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

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

| | 2011 | | | |
|---|---|---|---|---|
| | Debt Securities $million | Equity Shares $million | Treasury bills $million | Total $million |
| Issued by public bodies: | | | | |
| Government securities | 7,766 | | | |
| Other public sector securities | 65 | | | |
| | 7,831 | | | |
| Issued by banks: | | | | |
| Certificates of deposit | 488 | | | |
| Other debt securities | 1,564 | | | |
| | 2,052 | | | |
| Issued by corporate entities and other issuers: | | | | |
| Other debt securities | 3,187 | | | |
| Total debt securities | 13,070 | | | |
| Of which: | | | | |
| Listed on a recognised UK exchange | 517 | 26 | - | 543 |
| Listed elsewhere | 7,269 | 1,002 | 799 | 9,070 |
| Unlisted | 5,284 | 565 | 3,810 | 9,659 |
| | 13,070 | 1,593 | 4,609 | 19,272 |
| Market value of listed securities | 7,786 | 1,028 | 799 | 9,613 |

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

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

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

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

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

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

## 14. Derivative financial instruments

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

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| **Total derivatives** | **Notional principal amounts $million** | **Assets $million** | **Liabilities $million** | Notional principal amounts $million | Assets $million | Liabilities $million |
| **Foreign exchange derivative contracts:** | | | | | | |
| Forward foreign exchange contracts | **1,130,075** | **17,412** | **16,521** | 986,615 | 12,503 | 12,236 |
| Currency swaps and options | **1,098,433** | **18,003** | **18,774** | 566,291 | 11,343 | 11,712 |
| Exchange traded futures and options | **363** | **-** | **-** | 855 | - | - |
| | **2,228,871** | **35,415** | **35,295** | 1,553,761 | 23,846 | 23,948 |
| **Interest rate derivative contracts:** | | | | | | |
| Swaps | **2,009,872** | **23,994** | **22,220** | 1,745,286 | 17,487 | 17,001 |
| Forward rate agreements and options | **242,843** | **1,086** | **1,093** | 234,926 | 1,010 | 1,029 |
| Exchange traded futures and options | **273,089** | **343** | **347** | 619,859 | 350 | 346 |
| | **2,525,804** | **25,423** | **23,660** | 2,600,071 | 18,847 | 18,376 |
| **Credit derivative contracts** | **77,776** | **1,783** | **1,807** | 65,986 | 1,602 | 1,679 |
| **Equity and stock index options** | **12,057** | **678** | **845** | 8,842 | 479 | 757 |
| **Commodity derivative contracts** | **62,426** | **4,634** | **4,319** | 36,524 | 3,085 | 2,373 |
| **Total derivatives** | **4,906,934** | **67,933** | **65,926** | 4,265,184 | 47,859 | 47,133 |

The Group limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are not presented net in these accounts as in the ordinary course of business they are not intended to be settled net. Details of the amounts available for offset can be found in the Risk review on page 30.

The Derivatives and Hedging sections of the Risk review on pages 46 and 47 explain the Group's risk management of derivative contracts and application of hedging.

## 14. Derivative financial instruments continued

### Derivatives held for hedging

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

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Notional principal amounts $million | Assets $million | Liabilities $million | Notional principal amounts $million | Assets $million | Liabilities $million |
| **Derivatives designated as fair value hedges:** | | | | | | |
| Interest rate swaps | 45,249 | 1,806 | 760 | 33,280 | 1,424 | 652 |
| Currency swaps | 3,768 | 60 | 221 | 3,178 | 46 | 172 |
| Forward foreign exchange contracts | 843 | 67 | - | 1,650 | 28 | 11 |
| | 49,860 | 1,933 | 981 | 38,108 | 1,498 | 835 |
| **Derivatives designated as cash flow hedges:** | | | | | | |
| Interest rate swaps | 23,536 | 40 | 21 | 18,591 | 20 | 23 |
| Options | - | - | - | 950 | 54 | - |
| Forward foreign exchange contracts | 2,999 | 2 | 72 | 148 | 22 | 6 |
| Currency swaps | 3,609 | 30 | 2 | 1,751 | 9 | 1 |
| | 30,144 | 72 | 95 | 21,440 | 105 | 30 |
| **Derivatives designated as net investment hedges:** | | | | | | |
| Forward foreign exchange contracts | 707 | 34 | - | 803 | - | 76 |
| **Total derivatives held for hedging** | 80,711 | 2,039 | 1,076 | 60,351 | 1,603 | 941 |

## 15. Loans and advances to banks

| | 2011 $million | 2010 $million |
|---|---|---|
| Loans and advances to banks | 66,633 | 53,359 |
| Individual impairment provision | (82) | (93) |
| Portfolio impairment provision | (2) | (2) |
| | 66,549 | 53,264 |
| Of which: loans and advances held at fair value through profit or loss (note 12) | (568) | (1,206) |
| | 65,981 | 52,058 |

Analysis of loans and advances to banks by geography are set out in the Risk review section on pages 31 to 32.

## 16. Loans and advances to customers

| | 2011 $million | 2010 $million |
|---|---|---|
| Loans and advances to customers | 271,403 | 248,988 |
| Individual impairment provision | (1,890) | (1,824) |
| Portfolio impairment provision | (760) | (760) |
| | 268,753 | 246,404 |
| Of which: loans and advances held at fair value through profit or loss (note 12) | (4,988) | (6,046) |
| | 263,765 | 240,358 |

The Group has outstanding residential mortgage loans to Korea residents of $20.8 billion (2010:$23.1 billion) and Hong Kong residents of $18.8 billion (2010: $18.2 billion).

Analysis of loans and advances to customers by geography and business and related impairment provisions are set out within the Risk review on pages 31 to 37.

## 17. Investment securities

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Debt securities | | | | | |
| | Held-to-maturity $million | Available-for-sale $million | Loans and receivables $million | Equity shares $million | Treasury bills $million | Total $million |
| Issued by public bodies: | | | | | | |
| Government securities | 18 | 20,462 | 389 | | | |
| Other public sector securities | - | 690 | - | | | |
| | 18 | 21,152 | 389 | | | |
| Issued by banks: | | | | | | |
| Certificates of deposit | - | 5,811 | - | | | |
| Other debt securities | - | 18,292 | 1,043 | | | |
| | - | 24,103 | 1,043 | | | |
| Issued by corporate entities and other issuers: | | | | | | |
| Other debt securities | - | 10,312 | 4,043 | | | |
| Total debt securities | 18 | 55,567 | 5,475 | | | |
| Of which: | | | | | | |
| Listed on a recognised UK exchange | - | 5,431 | 242[1] | 150 | - | 5,823 |
| Listed elsewhere | 18 | 17,082 | 820[1] | 869 | 7,516 | 26,305 |
| Unlisted | - | 33,054 | 4,413 | 1,524 | 14,164 | 53,155 |
| | 18 | 55,567 | 5,475 | 2,543 | 21,680 | 85,283 |
| Market value of listed securities | 18 | 22,513 | 954 | 1,019 | 7,516 | 32,020 |

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

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

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

Equity shares largely comprise investments in corporates.

## 17. Investment securities continued

The change in the carrying amount of investment securities comprised:

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Debt securities $million | Equity shares $million | Treasury bills $million | Total $million | Debt securities $million | Equity shares $million | Treasury bills $million | Total $million |
| At 1 January | 55,384 | 2,517 | 17,895 | 75,796 | 55,121 | 1,649 | 18,958 | 75,728 |
| Exchange translation differences | (960) | 5 | (848) | (1,803) | 1,403 | 10 | 483 | 1,896 |
| Additions | 79,385 | 982 | 50,893 | 131,260 | 78,225 | 757 | 35,094 | 114,076 |
| Maturities and disposals | (72,668) | (672) | (46,491) | (119,831) | (79,595) | (279) | (36,784) | (116,658) |
| Impairment, net of recoveries on disposal | (84) | (12) | - | (96) | (24) | (9) | - | (33) |
| Changes in fair value (including the effect of fair value hedging) | 99 | (277) | (38) | (216) | 355 | 389 | 46 | 790 |
| Amortisation of discounts and premiums | (96) | - | 269 | 173 | (101) | - | 98 | (3) |
| At 31 December | 61,060 | 2,543 | 21,680 | 85,283 | 55,384 | 2,517 | 17,895 | 75,796 |

At 31 December 2011, unamortised premiums on debt securities held for investment purposes amounted to $387 million (2010: $430 million) and unamortised discounts amounted to $308 million (2010: $397 million). Income from listed equity shares amounted to $36 million (2010: $8 million) and income from unlisted equity shares amounted to $37 million (2010: $45 million).

## 18. Other assets

| | 2011 $million | 2010 $million |
|---|---|---|
| Financial assets held at amortised cost (note 12) | | |
| Hong Kong SAR Government certificates of indebtedness (note 23) | 4,043 | 4,063 |
| Cash collateral | 4,856 | 5,620 |
| Acceptances and endorsements | 5,485 | 4,847 |
| Unsettled trades and other financial assets | 6,170 | 5,098 |
| | 20,554 | 19,628 |
| Non-financial assets | | |
| Commodities | 3,523 | 2,852 |
| Other | 3,209 | 2,876 |
| | 27,286 | 25,356 |

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

## 19. Business Combinations

### 2011 acquisitions

Following the finalisation of the provisional fair values relating to deferred tax in respect of the Group's acquisition of the custody business of Barclays Bank PLC across various locations in Africa in 2010, the fair value of net assets acquired decreased by $18 million increasing goodwill by the same amount. Prior period numbers have been restated accordingly.

On 8 April 2011, the Group acquired 100 per cent interest in GE Money Pte Limited, a leading specialist in auto and unsecured personal loans in Singapore, for a total cash consideration of $695 million, recognising goodwill of $199 million.

On 2 September 2011, the Group acquired 100 per cent interest in Gryphon Partners Advisory Pty Ltd and Gryphon Partners Canada Inc (together "Gryphon Partners") for a total consideration of $53 million. As required by IFRS 3, only $28 million of this consideration is deemed to relate to the cost of acquisition; for accounting purposes the balance is deemed to represent remuneration and is charged to the income statement over the period to 2015. Goodwill of $11 million was recognised on this transaction.

If these acquisitions had occurred on 1 January 2011 the operating income of the Group would have been approximately $17,671 million and profit before taxation would have been $6,793 million. These acquisitions contributed $66 million to the Group's operating income and $40 million to the Group's profit before taxation since acquisition.

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

| | Fair value $million |
|---|---|
| Cash and balances at central banks | 6 |
| Loans and advances to customers | 1,545 |
| Intangibles other than goodwill | 17 |
| Other assets | 24 |
| Total assets | 1,592 |
| Other liabilities | 1,079 |
| Total liabilities | 1,079 |
| Net assets acquired | 513 |
| Purchase consideration settled in cash | (718) |
| Cash and cash equivalents in subsidiary acquired | 6 |
| Cash outflow on acquisition | (712) |
| Purchase consideration: | |
| Cash paid | 718 |
| Contingent consideration | 5 |
| Less: Fair value of net assets acquired | (513) |
| Goodwill | 210 |
| Intangible assets acquired: | |
| Customer relationships | 17 |
| Total | 17 |

Goodwill arising on the acquisitions is attributable to the synergies expected to arise from their integration with the Group, the skilled workforce acquired and the distribution networks. The primary reason for these acquisitions is to enhance capability and broaden product offering to customers.

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

The fair value of loans to banks is $16 million. The gross contractual amount due is $16 million, which is expected to be collected. The fair value of loans to customers is $1,545 million. The gross contractual amount due is $1,554 million, of which $9 million is the best estimate of the contractual cash flows not expected to be collected.

Acquisition related costs of $1.9 million are included within operating expenses.

## 19. Business Combinations continued

### 2010 acquisitions

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

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

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

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

If the acquisitions had occurred on 1 January 2010, the operating income of the Group would have been approximately $16,099 million and profit before taxation would have been approximately $6,135 million. The acquisitions contributed $22 million to the Group's operating income and $8 million to the Group's profit before taxation following acquisition.

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

| | Fair value $million |
|---|---|
| Cash and balances at central banks | 20 |
| Loans and advances to banks | 6 |
| Loans and advances to customers | 894 |
| Investment securities | 2 |
| Intangibles other than goodwill | 112 |
| Deferred tax assets | 4 |
| Other assets | 16 |
| Total assets | 1,054 |
| Other liabilities | 737 |
| Accruals and deferred income | 11 |
| Total liabilities | 748 |
| Net assets acquired | 306 |
| Purchase consideration settled in cash | (364) |
| Cash and cash equivalents in subsidiary acquired | 20 |
| Cash outflow on acquisition | (344) |
| Purchase consideration: | |
| Cash paid | 364 |
| Fair value of interest held prior to change in control | 55 |
| Fair value of net assets acquired | (306) |
| Goodwill | 113 |
| Intangible assets acquired: | |
| Customer relationships | 112 |
| Total | 112 |

Goodwill arising on the acquisitions is attributable to the synergies expected to arise from their integration with the Group and to those intangibles which are not recognised separately, such as the acquired skilled workforce. The primary reason for its acquisition was to enhance capability and for strategic intent.

## 20. Deposits by banks

| | 2011 $million | 2010 $million |
|---|---|---|
| Deposits by banks | 35,296 | 28,551 |
| Deposits by banks included within: | | |
| Financial liabilities held at fair value through profit or loss (note 12) | 1,092 | 923 |
| | 36,388 | 29,474 |

## 21. Customer accounts

| | 2011 $million | 2010 $million |
|---|---|---|
| Customer accounts | 342,701 | 306,992 |
| Customer accounts included within: | | |
| Financial liabilities held at fair value through profit or loss (note 12) | 9,118 | 9,510 |
| | 351,819 | 316,502 |

## 22. Debt securities in issue

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Certificates of deposit of $100,000 or more $million | Other debt securities in issue $million | Total $million | Certificates of deposit of $100,000 or more $million | Other debt securities in issue $million | Total $million |
| Debt securities in issue | 15,783 | 31,357 | 47,140 | 9,021 | 22,360 | 31,381 |
| Debt securities in issue included within: Financial liabilities held at fair value through profit or loss (note 12) | 166 | 4,267 | 4,433 | 207 | 3,103 | 3,310 |
| | 15,949 | 35,624 | 51,573 | 9,228 | 25,463 | 34,691 |

## 23. Other liabilities

| | 2011 $million | 2010 $million |
|---|---|---|
| Financial liabilities held at amortised cost (note 12) | | |
| Notes in circulation | 4,043 | 4,063 |
| Acceptances and endorsements | 5,473 | 4,774 |
| Cash collateral | 3,145 | 2,527 |
| Unsettled trades and other financial liabilities | 6,508 | 4,526 |
| | 19,169 | 15,890 |
| Non-financial liabilities | | |
| Cash-settled share based payments | 85 | 128 |
| Other liabilities | 4,580 | 5,076 |
| | 23,834 | 21,094 |

Hong Kong currency notes in circulation of $4,043 million (2010: $4,063 million) which are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 18).

## 24. Subordinated liabilities and other borrowed funds

| | 2011 $million | 2010 $million |
|---|---|---|
| Subordinated liabilities and other borrowed funds | **16,717** | 15,939 |

All subordinated liabilities are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements.

Of the total subordinated liabilities and other borrowings, $12,918 million is at fixed interest rates (2010: $11,611 million).

On 12 May 2011, Standard Chartered Bank (Botswana) Limited issued BWP 70 million floating notes due May 2021.

On 28 June 2011, PT Bank Permata Tbk issued IDR 1,750 billion fixed interest rate subordinated notes due June 2018.

On 27 October 2011, Standard Chartered Bank (Hong Kong) Limited issued SGD 750 million fixed interest rate subordinated notes due 2021.

On 6 December 2011, Standard Chartered First Bank Korea Limited[1] issued KRW 270 billion fixed interest rate subordinated debt due 2021.

During January 2011, Standard Chartered (Pakistan) Limited redeemed the remaining balance of its PKR750 million floating rates note 2011 of PKR 187 million.

On 21 January 2011, Standard Chartered First Bank Korea Limited[1] redeemed its KRW 3 billion 6.11 per cent notes in full.

On 9 June 2011, Standard Chartered Bank exercised its right to redeem its $500 million subordinated floating rate notes in full on the first optional call date.

On 20 June 2011, Standard Chartered Bank (Botswana) Limited redeemed BWP 50 million fixed rates notes in full.

On 15 December 2011, PT Bank Permata Tbk redeemed IDR 500 billion floating rate notes.

[1] Has been renamed as Standard Chartered Bank Korea Limited on 11 January 2012.

## 25. Retirement benefit obligations

Retirement benefit obligations comprise:

| | 2011 $million | 2010 $million |
|---|---|---|
| Total market value of assets | **2,118** | 2,149 |
| Present value of the schemes' liabilities | **(2,617)** | (2,446) |
| Defined benefit schemes obligation | **(499)** | (297) |
| Defined contribution schemes obligation | **(20)** | (13) |
| Net book amount | **(519)** | (310) |

Retirement benefit charge comprises:

| | 2011 $million | 2010 $million |
|---|---|---|
| Defined benefit schemes | **103** | 39 |
| Defined contribution schemes | **179** | 143 |
| Charge against profit | **282** | 182 |

The pension cost for defined benefit schemes was:

| | 2011 $million | 2010 $million |
|---|---|---|
| Current service cost | **101** | 88 |
| Past service cost/(benefits) | **3** | (53) |
| Gain on settlements and curtailments | **(5)** | (10) |
| Expected return on pension scheme assets | **(120)** | (111) |
| Interest on pension scheme liabilities | **124** | 125 |
| Total charge to profit before deduction of tax | **103** | 39 |
| | | |
| Loss/(gain) on assets above expected return | **58** | (59) |
| Experience loss/(gain) on liabilities | **131** | (24) |
| Total loss/(gain) recognised directly in Other comprehensive income before tax | **189** | (83) |
| Deferred taxation | **(37)** | 17 |
| Total loss/(gain) after tax | **152** | (66) |

## 26. Share capital, reserves and own shares

| | Number of ordinary shares (millions) | Ordinary share capital $million | Preference share capital $million | Total $million |
|---|---|---|---|---|
| At 1 January 2010 | 2,025 | 1,013 | - | 1,013 |
| Capitalised on scrip dividend | 28 | 14 | - | 14 |
| Shares issued | 295 | 147 | - | 147 |
| At 31 December 2010 | **2,348** | **1,174** | **-** | **1,174** |
| Capitalised on scrip dividend | **25** | **12** | **-** | **12** |
| Shares issued | **11** | **6** | **-** | **6** |
| At 31 December 2011 | **2,384** | **1,192** | **-** | **1,192** |

**2011**

On 11 May 2011, the Company issued 23,196,890 new ordinary shares instead of the 2010 final dividend. On 4 October 2011 the Company issued 1,274,109 new ordinary shares instead of the 2011 interim dividend.

During the year 11,425,223 shares were issued under employee share plans at prices between nil and 1463 pence.

**2010**

On 11 June 2010, the Company completed the listing of Indian Depository Receipts (IDRs) on the Bombay and National stock exchanges by issuing 24,000,000 shares of the Company against 240,000,000 IDRs (at a ratio of 10 IDRs representing 1 Company share). The shares were issued at a price of Indian Rupees (INR)104 per IDR representing a 6 per cent discount to the Company's closing share price of 1637 pence on 28 May 2010, which contributed $504 million towards the Group's capital, net of expenses of $27 million. The proceeds of this listing will be used by the Group in the ordinary course of business.

On 13 May 2010, the Company issued 18,190,898 new ordinary shares instead of the 2009 final dividend. On 4 October 2010 the Company issued 9,688,558 new ordinary shares instead of the 2010 Interim dividend.

During the year 10,550,826 shares were issued under employee share plans at prices between nil and 1146 pence.

On 13 October 2010, the Company announced the issue of 260,525,763 new ordinary shares by way of rights to qualifying shareholders at 1280 pence per new ordinary share. The issue was on the basis of 1 ordinary share for every 8 ordinary shares held on 21 October 2010. The rights issue raised $5.2 billion in additional capital for the Company, net of expenses of $122 million. The proceeds will be used in the ordinary course of business. The rights issue used a cash box structure involving a Jersey subsidiary (JerseyCo) which was fully owned by the Company prior to the transaction. In return for an issue of shares by the Company to the investors, the net proceeds of the share issue were paid to JerseyCo. Pursuant to the issue of those shares, the Company acquired the remaining share capital of JerseyCo, being all of its redeemable preference shares it did not own. Under this structure merger relief applies under Section 612 of the Companies Act 2006 which provides relief from the requirements under Section 610 of the Companies Act 2006 to create a share premium account. JerseyCo then redeemed its redeemable shares in exchange for the share issue proceeds.

## 26. Share capital, reserves and own shares continued

### Own shares

Bedell Cristin Trustees Limited is trustee of both the 1995 Employees' Share Ownership Plan Trust (the 1995 trust), which is an employee benefit trust used in conjunction with some of the Group's employee share schemes, and of the Standard Chartered 2004 Employee Benefit Trust (the 2004 trust) which is an employee benefit trust used in conjunction with the Group's deferred bonus plan. The trustee has agreed to satisfy a number of awards made under the employee share schemes and the deferred bonus plan through the relevant employee benefit trust. As part of these arrangements Group companies fund the trust, from time to time, to enable the trustee to acquire shares to satisfy these awards. All shares have been acquired through the London Stock Exchange.

Except as disclosed, neither the Company nor any of its subsidiaries has bought, sold or redeemed any securities of the company listed on The Stock Exchange of Hong Kong Limited during the year. Details of the shares purchased and held by the trusts are set out below.

| | 1995 Trust | | 2004 Trust | | Total | |
|---|---|---|---|---|---|---|
| Number of shares | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Shares purchased | **4,500,000** | 6,856,494 | **1,136,086** | 401,018 | **5,636,086** | 7,257,512 |
| Market price of shares purchased ($ million) | **117** | 182 | **29** | 10 | **146** | 192 |
| Shares held at the end of the year | **11,049,476** | 13,429,212 | **281,670** | 539,605 | **11,331,146** | 13,968,817 |
| Maximum number of shares held during year | | | | | **15,590,159** | 13,971,029 |

## 27. Non-controlling interests

| | $300m 7.267% Hybrid Tier 1 Securities $million | Other non-controlling interests $million | Total $million |
|---|---|---|---|
| At 1 January 2010 | 324 | 256 | 580 |
| Income in equity attributable to non-controlling interests | - | 30 | 30 |
| Other profits attributable to non-controlling interests | 19 | 63 | 82 |
| Comprehensive income for the year | 19 | 93 | 112 |
| Distributions | (22) | (32) | (54) |
| Other increases | - | 15 | 15 |
| At 31 December 2010 | **321** | **332** | **653** |
| Expenses in equity attributable to non-controlling interests | **-** | **(28)** | **(28)** |
| Other profits attributable to non-controlling interests | **22** | **62** | **84** |
| Comprehensive income for the year | **22** | **34** | **56** |
| Distributions | **(23)** | **(46)** | **(69)** |
| Other increases | **-** | **21** | **21** |
| At 31 December 2011 | **320** | **341** | **661** |

## 28. Cash flow statement

### Adjustment for non-cash items and other adjustments included within income statement

| | 2011 $million | 2010 [1] $million |
|---|---|---|
| Amortisation of discounts and premiums of investment securities | (173) | 3 |
| Interest expense on subordinated liabilities | 474 | 430 |
| Interest expense on senior debts liabilities | 809 | 328 |
| Other non-cash items | 204 | 95 |
| Pension costs for defined benefit schemes | 103 | 39 |
| Share based payment costs | 392 | 390 |
| UK bank levy | 69 | - |
| Impairment losses on loans and advances and other credit risk provisions | 908 | 883 |
| Dividend income from subsidiaries | - | - |
| Other impairment | 111 | 76 |
| Profit from associates | (74) | (42) |
| Total | 2,823 | 2,202 |

### Change in operating assets

| | 2011 $million | 2010 [1] $million |
|---|---|---|
| Increase in derivative financial instruments | (21,617) | (8,736) |
| Net increase in debt securities, treasury bills and equity shares held at fair value through profit or loss | (2,373) | (13,554) |
| Net increase in loans and advances to banks and customers | (38,771) | (50,519) |
| (Increase)/decrease in pre-payments and accrued income | (440) | 1,165 |
| (Increase)/decrease in other assets | (4,810) | (10,708) |
| Total | (68,011) | (82,352) |

### Change in operating liabilities

| | 2011 $million | 2010 [1] $million |
|---|---|---|
| Increase/(decrease) in derivative financial instruments | 20,266 | 9,628 |
| Net increase in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions | 55,069 | 43,879 |
| Increase/(decrease) in accruals and deferred income | 217 | 298 |
| Increase/(decrease) in other liabilities | 2,926 | 5,159 |
| Total | 78,478 | 58,964 |

[1] Amounts have been restated as explained in note 34.

## 29. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition. Restricted balances comprise minimum balances required to be held at central banks.

| | 2011 $million | 2010 $million |
|---|---|---|
| Cash and balances at central banks | 47,364 | 32,724 |
| Less restricted balances | (9,961) | (7,385) |
| Treasury bills and other eligible bills | 3,244 | 4,770 |
| Loans and advances to banks | 27,470 | 26,161 |
| Trading securities | 2,333 | 3,464 |
| Total | 70,450 | 59,734 |

## 30. Contingent liabilities and commitments

The table below shows the contract or underlying principal amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

| | 2011 $million | 2010 $million |
|---|---|---|
| **Contingent liabilities**[1] | | |
| Guarantees and irrevocable letters of credit | 27,022 | 31,765 |
| Other contingent liabilities | 15,858 | 10,039 |
| | 42,880 | 41,804 |
| **Commitments**[1] | | |
| Documentary credits and short term trade-related transactions | 8,612 | 7,505 |
| Forward asset purchases and forward deposits placed | 733 | 877 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | |
| One year and over | 28,507 | 24,014 |
| Less than one year | 24,193 | 21,610 |
| Unconditionally cancellable | 88,652 | 80,525[2] |
| | 150,697 | 134,531 |

1 Includes amounts relating to the Group's share of its joint ventures.

2 Amounts have been restated to include facilities extended to certain Consumer Banking customers.

## 31. Repurchase and reverse repurchase agreements

The Group enters into collateralised reverse repurchase and repurchase agreements and securities borrowing and lending transactions. It also receives securities as collateral for commercial lending.

### Balance sheet assets - Reverse repurchase agreements

| | 2011 $million | 2010 $million |
|---|---|---|
| Banks | 5,706 | 10,740 |
| Customers | 1,890 | 3,540 |
| | 7,596 | 14,280 |

Under reverse repurchase and securities borrowing arrangements, the Group obtains securities on terms which permit it to repledge or resell the securities to others. Amounts on such terms are:

| | 2011 $million | 2010 $million |
|---|---|---|
| Securities and collateral which can be repledged or sold (at fair value) | 7,076 | 14,168 |
| Thereof repledged/transferred to others for financing activities, to satisfy commitments under short sale transactions or liabilities under sale and repurchase agreements (at fair value) | 1,005 | 2,153 |

### Balance sheet liabilities - Repurchase agreements

| | 2011 $million | 2010 $million |
|---|---|---|
| Banks | 1,913 | 1,707 |
| Customers | 1,850 | 1,305 |
| | 3,763 | 3,012 |

The terms and conditions relating to the collateral pledged typically permits the collateral to be sold or repledged, subject to the obligation to return the collateral at the end of the agreement. The table below discloses the collateral pledged against repurchase agreements.

### Collateral pledged against repurchase agreements

| | 2011 $million | 2010 $million |
|---|---|---|
| Debt securities | 2,055 | 1,242 |
| Treasury bills | 724 | 1,198 |
| Loans and advances to customers | 15 | 39 |
| Repledged securities | 1,005 | 2,153 |
| | 3,799 | 4,632 |

## 32. Special purpose entities

The Group uses Special Purpose Entities (SPEs) in the normal course of business across a variety of activities. SPEs are established for specific limited purposes and take a number of legal forms. The main types of activities for which the Group utilises SPEs cover synthetic credit default swaps for portfolio management purposes, managed investment funds (including specialised principal finance funds) and structured finance.

SPEs are consolidated into the Group's financial statements where the Group bears the majority of the residual risk or reward. Most of the Group's consolidated SPEs are in respect of the Group's securitised portfolios of residential mortgages (see page 30 of the Risk review).

The total assets of unconsolidated SPEs in which the Group has an interest are set out below.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Total assets** | **Maximum exposure** | Total assets | Maximum exposure |
| | **$million** | **$million** | $million | $million |
| Portfolio management vehicles | **1,136** | **130** | 2,083 | 262 |
| Principal Finance Funds[1] | **1,089** | **131** | 995 | 134 |
| Structured finance | **291** | **99** | 948 | 690 |
| | **2,516** | **360** | 4,026 | 1,086 |

[1] Committed capital for these funds is $375 million (2010: $375 million) of which $129 million (2010: $129 million) has been drawn down net of provisions for impairment of $33 million (2010: $33 million).

For the purposes of portfolio management, the Group has entered into synthetic credit default swaps with note-issuing SPEs. The referenced assets remain on the Group's balance sheet as the credit risk is not transferred to these SPEs. The Group's exposure arises from (a) the capitalised start-up costs in respect of the swap vehicles and (b) interest in the first loss notes and investment in a minimal portion of the mezzanine and senior rated notes issued by the note issuing SPEs. The proceeds of the notes issuance are typically invested in AAA-rated Government securities, which are used to collateralise the SPE's swap obligations to the Group, and to repay the principal to investors at maturity. The SPEs reimburse the Group on actual losses incurred, through the realisation of the collateral security. Correspondingly, the SPEs write down the notes issued by an equal amount of the losses incurred, in reverse order of seniority. All the funding is committed for the life of these vehicles and hence the Group has no indirect exposure in respect of the vehicles' liquidity position.

The Group's exposure to Principal Finance Funds represents committed or invested capital in unleveraged investment funds, primarily investing in pan-Asian infrastructure and real estate.

Structured finance comprises interests in transactions that the Group or, more usually, a customer has structured, using one or more SPEs, which provide beneficial arrangements for customers. The Group's exposure primarily represents the provision of funding to these structures as a financial intermediary, for which it receives a lender's return. The transactions in 2011 largely related to the provision of ship finance.

The Group has reputational risk in respect of certain portfolio management vehicles and investment funds either because the Group is the arranger and lead manager or because the SPEs have Standard Chartered branding.

## 33. Post balance sheet events

### Tax

On 23 March 2011, the UK government announced a further reduction in the UK corporation tax rate of 1 per cent with effect from 1 April 2011, in addition to the stepped reductions as announced in June 2010. The effect of the further reduction is to reduce the UK corporation tax rate from 28 per cent in 2010-11 to 26 per cent in 2011-12, with further reductions to 25 per cent in 2012-13, 24 per cent in 2013-14 and 23 per cent in 2014-15.

As of 31 December 2011, only the further tax rate change for 2012-13 to 25 per cent had been substantively enacted. Had the changes of UK corporation tax rates for 2013-15 been enacted at that date, the Group estimates that the UK deferred tax assets for 2011 would have reduced by a further $25 million.

## 34. Restatement of prior periods

### Cash flow statement

The cash flow statement has been re-presented as follows:

- Interest expense relating to senior debts has been reclassified to 'non-cash items included within income statement' from 'change in operating liabilities'.
- Also reflects restatement relating to Group's acquisition of the custody business from Barclays Bank PLC in 2010 of $18 million.

| | As reported at 2010 $million | Reclassified $million | Re-presented at 2010 $million |
|---|---|---|---|
| Non-cash items included within income statement | 1,874 | 328 | 2,202 |
| Change in operating assets | (82,334) | (18) | (82,352) |
| Change in operating liabilities | 59,274 | (310) | 58,964 |

### Acquisitions

Provisional balances relating to the Group's acquisition of the custody business from Barclays Bank PLC in 2010 have been finalised. As a result, the Group has revised the fair value of the deferred tax balances by $18 million. Goodwill at acquisition has been restated to $39 million.

| Balance sheet | As reported 2010 $million | Restated $million | Restated at 2010 $million |
|---|---|---|---|
| Goodwill and intangible assets | 6,980 | 18 | 6,998 |
| Deferred tax liabilities | 165 | 18 | 183 |
| Tangible net asset value per share (cents) | 1,274.1 | (0.7) | 1,273.4 |
| **Cash flow statement** | | | |
| Change in operating assets | (24,355) | (18) | (24,373) |
| Change in operating liabilities | 14,425 | 18 | 14,443 |

## 35. Related party transactions

### Directors and officers

Details of directors' remuneration and interests in shares are disclosed in the Directors' remuneration report in the Annual Report and Accounts.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises non-executive directors and members of the Group Management Committee, which includes all executive directors.

| | **2011 $million** | 2010 $million |
|---|---|---|
| Salaries, allowances and benefits in kind | **19** | 19 |
| Pension contributions | **5** | 6 |
| Bonuses paid or receivable | **11** | 12 |
| Share based payments | **39** | 35 |
| | **74** | 72 |

### Transactions with directors, officers and others

At 31 December 2011, the total amounts to be disclosed under the Companies Act 2006 (the Act) and the Listing Rules of the Hong Kong Stock Exchange Limited (HK Listing Rules) about loans to directors and officers were as follows:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Number** | **$000** | Number | $000 |
| Directors | **2** | **2,550** | 2 | 3,030 |
| Officers[1] | **2** | **3,064** | 2 | 3,458 |

[1] For this disclosure the term 'Officers' means the member of the Group Management Committee, other than those who are directors of Standard Chartered PLC, and the Group Company Secretary.

### 35. Related party transactions continued

As at 31 December 2011, Standard Chartered Bank had created a charge over $42 million (2010: $38 million) of cash assets in favour of the independent trustees of its employer financial retirement benefit schemes.

Other than as disclosed in the Annual Report and Accounts, there were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the HK Listing Rules.

**Associates**

The Group has loans and advances to Merchant Solutions and China Bohai Bank totalling $39 million and $172 million respectively at 31 December 2011 (2010: $42 million and $6 million respectively) and amounts payable to Merchant Solutions and China Bohai Bank of $30 million and $10 million respectively at 31 December 2011 (2010: $34 million and $2 million respectively). During the year, China Bohai Bank and ACB undertook a rights issue to which the Group subscribed, increasing its investment by $182 million and $12 million respectively. Except as disclosed, the Group did not have any amounts due to or from associate investments.

**Joint ventures**

The Group has loans and advances to PT Bank Permata Tbk totalling $7 million at 31 December 2011 (2010: $2 million), and deposits of $29 million (2010: $24 million). The Group has investments in subordinated debt issued by PT Bank Permata Tbk of $132 million (2010: $127 million).

### 36. Corporate governance

The directors confirm that, throughout the year, the Company has complied with the provisions of Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange ("HK Listing Rules"). The Company confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by Appendix 10 of the HK Listing Rules. During the year, there has been one incidence of inadvertent non-compliance with the Company's code of conduct. This related to the creation of a pledge, by a director, over certain ordinary shares he holds.

The directors confirm that the announcement of these results has been reviewed by the Company's Audit Committee.

### 37. Other information

The financial information included within this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2011 were approved by the directors on 29 February 2012. These accounts will be published on 23 March 2012 after which they will be delivered to the Registrar of Companies. The report of the auditors on these accounts was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not include a statement under section 498 of the Companies Act 2006.

### 38. IFRS and Hong Kong accounting requirements

As required by the HK Listing Rules, an explanation of the differences in accounting practices between EU endorsed IFRS and Hong Kong Financial Reporting Standards is required to be disclosed. There would be no significant differences had these accounts been prepared in accordance with Hong Kong Financial Reporting Standards. EU endorsed IFRS may differ from IFRSs published by the International Accounting Standards Board if a standard has not been endorsed by the EU.

# Statement of directors' responsibilities

**The directors confirm that to the best of their knowledge:**

(a) the consolidated financial information contained herein has been prepared in accordance with IFRSs as adopted by the European Union and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(b) this announcement includes:

  (i) an indication of important events that have occurred during the year ended 31 December 2011 and their impact on the consolidated financial statements, and a description of the principal risks and uncertainties; and

  (ii) details of material related party transactions in the year ended 31 December 2011 and any material changes in the related party transactions described in the last annual report of the Group.

By order of the Board

R H Meddings
Group Finance Director
29 February 2012

# Additional information

## A. Remuneration

The Group employed 86,865 staff at 31 December 2011 (2010: 85,231).

Performance and reward philosophy and principles

The Group's success depends upon the performance and commitment of talented employees. Our performance, reward and benefits approach supports and drives our business strategy and reinforces our values in the context of a clearly articulated risk appetite and a "One-Bank" framework. Our 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) to the performance of the business; and (iii) to the interests of shareholders
- maintains a competitive reward package that reflects our international nature and enables us to attract, retain and motivate our employees
- reflects the fact that many of our employees bring international experience and expertise, and we recruit from a global marketplace The Remuneration Committee reviews the policy on a regular basis against significant regulatory developments, market practice and shareholder views and makes appropriate adjustments.

### Performance oriented culture

Our 'One Bank' philosophy, which applies to all employees, ensures that behaviours including prudent risk management and values are rewarded as well as business performance and is central to our remuneration policy. It means that we seek to ensure our 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 Standard Chartered 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).

## B. Summarised consolidated income statement

| | 1st half 2011 $million | 2nd half 2011 $million | **2011 $million** |
|---|---|---|---|
| Interest income | 7,886 | 8,698 | **16,584** |
| Interest expense | (2,945) | (3,486) | **(6,431)** |
| **Net interest income** | 4,941 | 5,212 | **10,153** |
| Fees and commission income | 2,401 | 2,065 | **4,466** |
| Fees and commission expense | (222) | (198) | **(420)** |
| Net trading income | 1,366 | 1,279 | **2,645** |
| Other operating income | 278 | 515 | **793** |
| **Total non-interest income** | 3,823 | 3,661 | **7,484** |
| **Operating income** | 8,764 | 8,873 | **17,637** |
| Staff costs | (3,224) | (3,406) | **(6,630)** |
| Premises costs | (422) | (440) | **(862)** |
| General administrative expenses | (731) | (1,073) | **(1,804)** |
| Depreciation and amortisation | (300) | (321) | **(621)** |
| **Operating expenses** | (4,677) | (5,240) | **(9,917)** |
| **Operating profit before impairment losses and taxation** | 4,087 | 3,633 | **7,720** |
| Impairment losses on loans and advances and other credit risk provisions | (412) | (496) | **(908)** |
| Other impairment | (72) | (39) | **(111)** |
| Profit from associates | 33 | 41 | **74** |
| **Profit before taxation** | 3,636 | 3,139 | **6,775** |
| Taxation | (1,032) | (810) | **(1,842)** |
| **Profit for the year** | 2,604 | 2,329 | **4,933** |
| | | | |
| Profit attributable to: | | | |
| Non-controlling interests | 38 | 46 | **84** |
| Parent company shareholders | 2,566 | 2,283 | **4,849** |
| **Profit for the year** | 2,604 | 2,329 | **4,933** |
| | | | |
| **Earnings per share:** | | | |
| **Basic earnings per ordinary share (cents)** | 107.0 | 93.9 | **200.8** |
| **Diluted earnings per ordinary share (cents)** | 105.6 | 92.8 | **198.2** |

# Glossary

| | |
|---|---|
| **Advances-to-deposits ratio** | The ratio of total loans and advances to customers relative to total customer deposits. A low advances-to-deposits ratio demonstrates that customer deposits exceed customer loans resulting from emphasis placed on generating a high level of stable funding from customers. |
| **Asset Backed Securities (ABS)** | Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows but are commonly pools of residential or commercial mortgages and in the case of **Collateralised Debt Obligations (CDOs)**, the reference pool may be ABS. |
| **Advanced Internal Rating Based (AIRB) approach** | The AIRB approach under the **Basel II** framework is used to calculate credit risk capital based on the Group's own estimates of certain parameters. |
| **Alt-A** | Loans regarded as lower risk than sub-prime, but they share higher risk characteristics than lending under normal criteria. |
| **ASEAN** | Association of South East Asian Nations (ASEAN) which includes the Group's operations in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. |
| **Attributable profit to ordinary shareholders** | Profit for the year after non-controlling interests and the declaration of dividends on preference shares classified as equity. |
| **Basel II** | The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'. |
| **Basel III** | In December 2010, the BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements will be phased in starting 1 January 2013 with full implementation by 31 December 2019. |
| **Basis point (bps)** | One hundredth of a per cent (0.01 per cent); 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities. |
| **CAD2** | An amendment to Capital Adequacy Directive that gives national regulators the discretion to permit firms to use their own value at risk model for calculating capital requirements subject to certain criteria. |
| **Collateralised Debt Obligations (CDOs)** | Securities issued by a third party which reference **ABSs** and/or certain other related assets purchased by the issuer. CDOs may feature exposure to sub-prime mortgage assets through the underlying assets. |
| **Collateralised Loan Obligation (CLO)** | A security backed by the repayments from a pool of commercial loans. The payments may be made to different classes of owners (in tranches). |
| **Collectively assessed loan impairment provisions** | Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified at the balance sheet date. Typically assets within the Consumer Banking business are assessed on a portfolio basis. |
| **Commercial Mortgage Backed Securities (CMBS)** | Securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal). |
| **Commercial Paper (CP)** | An unsecured promissory note issued to finance short-term credit needs. It specifies the face amount paid to investors on the maturity date. |
| **Commercial real estate** | Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multifamily housing buildings, warehouses, garages, and industrial properties. Commercial real estate loans are those backed by a package of commercial real estate assets. |
| **Constant currency** | Constant currency change is derived by applying a simple translation of the previous period functional currency number in each entity using the current average and period end US dollar exchange rates to the income statement and balance sheet respectively. |
| **Contractual maturity** | Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid. |
| **Core Tier 1 Capital** | Core Tier 1 capital comprises called-up ordinary share capital and eligible reserves plus non-controlling interests, less goodwill and other intangible assets and deductions relating to excess expected losses over eligible provisions and securitisation positions as specified by the UK's Financial Services Authority (FSA). |
| **Core Tier 1 Capital ratio** | **Core Tier 1 capital** as a percentage of risk weighted assets. |
| **Cost to income ratio** | Represents the proportion of total operating expenses to total operating income. |
| **Cover ratio** | Represents the extent to which **non-performing loans** are covered by **impairment allowances**. |
| **Covered bonds** | Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds. |
| **Credit Conversion Factor (CCF)** | CCF is an internally modelled parameter based on historical experience to determine the amount that is expected to be further drawn down from the undrawn portion in a committed facility. |

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| **Credit Default Swaps (CDSs)** | A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency. |
| **Credit risk spread** | The credit spread is the yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality. |
| **Credit valuation adjustments (CVA)** | An adjustment to fair value primarily in respect of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions. |
| **Customer deposits** | Money deposited by all individuals and companies which are not credit institutions. Such funds are recorded as liabilities in the Group's balance sheet under Customer accounts. |
| **Debt restructuring** | This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction. |
| **Debt securities** | Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks. |
| **Debt securities in issue** | Debt securities in issue are transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits. |
| **Delinquency** | A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. **Loans and advances** are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'. |
| **Dividend per share** | Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted. |
| **Effective tax rate (ETR)** | The tax on profits on ordinary activities as a percentage of profit on ordinary activities before taxation. |
| **Expected loss (EL)** | The Group measure of anticipated loss for exposures captured under an internal ratings based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on **Probability of Default (PD), Loss Given Default (LGD)** and **Exposure at Default (EAD)**, with a one-year time horizon. |
| **Exposures** | Credit exposures represent the amount lent to a customer, together with an undrawn commitments. |
| **Exposure at default (EAD)** | The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit. |
| **Eurozone** | Represents the 17 European Union countries that have adopted the euro as their common currency. The 17 countries are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal,Slovakia, Slovenia and Spain. |
| **Forbearance** | Arrangements initiated by customers, the Group or third parties to assist customers in financial difficulty where the Group agrees to accept less than the contractual amount due where financial distress would otherwise prevent satisfactory repayment within the original terms and conditions of the contract. Such arrangements include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures, and loan restructurings. |
| **Foundation Internal Ratings Based Approach** | A method of calculating credit risk capital requirements using internal **PD** models but with supervisory estimates of **LGD** and conversion factors for the calculation of **EAD**. |
| **Funded/unfunded exposures** | **Exposures** where the notional amount of the transaction is funded or unfunded. Represents exposures where there is a commitment to provide future funding is made but funds have been released / not released. |
| **Guaranteed mortgages** | Mortgages for which there is a guarantor to provide the lender a certain level of financial security in the event of default of the borrower. |
| **Impaired loans** | Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing. |
| **Impairment allowances** | Impairment allowances are a provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio). |

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| **Individually assessed loan impairment provisions** | Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Wholesale Banking business of the Group are assessed individually. |
| **Innovative Tier 1 Capital** | Innovative Tier 1 Capital consists of instruments which incorporate certain features, the effect of which is to weaken (but only marginally) the key characteristics of **Tier 1 Capital** (that is fully subordinated, perpetual and non-cumulative). Innovative Tier 1 Capital is subject to a limit of 15 per cent of total Tier 1 Capital. |
| **Internal Ratings Based (IRB) approach** | The IRB approach is used to calculate risk weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters. |
| **Investment grade** | A **debt security**, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB. |
| **Jaws** | The rate of income growth less the rate of expense growth, expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws). |
| **Leveraged finance** | Loans or other financing agreements provided to companies whose overall level of debt is high in relation to their cash flow (net debt : EBITDA (earnings before interest tax, depreciation and amortisation)) typically arising from private equity sponsor led acquisitions of the businesses concerned. |
| **Liquidity and credit enhancements** | Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through over-collateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing **commercial paper.** |
| **Liquid asset buffer** | High quality unencumbered assets that meet the UK FSA's requirements for liquidity. These assets include high quality government or central bank securities, certain deposits with central banks and securities issued by designated multilateral development banks. |
| **Liquid asset ratio** | Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities. |
| **Loans and advances** | This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument. An example of a loan product is a home loan. |
| **Loans to individuals** | Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays, and other consumer uses. |
| **Loan-to-value ratio** | The loan-to-value ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower. |
| **Loans past due** | Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made. |
| **Loss given default (LGD)** | LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default. |
| **Master netting agreement** | An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract. |
| **Mezzanine capital** | Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender. |
| **Mortgage Backed Securities (MBS)** | Securities that represent interests in a group of mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal). |
| **Mortgage related assets** | Assets which are referenced to underlying mortgages. |
| **Medium term notes (MTNs)** | Corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years. |
| **Net asset value per share** | Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period. |
| **Net interest income** | The difference between interest received on assets and interest paid on liabilities. |
| **Net interest margin** | The margin is expressed as net interest income divided by average interest earning assets. |
| **Net interest yield** | Interest income divided by average interest earning assets less interest expense divided by average interest bearing liabilities. |

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| **Non-performing loans** | A non performing loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is:<br>– **renegotiated** before 90 days past due, and on which no default in interest payments or loss of principal is expected; or<br>– **renegotiated** at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected. |
| **Normalised earnings** | **Profit attributable to ordinary shareholders** adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period. |
| **Over the counter (OTC) derivatives** | A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models. |
| **Pre-provision profit** | Operating profit before impairment losses and taxation. |
| **Private equity investments** | Equity securities in operating companies *generally* not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital. |
| **Probability of default (PD)** | PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation. |
| **Profit attributable to ordinary shareholders** | Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity. |
| **Renegotiated loans** | **Loans and advances** are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation may lead to a new agreement, which would be treated as a new loan. |
| **Repo/Reverse repo** | A repurchase agreement or repo is a short term funding agreements which allow a borrower to sell a financial asset, such as **ABS** or Government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo. |
| **Residential mortgage** | A loan to purchase a residential property which is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a Home loan. |
| **Residential Mortgage Backed Securities (RMBS)** | Securities that represent interests in a group of **residential mortgages.** Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal). |
| **Return on equity** | Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period. |
| **Risk weighted assets** | A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the FSA. |
| **Securitisation** | Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a **special purpose entity (SPE)** who then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors. |
| **Sovereign exposures** | **Exposures** to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures as defined by the European Banking Authority includes only exposures to central governments. |
| **Special purpose entities (SPEs)** | SPEs are entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities.<br>Transactions with SPEs take a number of forms, including:<br>– The provision of financing to fund asset purchases, or commitments to provide finance for future purchases.<br>– Derivative transactions to provide investors in the SPE with a specified exposure.<br>– The provision of liquidity or backstop facilities which may be drawn upon if the SPE experiences future funding difficulties.<br>– Direct investment in the notes issued by SPEs. |

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| **Standardised approach** | In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines. |
| **Structured finance /notes** | A structured note is an investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency. |
| **Subordinated liabilities** | Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer. |
| **Sub-prime** | Sub-prime is defined as loans to borrowers typically having weakened credit histories that include payment delinquencies and potentially more severe problems such as court judgements and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, high debt-to-income ratios, or other criteria indicating heightened risk of default. |
| **Tangible net asset value per share** | Ratio of parent shareholders' equity less preference shares classified as equity and goodwill and intangible assets to the number of ordinary shares outstanding at the end of the reporting period. |
| **Tier 1 capital** | Tier 1 capital comprises **Core Tier 1 capital** plus innovative Tier 1 securities and preference shares and tax on excess expected losses less material holdings in credit or financial institutions. |
| **Tier 1 capital ratio** | **Tier 1 capital** as a percentage of risk weighted assets. |
| **Tier 2 capital** | Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale. |
| **UK bank levy** | A levy that applies to certain UK banks and the UK operations of foreign banks from 1 January 2011. The levy is payable each year based on a percentage of the chargeable liabilities of the Group as at 31 December. |
| **VaR** | Value at Risk is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent. |
| **Working profit** | Operating profit before impairment losses and taxation. |
| **Write Downs** | After an advance has been identified as impaired and is subject to an **impairment allowance**, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write downs will occur when and to the extent that, the whole or part of a debt is considered irrecoverable. |

# Financial calendar

### Financial calendar

| | |
|---|---|
| Ex-dividend date | 7 Mar 2012 |
| Record date[1] | 9 Mar 2012 |
| Expected posting to shareholders of 2011 Report and Accounts | 23 Mar 2012 |
| Annual General Meeting | 9 May 2012 |
| Payment date – final dividend on ordinary shares | 15 May 2012 |

[1] The Stock Exchange of Hong Kong Limited (the 'Stock Exchange') has granted a waiver to the Company on 7 December 2011 from strict compliance with Rule 13.66(2) of the Rules Governing the Listing of Securities on the Stock Exchange and Note 3 thereunder relating to record dates for the Company's final dividends.

*Copies of this statement are available from:*

*Investor Relations, Standard Chartered PLC, 1 Basinghall Avenue, London, EC2V 5DD or from our website on http://investors.standardchartered.com*

*For further information please contact:*

*Gavin Laws, Group Head of Corporate Affairs*

*+44 20 7885 7168*

*James Hopkinson, Head of Investor Relations*

*+44 20 7885 7151*

*Ashia Razzaq, Head of Investor Relations, Asia Pacific*

*+852 2820 3958*

*Tim Baxter, Head of Corporate Communications*

*+44 20 7885 5573*

*Jon Tracey, Head of Media Relations*

*+44 20 7855 7163*

*The following information will be available on our website:*

*Full year results video with Peter Sands, Group Chief Executive and Richard Meddings, Group Finance Director*

*Full year results presentation in pdf format*

*A live webcast of the annual results analyst presentation*

*The archived podcast, webcast and Q/A session of analyst presentation in London*

*Images of Standard Chartered are available for the media at http://www.standardchartered.com/en/news-and-media/image-library/index.html*

*Information regarding the Group's commitment to Sustainability is available at http://www.standardchartered.com/sustainability*

*The 2011 Annual Report will be made available on the website of the Stock Exchange of Hong Kong and on our website http://investors.standardchartered.com as soon as is practicable.*

### 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 which 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.

### Disclaimer

The securities referred to in this announcement have not been and will not be registered under the U.S. Securities Act of 1933 (the "U.S. Securities Act") and may not be offered, sold or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.  No public offering of the Placing Shares will be made in the United States.

# Index