STANDARD CHARTERED PLC
渣打集團有限公司

(Incorporated as a public limited company in England and Wales with registered number 966425)
(Stock Code: 02888)

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

Highlights

Reported results

- Profit before taxation of $6,876 million, up 1 per cent (2011: $6,775 million)
- Profit attributable to ordinary shareholders[1] flat at $4,786 million (2011: $4,748 million)
- Operating income of $19,071 million, up 8 per cent (2011: $17,637 million)
- Customer advances up 6 per cent to $289 billion and customer deposits up 10 per cent to $390 billion

Performance metrics[2]

- Dividend per share increased 10.5 per cent to 84.00 cents per share (2011: 76.00 cents per share)
- Normalised earnings per share up 13.7 per cent to 225.2 cents (2011: 198.0 cents)
- Normalised return on ordinary shareholders' equity of 12.8 per cent (2011: 12.2 per cent)

Capital and liquidity metrics

- Tangible net asset value per share increased 12.1 per cent to 1,519.0 cents (2011: 1,355.6 cents)
- Core Tier 1 capital ratio at 11.7 per cent (2011: 11.8 per cent)
- Total capital ratio at 17.4 per cent (2011: 17.6 per cent)
- Advances-to-deposits ratio of 74.1 per cent (2011: 76.6[3] per cent)
- Liquid asset ratio of 30.4 per cent (2011: 27.8[3] per cent)

Significant highlights

- Tenth consecutive year of growth in income and profit, underpinned by the diversity of the Group, where 26 markets delivered over $100 million of income and 25 markets grew at a double digit rate
- Both China and Wholesale Banking in Africa reached $1 billion of income for the first time
- Our balance sheet remains in excellent shape, highly liquid and diverse with no material geographic or industry concentrations, and we enjoy continued capital strength with a Core Tier 1 ratio at 11.7 per cent

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

"I am pleased to report that 2012 was our tenth consecutive year of income and profit growth. Throughout a turbulent decade – for the world economy and for banking – we have continued to deliver consistent value for our shareholders. Standard Chartered remains a growth story and we are sticking to our strategy, focusing on the basics of good banking, in markets we know well, with clients and customers with whom we have deep relationships. We are entering the new year with strong momentum in both of our businesses and the Board remains confident for the year ahead."

[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 85).

[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 86.

[3] Amounts have been restated as explained in note 34 on page 108

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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, Vietnam and the Philippines.

Standard Chartered PLC – Summary of results

For the year ended 31 December 2012

	2012 $million	2011 $million
Results		
Operating income	**19,071**	17,637
Impairment losses on loans and advances and other credit risk provisions	**(1,221)**	(908)
Other impairment	**(194)**	(111)
Profit before taxation	**6,876**	6,775
Profit attributable to parent company shareholders	**4,887**	4,849
Profit attributable to ordinary shareholders[1]	**4,786**	4,748
Balance sheet		
Total assets	**636,518**	592,686[4]
Total equity	**46,055**	41,375
Total capital base	**52,688**	47,507
Information per ordinary share	**Cents**	Cents
Earnings per share – normalised[2]	**225.2**	198.0
– basic	**199.7**	200.8
Dividend per share[3]	**84.00**	76.00
Net asset value per share	**1,822.9**	1,653.2
Tangible net asset value per share	**1,519.0**	1,355.6
Ratios		
Return on ordinary shareholders' equity – normalised basis[2]	**12.8%**	12.2%
Cost income ratio – normalised basis[2]	**53.8%**	56.5%
Capital ratios		
Core Tier 1 capital	**11.7%**	11.8%
Tier 1 capital	**13.4%**	13.7%
Total capital	**17.4%**	17.6%

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 85).

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 86.

3 For 2012 and 2011 respectively, represents the recommended final dividend per share for the year ended 31 December 2012 / 31 December 2011, together with the interim dividend per share declared and paid for the six months ended 30 June 2012 / 30 June 2011.

4 Amounts have been restated as explained in note 34 on page 108.

Consistent growth

I am pleased to report that 2012 was our tenth consecutive year of income and profit growth. Throughout a turbulent decade – for the world economy and for banking – we have continued to deliver consistent value for our shareholders, and Standard Chartered remains a growth story.

- Income rose 8 per cent to $19.1 billion
- Profit before tax increased 1 per cent to $6.9 billion
- Normalised earnings per share were up 14 per cent to 225.2 cents

Clearly the settlements reached with the US authorities[1] had an impact on our profits, but despite this, we are increasing the total amount of dividend paid to shareholders. The Board is recommending a final dividend of 56.77 cents per share. This brings the total annual dividend to 84.00 cents per share, up 10.5 per cent in line with our long track record of performance.

Over the last decade, Standard Chartered has delivered consistently, not just for shareholders, but for the communities in which we operate. We have tripled the number of people we employ to over 89,000 across our footprint; we have paid in excess of $11 billion in corporate tax, and we have increased our lending to clients and customers around five-fold to $289 billion. Importantly, we have achieved this by sticking to our strategy, focusing on the basics of good banking, in markets we know well, with clients and customers with whom we have deep, and in many cases long, relationships.

As 2012 showed, there is still work to be done to rebuild public trust in banks, and questions continue to be raised about how banks reward their management and staff. We have not changed our approach – we continue to remunerate our people not just for what they achieve, but for how they demonstrate our values, rewarding long-term performance, not failure. Reflecting the Group's overall performance in 2012 and the impact of the US settlements, our bonus pool is down by some 7 per cent. And once again, the amount paid in bonuses is less than the amount paid to our shareholders by way of a dividend, less than corporate taxation and well under half of the retained earnings.

We know that we will be held to our brand promise, Here for good, and continue to work hard to embed this commitment in everything we do. We are not pretending we will get everything right, but Here for good means we will try to do the right thing and take a long-term view of our obligations to our shareholders, our clients and customers and the communities in which we operate.

Strong governance is crucial to our long-term success. During 2012, we appointed four new independent non-executive directors: Om Bhatt, Louis Cheung, Margaret Ewing and Lars Thunell. These appointments are in line with our multi-year Board succession plan, which aims to maintain a core of directors with longstanding knowledge of the Group, while regularly refreshing the Board's composition with directors who bring new perspectives. This first phase of appointments has added significant banking, financial and risk management experience to the Board, as well as increasing its diversity. Lars, Margaret, Louis and Om bring with them a wealth of experience from some of our largest markets including India, Hong Kong, China and Taiwan.

In summary, 2012 was another year of good performance for Standard Chartered, thanks to a consistent strategy, a stable management team, supportive clients, customers and shareholders, and, above all, our great people. The Board remains confident for the year ahead.

Sir John Peace
Chairman
5 March 2013

[1] The US authorities comprise The New York Department of Financial Services (DFS), the Office of Foreign Assets Control (OFAC), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Federal Reserve (NYFED).

2012 was a milestone year for the Group: our tenth year of unbroken growth in income, profits and dividends; the tenth year since we created Wholesale Banking; and the tenth year since we launched our values.

Standard Chartered has changed enormously over the last decade. It is easy to underestimate how much, since it has happened primarily through continuous rapid evolution – through organic growth, rather than big steps such as major acquisitions. Over the last ten years, the Group's income has grown by a compound annual growth rate (CAGR) of 15 per cent, and pre-tax profit by 18 per cent.

During this time, we have seen rapid growth across many of our markets. Take our business in Nigeria: in 2003 it produced $21 million of income; this year it produced $258 million, a twelve-fold increase. In mainland China we produced $44 million of income in 2003, with 14 branches and 409 employees. In 2012 we generated $1 billion of income in mainland China, plus over $700 million in network income (or income from clients based in a market, but booked elsewhere in our network), with over 8,500 employees and 100 branches across 25 cities. In Indonesia our income has grown almost seven-fold to $813 million over the same period.

It is not just a story of small markets getting bigger. In 2003 Hong Kong generated 29 per cent of the Group's income, at $1.4 billion. Now, while Hong Kong's income has more than doubled to $3.4 billion, it accounts for just 18 per cent of income, illustrating not only the pace of our growth, but also its diversity.

Our resilient business model

Our history shapes the way we think about the future: we keep an emphasis on organic growth, in big markets as well as small; invest with a long-term perspective; build diverse income streams. Of course, it gets harder to deliver the same rates of growth as we get bigger. Every year brings new challenges, and 2012 was no exception.

The most obvious challenge was the resolution of the issues related to our past compliance with US sanctions. The $667 million settlements dented our profit growth and damaged our reputation. We also suffered significant headwinds from a multitude of regulatory changes, most notably income drag from the liquid asset buffer and the increase in the UK bank levy.

The macroeconomic environment – normally a tailwind for us, given the markets we are in – also proved quite challenging in 2012. Economic growth slowed in most of our markets, reflecting the global slowdown. Local currencies fell against the US dollar, and some of our markets were particularly challenged. India was one example: the country's GDP slowed sharply, from an average of 7.9 per cent over the previous five years to 5.2 per cent, and the rupee fell 15 per cent year on year. Business momentum plummeted as political deadlock and governance scandals rocked confidence. Consequently, our India business slowed, with income falling 12 per cent, while we saw some increase in impairments, resulting in profits falling by 16 per cent.

Yet, network income grew over 30 per cent as a result of us supporting more of India's leading companies as they invest and grow overseas. So overall income from our Indian franchise was more resilient. Moreover, the mood in India has changed noticeably since last summer. The economic reform agenda appears to be back on track, and business and investor activity has undoubtedly picked up. We have a great business in India, and are confident that this will be a huge part of our future growth story.

Given the headwinds we faced in 2012, it is no surprise that both income and profit growth for the Group as a whole were somewhat slower. But we have showed once again that we can be disciplined on costs, without compromising investment, and the underlying momentum of the Group's businesses remains robust.

Global macroeconomic outlook

Global sentiment has improved. There is undoubtedly more momentum in markets and more confidence in businesses. However, the underlying problems of the weaker eurozone countries have not gone away. The US fiscal cliff has been moved, not scaled. Unemployment levels, particularly for the young, remain shockingly high in many parts of the world. And the unconventional monetary policies of central banks have taken us into uncharted territory. The risks of inflation and currency volatility should not be underestimated.

Our markets in Asia, Africa and the Middle East are not immune. Slower growth or shocks in the West will undoubtedly affect them, but there continues to be a clear gap between the growth in our markets and growth in the West. GDP growth in the US is forecast at 2.3 per cent for 2013, and the eurozone -0.2 per cent, contrasting with China at 8.3 per cent, Nigeria at 6.6 per cent and Indonesia at 6.5 per cent. Even India, for all its challenges, will grow at multiples of the West.

The underlying drivers of growth in the emerging world – industrialisation, urbanisation, demographics – remain extraordinarily powerful. We have seen strong growth in intra-regional trade and investment across our markets. For example, from 2000 until 2011 Africa's trade with India increased by a CAGR of 25 per cent, while China-MENA trade rose from a value of $18 billion to over $240 billion. We are also seeing the emergence of vast numbers of middle class consumers, and the scale is staggering: 28 per cent of the world's middle class lived in Asia in 2009; by 2030 it will be 66 per cent.

The rapid internationalisation of the renminbi (RMB) is a symbol of the shift in global economic power. In 2012 we estimate that 12.6 per cent of China's trade was settled in RMB, up from 5.1 per cent in 2010. Our recently launched Renminbi Globalisation Index, which measures the size of this market across four asset classes, shows more than a seven-fold increase over the same period.

Refreshing our priorities

At our annual meeting of the Group's top leadership in January, we took stock of our strategy and debated our priorities for 2013. We have refreshed our statement of strategic intent, sharpening the language and changing the emphasis. The essentials of our strategy remain the same: we want to lead the way in Asia, Africa and the Middle East, and we want to be Here for good. Yet, every year the context and challenges differ, so our immediate priorities must shift as well. We have set seven priorities:

First, we must build stronger relationships with our clients and customers. Deep, long-term client relationships have always been the foundation of our business, but we have to get even better: more relevant, more committed and more responsive.

Second, we must prove to a skeptical world that we really are Here for good. This is about doing the right thing and being there for the long term. It is about recognising that we have an important role to play in the economy and broader society.

Third, we must step our efforts to innovate and digitise. Whilst we have made enormous progress in automating processes and offering online and mobile access to our services, we are only in the early stages of using technology to transform the business of banking. We want to make this happen, rather than have it happen to us.

Fourth, we have to intensify collaboration across our network. For Standard Chartered, the network is key to our competitiveness. We are not a dominant local bank and not dominant in any specific product segment. We are differentiated by our ability to facilitate cross-border trade and investment, and that is as much about the way we work as about our physical network.

Fifth, we need to get fitter and more flexible in the way we work. We need to be ever more efficient, smarter in deploying scarce resources, and more adaptable and agile.

Sixth, we must accelerate the next generation of leaders. Taking a long-term perspective means building a strong succession pipeline of diverse leaders.

Finally, we have to deliver superior financial performance. By focusing on the fundamentals, sticking to our strategy, funding before lending and keeping a tight grip on risks and costs, we can continue to deliver a distinctive combination of growth and returns for our investors.

Embedding our values and culture

Proving we are Here for good is all about our values and culture. Lots of people are now talking about the culture of banks, but we have been investing time and energy in reinforcing our culture for a long time. We see it as a key source of competitive differentiation and a key risk management tool.

We identified and introduced our values a decade ago, embedding them in our performance management system to reward our people, not just for what they achieve, but for how they achieve it.

There is no single tool to reinforce culture, no magic recipe, and no organisation of nearly ninety thousand people can ensure that everyone does everything perfectly all the time. But we need to keep working at reinforcing this aspect of Standard Chartered, because it is one of the things that make us stand out. That is why we created a Board Brand and Values Committee in 2010, and why we launched Here for good.

Investing in technology-driven innovation

We must also keep innovating, to offer our clients and customers new and better solutions, cut costs and reinforce risk management. In an inherently digital industry, failing to embrace technology-driven innovation would be suicidal.

We have been investing to increase automation of our back-end systems to drive down transaction costs and to improve service quality and resilience. As a result, our operations cost/income ratio has declined consistently, whilst staff productivity has risen.

We are also investing in underlying data management systems and analytical capabilities. This is critical for seamless management of client relationships across multiple geographies, and vital for risk management.

We are accelerating innovation to make the Bank more accessible and easier to use through social media, online and mobile. We continue to roll out Breeze, our mobile banking app, and have reached over a million downloads since it was launched. We have come a long way in Internet banking. Ten years ago we were a laggard; today our platform is award-winning.

In Wholesale Banking, we are investing in our global platforms to enhance product capability and seamless delivery. In cash management we are harmonising our underlying infrastructure and enhancing functionality. In Custody Management, we are enabling clients to streamline cash and foreign exchange processing and achieve better cut-off times. And in Foreign Exchange and Asset Liability Management, a new project will enable us to carry out straight-through processing of payments 24/7 across 43 markets, reducing risk and lowering costs per trade by around 10 per cent. Across the bank, we are investing harder and faster in technology than ever before.

Collaborating across our network

Both culture and technology are crucial tools in intensifying collaboration across our network. Since our earliest years in the nineteenth century, we have focused on international trade. We opened in India and China in 1858, in Hong Kong and Singapore a year later. Our long history in our markets has real resonance with our clients and cannot be replicated by new entrants. Today, we are one of the top two trade finance banks in the world. Trade represents around 16 per cent of our Wholesale Banking income directly, but when you include products and services linked to trade, the figure is more than 50 per cent.

Most big international banks operate through a hub and spoke model. By contrast, we are a true network, with no dominant geography and with a culture of cross-border collaboration. We aim to be even more seamless in serving our clients' cross-border needs, even more effective in optimising deployment of our balance sheet. This will require refined performance metrics, streamlined information and process flows, and, above all, an infectious spirit of cooperation and coordination.

We continue to expand our network. In 2011 we opened our representative office in Mongolia. In November 2012 we completed our acquisition of Credit Agricole's business in Turkey, upgrading our representative office to a subsidiary, and in February 2013 we opened our representative office in Myanmar, returning to a country we first entered in 1862.

During February, we also signed an agreement to form a joint venture bank with ENSA, one of Angola's largest insurance companies. By upgrading our presence in this way, we will become one of the first international banks to have an onshore presence in sub-Saharan Africa's third largest economy. In all these places, we are serving the needs of our existing clients. We are taking a long-term perspective, investing now with a horizon of at least ten years.

ASEAN

With our return to Myanmar, we are now the only major international bank present in all ten ASEAN nations. Over the last five years, our income in ASEAN has grown by a CAGR of 14 per cent, although in 2012 income growth slowed to just over 7 per cent. We saw good growth in Indonesia, up 13 per cent; Malaysia, up 18 per cent; Thailand, up 13 per cent; the Philippines, up 11 per cent; and Vietnam, up 27 per cent. Singapore, our largest market in the region, grew by 1 per cent, but it is important to put this performance in context: income in Singapore grew 26 per cent in 2011, and has grown by a CAGR of 20 per cent over the last five years.

We are taking advantage of domestic growth within ASEAN, as the region's 600 million people become increasingly prosperous, and we taking advantage of intra-regional trade and investment, as ASEAN's economies become increasingly integrated. At $4.5 billion, ASEAN now represents just under 24 per cent of the Group's total income.

Greater China

We are also benefitting from the economic convergence of Greater China. In 2012, Hong Kong, Taiwan and mainland China delivered income of $4.9 billion, up 11 per cent and exceeding the CAGR of 9 per cent over the last five years. Greater China now represents just over a quarter of the Group's total income.

Our income in China grew by 21 per cent in 2012, and we will keep investing. With our network across 25 cities, we are one of very few international banks that reach huge inland cities like Chongqing, Chengdu and Xi'an. With growth inland now faster than growth in the coastal regions, we are well placed to exploit the changing shape of China's economy.

In Consumer Banking, we are concentrating on the high value segments, and on SMEs in particular. In Wholesale Banking, we are focusing on rapidly growing mid-market companies. We are also supporting multinationals investing in China, such as Shell and Tesco, and helping China's leading companies as they expand overseas. In addition to what we do onshore, China is now our largest generator of network income, up 25 per cent year on year to over $700 million. Hong Kong is the largest recipient, as we increasingly run our Hong Kong and China businesses as one. Income in Hong Kong grew by 10 per cent, with Wholesale Banking income from RMB-denominated business up 30 per cent, mainly in Foreign Exchange and trade, whilst RMB deposits in the Consumer Bank grew by 70 per cent year on year.

Taiwan had a more challenging year in 2012, given regulatory constraints on consumer lending, and the year-on-year distortions from one-off gains in 2011. Yet, in Wholesale Banking we are now making real progress, benefitting from the links with China, particularly in Transaction Banking.

Greater China is a key engine of growth for Standard Chartered. With a significant presence, long history and deep relationships across all three markets, we are extraordinarily well placed to benefit from the region's continued growth and convergence.

Outlook

2012 was undoubtedly a challenging year and 2013 will no doubt bring new challenges. But the story of the last decade is one of resilience, of growth, of consistent delivery. Since 2002 Standard Chartered has been transformed. I would like to thank our investors for their support throughout this journey. I would also like to thank the staff of Standard Chartered for their hard work, professionalism and commitment.

The next ten years should be equally exciting. We are in the right markets. We have a clear strategy. We are investing in our businesses. No doubt our markets will continue to change dramatically, as they grow and get richer. No doubt technology will change the way banks work and compete, and no doubt regulation will force further change in business models. We are not at all complacent. Yet, by sticking to our strategy, by staying true to our culture, and by being innovative and adaptive, I am confident that we can continue to be successful.

Looking at January and our momentum through February, the Group has started 2013 well. Consumer Banking income is well ahead of the comparable period last year. Wholesale Banking client income is also ahead, with good levels of client activity and very strong volumes across our markets. However, own account income is down, reflecting lower asset liability management income.

We continue to have a firm grip on the levers of risk, cost and investment, and are using our balance sheet strength to increase the financing support to our clients and customers. We continue to take a conservative approach to managing the balance sheet, maintaining a strong liquidity position and keeping a watchful eye on asset quality given the uncertainties that remain in the external environment.

We remain focused on consistent delivery against the framework of our four financial objectives: double-digit income growth, costs growing in line with income, double-digit growth in earnings per share and mid-teens return on equity in the medium term.

In summary, we have started the year with very good momentum and an exceptionally strong balance sheet. We are well positioned in some of the most dynamic growth markets in the world, and we are well placed to make the most of the opportunities they present. We continue to take market share, we continue to grow and we remain confident and committed to consistent financial delivery.

Peter Sands
Group Chief Executive
5 March 2013

Group summary

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

Operating income increased by $1,434 million, or 8 per cent, to $19,071 million. Profit before tax rose 1 per cent to $6,876 million, or up 11 per cent excluding the $667 million impact of the settlements with the US authorities. On a constant currency basis, operating income rose 10 per cent and profit before tax rose 4 per cent reflecting the continued weakness of certain Asian currencies against the US dollar, in particular the Indian rupee.

Consumer Banking (CB) income increased 6 per cent to $7,202 million and operating profit grew 8 per cent to $1,778 million. Both 2012 and 2011 were impacted by a number of non-recurring items in income and expenditure which are explained further on page 12. Adjusting for these items, CB income increased 5 per cent, in line with the growth in expenses as we accelerated investment in the franchise, while CB operating profit fell 1 per cent.

Wholesale Banking (WB) income increased 9 per cent to $11,779 million and operating profit fell 2 per cent to $5,136 million. Excluding the impact of the settlements with the US authorities, WB operating profit rose 11 per cent.

Corporate items, which are not allocated to the businesses and include the UK bank levy, generated a loss of $38 million in the current year. These items are explained further in note 2 on page 77.

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

Normalised earnings per share (EPS) grew 14 per cent to 225.2 cents and we continue to improve shareholder returns. Normalised return on equity increased to 12.8 per cent from 12.2 per cent in 2011. Further details of basic and diluted earnings per share together with a reconciliation of normalised earnings are provided in note 11 on page 86.

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

The Group's balance sheet remains resilient, well diversified and conservatively positioned, with limited exposure to problem asset classes. The Group's direct sovereign exposure to the eurozone remains immaterial (see page 52 for further details).

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

We remain well capitalised and continue to generate good levels of organic equity. The Core Tier 1 ratio fell slightly to 11.7 per cent from 11.8 per cent in 2011 primarily due to the impact of the settlements with the US authorities.

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

Operating income and profit

	2012 $million	2011 $million	%
Net interest income	**11,010**	10,153	8
Fees and commissions income, net	**4,121**	4,046	2
Net trading income	**2,748**	2,645	4
Other operating income	**1,192**	793	50
Non-interest income	**8,061**	7,484	8
Operating income	**19,071**	17,637	8
Operating expenses	**(10,896)**	(9,917)	10
Operating profit before impairment losses and taxation	**8,175**	7,720	6
Impairment losses on loans and advances and other credit risk provisions	**(1,221)**	(908)	34
Other impairment	**(194)**	(111)	75
Profit from associates	**116**	74	57
Profit before taxation	**6,876**	6,775	1

Group performance

Operating income grew by $1,434 million, or 8 per cent, to $19,071 million. On a constant currency basis, income grew 10 per cent. The Group's income streams continue to be well diversified and all geographic segments delivered positive income growth, except India which was impacted by depreciation of the Indian rupee against the US dollar.

CB income was 6 per cent higher at $7,202 million, with double digit growth in Other Asia Pacific, Africa and Americas, UK & Europe. Strong growth in Cards, Personal Loans and Unsecured Lending (CCPL), which increased 12 per cent, and Deposits income, up 11 per cent, offset lower Mortgages and Auto Finance (Mortgages) income, which fell 6 per cent as volume growth and margins remained under pressure. Although

Wealth Management income was flat, we continued to grow our income mix in products that have a lower correlation to equity markets, such as bancassurance and fixed income.

WB income was 9 per cent higher, at $11,779 million, reflecting well diversified income streams, with client income up by 8 per cent and own account income growing by 12 per cent. This was underpinned by good growth in Trade Finance, up 22 per cent, and Corporate Finance, growing 19 per cent, which offset lower Foreign Exchange (FX) and Commodities income. Principal Finance also benefitted from an improvement in equity market conditions.

Net interest income increased by $857 million, or 8 per cent. The Group net interest margin of 2.3 per cent was flat compared to 2011, as asset margin pressure was offset by widening liability margins. In CB, net interest income grew $323 million, or 7 per cent, to $4,907 million. We continue to experience regulatory headwinds in a number of markets and increasing competitive pressures driving asset margin compression and impacting volumes, particularly in Mortgages. This has been offset by good volume growth in CCPL and higher Current Accounts and Savings Accounts (CASA) balances coupled with widening liability margins. WB net interest income increased $534 million, or 10 per cent, benefitting from higher Trade and Cash average balances and improved Trade margins, which offset slightly lower Lending margins.

Non-interest income, which comprises net fees and commissions, trading and other operating income, increased by $577 million to $8,061 million.

Net fees and commissions income increased by $75 million, or 2 per cent, to $4,121 million. Fee income in CB grew as we increased our participation in the Mortgage Purchase Program (MPP) in Korea (details of which are set out on page 14) and from higher sales of bancassurance products. WB fees were flat primarily due to a lower number of large value transactions within Corporate Finance.

Net trading income increased $103 million, or 4 per cent, to $2,748 million, as growth in Rates offset lower flow foreign FX and Commodities income.

Other operating income, which primarily comprises gains arising on sale from the investment securities portfolio, aircraft and shipping lease income, fixed asset realisations and dividend income, increased $399 million, or 50 per cent, to $1,192 million. Higher operating lease rental income, increased realisations out of the available-for-sale securities portfolio, a gain on the repurchase of subordinated debt of $90 million, and a $74 million gain on a property sale in Korea contributed to the increase.

Operating expenses increased $979 million, or 10 per cent, to $10,896 million. Operating expenses in 2012 were impacted by $667 million relating to the settlements with the US authorities and $86 million relating to a legacy commercial legal provision, while 2011 expenses included recoveries of $96 million on structured notes in Other Asia Pacific region and a $206 million charge in staff costs relating to the Early Retirement Programme (ERP) in Korea. Excluding these items for both 2011 and 2012, operating expenses increased by 3 per cent year on year. Although we continue to manage expenses tightly, we have sustained investment in both businesses with spend on branches, including renovations and relocations, and increased investment in mobile and online technology in CB and investment in Transaction Banking in WB. Staff costs (excluding the impact of the ERP charge in 2011) increased by 2 per cent as an increase in employee numbers across both businesses was partly offset by lower variable compensation and ongoing efficiency initiatives.

Pre-provision profit was higher by $455 million, or 6 per cent, at $8,175 million.

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

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

Operating profit was up $101 million, or 1 per cent, to $6,876 million. Hong Kong remained our largest profit generator, growing operating profit by 7 per cent, and profit in Africa grew strongly, up 23 per cent. This helped offset lower profits across a number of other geographies, with Americas, UK & Europe in particular impacted by the settlements with the US authorities.

The Group's effective tax rate (ETR) was 27.5 per cent, slightly up from 27.2 per cent in 2011, primarily due to change in profit mix offset by an increase in non-deductible expenses.

Consumer Banking

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

2012	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Consumer Banking Total $million
Operating income	**1,410**	**974**	**1,183**	**1,777**	**440**	**753**	**482**	**183**	**7,202**
Operating expenses	**(771)**	**(553)**	**(795)**	**(1,336)**	**(318)**	**(493)**	**(306)**	**(151)**	**(4,723)**
Loan impairment	**(95)**	**(62)**	**(223)**	**(209)**	**(27)**	**(51)**	**(20)**	**(10)**	**(697)**
Other impairment	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**(3)**	**(4)**
Operating profit	**544**	**359**	**164**	**232**	**95**	**209**	**156**	**19**	**1,778**

2011	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Consumer Banking Total $million
Operating income	1,326	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

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

Operating income by product	2012 $million	2011 $million	Better/ (Worse) %
Cards, Personal Loans and Unsecured Lending (CCPL)	**2,707**	2,422	12
Wealth Management	**1,275**	1,272	-
Deposits	**1,566**	1,409	11
Mortgages and Auto Finance	**1,390**	1,478	(6)
Other	**264**	210	26
Total operating income	**7,202**	6,791	6

Operating income in CB increased $411 million, or 6 per cent, to $7,202 million. On a constant currency basis, income grew 8 per cent. Income in the current year includes a property gain of $39 million and a gain of $13 million on disposal of our Private Banking business in Miami. Excluding these items income increased 5 per cent.

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

Net interest income increased by $323 million, or 7 per cent, to $4,907 million, largely driven by increased volumes. Asset margins continue to be under pressure, particularly across Mortgages and CCPL, where margins for both fell by 12 basis points (bps) although this was offset by strong volume growth in CCPL as we continue to selectively grow our unsecured business. Mortgage volumes continue to be impacted by increased regulatory pressures in a number of markets and margins have been impacted by high levels of liquidity across our markets, although margins increased in the second half of the year compared to the first half. On the liability side, both CASA and Time Deposits volumes increased with good CASA growth seen in Hong Kong and Korea. The proportion of customer deposits held as CASA remained broadly stable at 58 per cent.

Non-interest income at $2,295 million was $88 million, or 4 per cent, higher compared to 2011 and includes the gains relating to a property sale in Korea and the disposal of our Private Banking operations in Miami. Excluding these gains, non-interest income was 2 per cent higher. Wealth Management income from equity-related products continued to be impacted by market uncertainty in light of weaker equity markets although this was offset by growth in bancassurance and fixed income products.

Expenses were up $118 million, or 3 per cent, to $4,723 million. Expenses in 2011 included a charge of $189 million relating to the ERP in Korea, which was partly offset by $96 million of recoveries on certain structured note payouts made in prior periods. Excluding these items, expenses increased by 5 per cent, reflecting the flow through from investments in staff in 2011 and continuing improvements to branch infrastructure and technology to enhance frontline systems, mobile, remote and internet banking capabilities, including our Breeze mobile platform.

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

Operating profit increased by $128 million, or 8 per cent, to $1,778 million. Excluding the impact of non-recurring income and expense items, operating profit fell 1 per cent. On a constant currency basis, the increase in unadjusted profits was 9 per cent. Although regulatory and competitive headwinds have impacted profit growth in a number of our larger markets, there have been strong increases in a number of our smaller markets, including Indonesia and across the Africa, MESA and Americas, UK & Europe regions.

Product performance

Income from CCPL grew $285 million, or 12 per cent, to $2,707 million, with increased volumes more than offsetting continued pressure on margins, which have been impacted by competition across a number of our markets. We continued selectively to grow our unsecured portfolio, particularly in markets with positive credit bureaus, and we have increased market share. Volume growth was also supported by increased levels of bundling with existing products.

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

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

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

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

Geographic performance

Hong Kong

Income was up $84 million, or 6 per cent, to $1,410 million. We saw good volume growth as we gained market share across all major asset and liability products together with an improvement in liability margins, and these more than offset continuing pressure on asset margins. Income from CCPL grew strongly as volume growth cushioned continuing margin compression. While mortgage volumes increased, income was lower than 2011 due to narrower margins, although margins saw an improvement in the latter part of 2012 with a focus on writing new business in higher margin Prime rate based products. Wealth Management income fell as growth in bancassurance and unit trust was largely offset by lower income from premium currency investment and structured products. SME income increased as we continued to drive growth in the trade book. Deposits income increased as margins improved together with strong volume growth in CASA.

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

Pre-provision profit was up $15 million, or 2 per cent, to $639 million. Loan impairment was $24 million higher at $95 million, reflecting growth in unsecured lending together with a small increase in bankruptcy filings. Operating profit fell $9 million, or 2 per cent, to $544 million.

Singapore

Income was up $50 million, or 5 per cent, to $974 million. Income growth was led by higher Wealth Management and CCPL income although there has been further compression in asset margins. Wealth Management income rose as we continued to optimise the product mix, with increased income from unit trusts, fixed income and bancassurance products offsetting lower income from equity-linked structured products. CCPL income grew with strong balance sheet momentum, supported by innovative products such as the Security Token Card, offsetting lower margins. Retail mortgages income fell as an increase in mortgage balances was offset by margin compression as competition intensified. On the liability side, income growth was flat as volume growth was offset by lower TD margins as the competition for liquidity increased.

Operating expenses increased $50 million, or 10 per cent, to $553 million from investment in technology, higher staff costs and increased levels of marketing.

Pre-provision profit was flat at $421 million. Loan impairment more than doubled to $62 million, due to higher unsecured volumes and the seasoning of the unsecured portfolio. Operating profit fell by $33 million, or 8 per cent, at $359 million.

Korea

Income was up $30 million, or 3 per cent, to $1,183 million and included a $39 million gain on sale of property. Excluding this gain, income was down $9 million, or 1 per cent. Regulatory headwinds continued to impact mortgage income as margins narrowed and balances reduced further during the year as we continued to reshape the balance sheet. This was partly mitigated by fees earned from the Mortgage Purchase Programme (MPP). Under this program, we sold KRW 6 trillion ($5 billion) of fixed rate mortgages, largely during the second half of the year, to the Korea Housing Finance Corporation. Lower Mortgages income was offset by a higher CCPL income, driven by growth in personal lending volumes as we increased market share together with improved margins, although the pace of growth moderated in the latter part of 2012 as we tightened underwriting standards. Wealth Management income increased reflecting strong bancassurance income. Deposits income fell as strong growth in CASA balances was offset by lower margins, which were impacted by a falling interest rate environment.

Operating expenses fell $228 million, or 22 per cent, to $795 million. Excluding the $189 million charge for the ERP in 2011, expenses were 5 per cent lower as flow through savings from ERP were partially offset by investments in technology and inflation related increases in staff costs.

Pre-provision profit was higher by $258 million at $388 million. Loan impairment was up $57 million, or 34 per cent, to $223 million due to growth in unsecured products and a market-wide increase in filings under the Personal Debt Rehabilitation Scheme in the face of a weakening credit environment. As a result of the above factors, the operating loss of $41 million improved to a profit of $164 million in the current year.

Other Asia Pacific (Other APR)

Income was up $164 million, or 10 per cent, to $1,777 million. All major markets saw positive income momentum. Income in China was up 30 per cent to $296 million, reflecting strong growth in Deposit and Personal loan volumes, improved mortgage margins and continued growth in SME. This was partially offset by lower Wealth Management income as weaker investor sentiment resulted in lower volumes of structured products. Income in Taiwan increased marginally to $424 million.

Personal loan income grew as a result of widening margins although this was offset by lower income from Mortgages, as balances reduced due to continuing regulatory constraints. Wealth Management income also fell due to lower unit trust volumes but Deposits income increased strongly as CASA margins improved in the second half of 2012. Income in Malaysia increased 10 per cent due to increased income from Personal Loans. Indonesia grew 12 per cent with good growth in Mortgages volumes, secured lending and higher income from CCPL.

Operating expenses were up $232 million, or 21 per cent, to $1,336 million. Excluding the benefit of recoveries on payouts made in respect of structured notes in prior years, current year expenses were up $136 million, or 11 per cent. Expenses in China were up by 20 per cent to $384 million as we continued to invest in new branch outlets, opening 19 in 2012 to end the year at 100 branches.

Pre-provision profit was down $68 million, or 13 per cent, to $441 million. Loan impairment was up by $92 million, or 79 per cent, to $209 million, reflecting a lower level of loan portfolio sales in Taiwan and Malaysia and increased levels of provisioning in line with portfolio growth and mix change. Other APR delivered an operating profit of $232 million, down 41 per cent from 2011, with Taiwan and Malaysia being the most significant contributors to the decline. The operating loss in China increased to $114 million from $108 million in 2011 as we continued to invest in the franchise.

India

Income was down $42 million, or 9 per cent, to $440 million. However, on a constant currency basis, income increased by 4 per cent. During the year, we acquired two portfolios from Barclays in India, the first of which was in February 2012 and the second in December 2012. These portfolios contributed $10 million to income in the current year. Deposits income increased as a result of higher TD volumes and improved CASA margins. SME income benefitted from higher volumes and improved liability margins.

Operating expenses were $34 million, or 10 per cent, lower at $318 million. On a constant currency basis, expenses were higher by 4 per cent, reflecting higher staff costs and increased investment in technology.

Pre-provision profit was down $8 million, or 6 per cent, to $122 million. Loan impairment was lower by $5 million, or 16 per cent, at $27 million as a result of the continued focus on secured lending and an improved portfolio quality. On a constant currency basis, loan impairment was 3 per cent lower. Operating profit was lower by $3 million, or 3 per cent, at $95 million. On a constant currency basis, operating profit was 8 per cent higher.

Middle East and Other South Asia (MESA)

Income was up $30 million, or 4 per cent, to $753 million. Income in the UAE increased by 8 per cent with strong growth in CCPL, driven by higher payroll-led lending which offset slightly lower margins. Mortgages income grew in line with portfolio growth and SME revenues increased due to improved trade flows and focused penetration strategies. This was offset by lower Deposits income with muted liability growth and margin compression. Income from Islamic banking grew 30 per cent in the UAE. Income in Pakistan fell 2 per cent reflecting some margin compression following interest rate cuts. Bahrain grew 10 per cent as sentiment improved following the uncertainty caused by the 'Arab Spring' in 2011.

Operating expenses in MESA were higher by $6 million, or 1 per cent, at $493 million. While UAE expenses were up 6 per cent, reflecting investments in frontline sales capacity, expenses in most other markets were lower reflecting tight cost discipline across the region.

Pre-provision profit for MESA was up $24 million, or 10 per cent, to $260 million. Loan impairment continued to fall and was considerably lower at $51 million, down 43 per cent compared to 2011. Most of the reduction arose in UAE and Bahrain due to adherence to tighter underwriting criteria in addition to an improvement in a number of market factors, including job market stability. MESA operating profit increased 43 per cent, up $63 million to $209 million.

Africa

Income was up $60 million, or 14 per cent, at $482 million. On a constant currency basis, income was up 19 per cent. Income from unsecured lending, which is predominantly payroll-linked, rose as a result of increased volumes as we grew market share although asset margins remain compressed. Deposits income grew strongly as a result of higher balances and improved CASA margins.

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

Operating expenses were $38 million, or 14 per cent, higher at $306 million. On a constant currency basis, expenses were 18 per cent higher, as we continued to build out the distribution network, adding 27 new branches, increasing frontline staff and expanding digital distribution channels such as mobile banking.

Pre-provision profit in Africa was higher by $22 million or 14 per cent, at $176 million. Loan impairment was up $3 million to $20 million. Operating profit was up $25 million, or 19 per cent, to $156 million. On a constant currency basis, operating profit increased 24 per cent.

Americas, UK & Europe

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

Operating expenses fell $15 million, or 9 per cent, to $151 million as we continued to tightly manage costs. Impairment was higher by $7 million to $10 million. Operating profit increased to $19 million from a loss of $21 million in 2011.

Wholesale Banking

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

2012	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Wholesale Banking Total $million
Operating income	**1,938**	**1,229**	**669**	**2,183**	**1,145**	**1,481**	**1,111**	**2,023**	**11,779**
Operating expenses	**(801)**	**(616)**	**(286)**	**(1,096)**	**(435)**	**(607)**	**(478)**	**(1,680)**	**(5,999)**
Loan impairment	**(14)**	**(4)**	**(26)**	**(37)**	**(138)**	**(265)**	**(18)**	**(22)**	**(524)**
Other impairment	**(7)**	**(2)**	**(7)**	**(95)**	**9**	**(32)**	**-**	**14**	**(120)**
Operating profit	**1,116**	**607**	**350**	**955**	**581**	**577**	**615**	**335**	**5,136**

2011	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa[1] $million	Americas UK & Europe $million	Wholesale Banking Total $million
Operating income	1,723	1,262	565	1,898	1,323	1,496	960	1,619	10,846
Operating expenses	(693)	(602)	(312)	(961)	(477)	(598)	(446)	(1,058)	(5,147)
Loan impairment	(32)	(19)	(32)	(18)	(80)	(197)	(7)	1	(384)
Other impairment	-	(31)	(8)	31	(60)	(13)	(10)	(8)	(99)
Operating profit	998	610	213	950	706	688	497	554	5,216

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

Operating income by product	2012 $million	2011 $million	Better/ (worse) %
Lending and Portfolio Management	**891**	841	6
Transaction Banking			
Trade	**1,940**	1,595	22
Cash Management and Custody	**1,731**	1,652	5
	3,671	3,247	13
Global Markets[1]			
Financial Markets	**3,663**	3,688	(1)
Asset and Liability Management (ALM)	**849**	921	(8)
Corporate Finance	**2,222**	1,873	19
Principal Finance	**483**	276	75
	7,217	6,758	7
Total operating income	**11,779**	10,846	9

Financial Markets operating income by desk	2012 $million	2011 $million	Better/ (worse) %
Foreign Exchange	**1,282**	1,434	(11)
Rates	**966**	893	8
Commodities and Equities	**521**	603	(14)
Capital Markets	**591**	548	8
Credit and Other	**303**	210	44
Total Financial Markets operating income	**3,663**	3,688	(1)

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).

WB continued to be disciplined in the execution of its strategy, delivering strong results and a tenth consecutive year of income growth. Operating income grew $933 million, or 9 per cent, to $11,779 million and is increasingly diversified, with the Africa region exceeding $1 billion of income for the first time. Client income, which constitutes over 80 per cent of WB income, increased by 8 per cent compared to 2011 as we continued to strengthen and deepen relationships across a broader client base. Own account income increased 12 per cent.

Net interest income was up $534 million, or 10 per cent, to $6,103 million as average balances across Trade and Cash Management (Cash) increased and Trade margins improved. Non-interest income increased by $399 million, or 8 per cent, to $5,676 million.

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

Income from Financial Markets (FM) fell marginally by 1 per cent to $3,663 million, with strong growth in Rates and Credit offset by lower flow FX and Commodities income. ALM income fell by 8 per cent as a result of increased holdings of lower yielding, highly liquid securities to comply with regulatory requirements in the UK. Corporate Finance income grew 19 per cent, supported by continued product and geographic diversity. Income in Principal Finance increased by 75 per cent, primarily reflecting valuation gains.

Operating expenses grew $852 million, or 17 per cent, to $5,999 million. Excluding the impact of the $667 million settlements with the US authorities and a legacy legal provision of $86 million, expenses increased by 2 per cent, 7 per cent lower than income growth. We maintained strong expense discipline with staff costs held flat through efficiency initiatives and lower levels of variable compensation. The increase in expenses was concentrated in targeted investment in systems and infrastructure to support our Cash and flow FX businesses.

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

Operating profit fell $80 million, or 2 per cent, to $5,136 million. Excluding the impact of the settlements with the US authorities, operating profit increased 11 per cent.

Product performance

Lending and Portfolio Management income grew by $50 million, or 6 per cent, to $891 million. We continued to focus on return optimisation, maintaining margins at similar levels to 2011. Income also benefitted from one-off gains on asset sales.

Transaction Banking income was up $424 million, or 13 per cent, at $3,671 million. Trade income grew 22 per cent due to higher average asset and contingent balances and improved margins, which were up 10bps, although we saw high levels of liquidity in the second half of 2012 which led to increasing competitive pressure. Cash income increased by 5 per cent, as average balances increased due to targeted liability drives. Cash margins were flat compared to 2011 and started to tighten in the second half of the year driven by excess liquidity in markets.

Global Markets income increased by $459 million, or 7 per cent, to $7,217 million. Within Global Markets, the Financial Markets business, which primarily comprises sales and trading of foreign exchange and interest rate products, continued to be the largest contributor to income and has increasingly diverse income streams. FM income fell by $25 million, or 1 per cent, to $3,663 million against a backdrop of regulatory tightening, lower volatility and lack of directional trends. Client income, which represents over three-quarters of FM income, was flat against 2011 as good momentum in Rates and Credit was offset by lower FX income. Own account income decreased by 3 per cent. Fixed Income, Currency & Commodities (FICC), which includes FX, Rates, Commodities and Credit, was 3 per cent lower.

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

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

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

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

ALM income was $72 million, or 8 per cent, lower at $849 million as a result of increased holdings of highly liquid assets in line with regulatory requirements.

Corporate Finance income rose $349 million, or 19 per cent, to $2,222 million. Approximately 60 per cent of Corporate Finance income is reported within net interest income. We saw an 18 per cent increase in new deals compared to 2011 with increased client demand for financing solutions, particularly in Structured Trade Finance. We continued to build increasing levels of product and geographic diversification within this business, and derived a higher proportion of new deal fee income from small and medium-sized ticket deals compared to prior years.

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

Geographic performance

Hong Kong

Income was up $215 million, or 12 per cent, to $1,938 million. Client income was up 10 per cent as we continued to leverage the opportunities from increasing RMB internationalisation and trade flows between Hong Kong and China. Income from RMB business grew 30 per cent, and generated increased income in Trade, although regulatory changes and margin compression moderated growth in the latter part of 2012. FX income increased reflecting market demand for RMB hedging products although market sentiment impacted growth in the second half of 2012. Cash income increased strongly due to higher average balances and slightly improved margins. Corporate Finance income also continued to grow, and was up strongly compared to 2011 reflecting a full year's contribution from our transport leasing business which we expanded into Hong Kong in the latter part of 2011. Hong Kong continued to leverage the Group's network, enhancing its position as both a hub into and out of China, with inbound revenues from China up 23 per cent compared to 2011.

Operating expenses grew $108 million, or 16 per cent, to $801 million. Almost half of the increase relates to depreciation of assets held within our transport leasing business with the balance reflecting flow through impact from 2011 and ongoing investment in frontline technology.

Pre-provision profit was up $107 million, or 10 per cent, to $1,137 million. Loan impairment was lower by $18 million reflecting higher recoveries. Operating profit was up $118 million, or 12 per cent, at $1,116 million.

Singapore

Income fell $33 million, or 3 per cent, to $1,229 million. The current year consolidated on the strong performance in 2011, with client income increasing by 5 per cent. However, this was more than offset by lower own account income. Transaction Banking grew strongly as a result of higher Cash and Trade average balances and a widening of margins, although margins narrowed in the second half of 2012. FM income fell, due to lower Commodities income reflecting reduced client flow in the current year. This was partially mitigated by increased volumes of smaller transactions, generating a greater degree of diversification in income flows. FX revenues were impacted by reduced corporate volumes reflecting continuing market uncertainty. ALM income fell primarily due to lower reinvestment yields as we continued to grow our portfolio of highly liquid assets to comply with regulatory requirements. Corporate Finance income was impacted by the absence of large ticket transactions in the current year.

Operating expenses were well managed and were slightly higher at $616 million, with higher staff costs due to the flow through impact of prior year investments being offset by lower variable compensation and operating efficiencies through disciplined cost management.

Pre-provision profit fell $47 million, or 7 per cent, to $613 million. Loan impairment was $15 million lower and credit quality remains good. Other impairment was lower at $2 million as prior year Principal Finance provisions did not repeat. Operating profit fell by $3 million to $607 million.

Korea

Income increased $104 million, or 18 per cent, to $669 million and included a $35 million gain on a property disposal. Excluding this gain, income increased by 12 per cent. Client income fell 6 per cent, as the FM business was impacted by low corporate hedging activity resulting from continuing global market uncertainties. Transaction Banking income grew, led by Trade, which benefitted from asset growth and widening margins. Cash income also increased as higher average balances offset margin compression in the second half of 2012. Lending income fell as average asset balances declined reflecting sluggish demand and increasing competitive pressures. Own account income increased, primarily due to realisation gains in the Private Equity portfolio. Income earned on transactions with Korean clients, but delivered across our network markets continued to grow strongly, with double digit growth against 2011.

Operating expenses were lower by $26 million, or 8 per cent, at $286 million, reflecting disciplined cost management.

Pre-provision profit was higher by $130 million, or 51 per cent, at $383 million. Loan impairment decreased by $6 million to $26 million as higher levels of recoveries offset a small increase in new provisions. Operating profit was higher by $137 million, or 64 per cent, at $350 million.

Other APR

Income was up $285 million, or 15 per cent, at $2,183 million. Income grew in most of the major markets in this region, driven by strong FM flow business. China delivered income growth of 18 per cent to $703 million. Trade and Lending saw improved margins through active re-pricing, while Capital Markets income grew strongly. Corporate Finance income grew as we provided advisory and financing solutions across a wider range of industries. Client income was moderated by lower margins in Cash, following interest rate cuts, and reduced FM income, with FX impacted by lower RMB volatility and client demand shifting to vanilla flow products. Own account income rose strongly following realignment of the portfolio to higher yields. Income earned on transactions with China clients and delivered across our network markets continued to grow strongly with Hong Kong remaining the main cross-border partner. Income in Taiwan fell marginally to $143 million. Strong growth in Trade and Cash, reflecting higher margins, and higher FX income, which saw good momentum in RMB derivatives and commodities, was more than offset by lower Capital Markets and Corporate Finance income. Income in Malaysia was up 27 per cent, with good growth in Lending and higher Corporate Finance income. Indonesia also delivered good growth, up 13 per cent due to higher Corporate Finance and Capital Markets revenues.

Operating expenses in Other APR were up $135 million, or 14 per cent, to $1,096 million. The increase in expenses is primarily driven by a legacy commercial legal provision. China operating expenses were up 8 per cent to $374 million largely due to increased staff costs.

Pre-provision profit in Other APR was higher by 16 per cent at $1,087 million. Loan impairment increased by $19 million to $37 million, $12 million of which relates to China. Other impairment resulted in a charge of $95 million. 2011 benefitted from impairment recoveries on disposal of previously impaired Private Equity investments while the 2012 charge was driven by provisions against unrelated Private Equity investments in China. Operating profit was 1 per cent higher at $955 million. China contributed $272 million of operating profit, with Indonesia and Malaysia as the other major profit contributors in this region.

India

Income fell $178 million, or 13 per cent, to $1,145 million. On a constant currency basis, income fell 2 per cent. Flow business continues to grow well and Transaction Banking income grew (on a constant currency basis) and Cash was up with a strong growth in average balances partially offset by slightly lower margins reflecting a shift in product mix. Trade income also increased as a result of higher average balances against a backdrop of lower export levels and an improvement in margins. On a constant currency basis, FM income fell and Corporate Finance was also lower, as these businesses continued to be impacted by subdued business sentiment. We continued to support our Indian clients' cross-border needs and income booked across our network grew at a strong double digit rate as we continued to leverage the Group's international franchise.

Operating expenses were lower by $42 million, or 9 per cent, at $435 million. On a constant currency basis, expenses were higher by 4 per cent, with the flow through impact of prior year investments offset by tight cost management.

Pre-provision profit was down $136 million, or 16 per cent, at $710 million. Loan impairment increased by $58 million to $138 million primarily due to credit concerns around a single corporate exposure, the impact of which was partially mitigated by a release of the additional portfolio impairment provisions established in 2011 in respect of market uncertainty. Other impairment saw a net recovery of $9 million compared to a charge of $60 million in 2011, as the prior year was impacted by a charge relating to a specific bond exposure which was partially released in the current year. Operating profit was down $125 million, or 18 per cent, to $581 million. On a constant currency basis, operating profit fell 6 per cent.

MESA

Income was lower by $15 million, at 1 per cent to $1,481 million. Client income demonstrated resilient performance in a challenging environment with growth driven by Transaction Banking and Corporate Finance. Own account income, however, was impacted by the run-off of higher yielding assets and lower levels of volatility. Income in the UAE, which generates almost 50 per cent of the income in this region, was down 5 per cent overall. While client income increased due to higher Trade and Corporate Finance income this was offset by lower levels of own account income. Islamic banking capabilities continue to be enhanced with income up compared to 2011. Income in Bangladesh grew 5 per cent driven by Cash. Income in Pakistan fell 9 per cent primarily due to lower levels of ALM income while Bahrain fell 16 per cent as a result of lower Corporate Finance activity.

Operating expenses in MESA were up $9 million, or 2 per cent, to $607 million, as we managed costs tightly across the region.

Pre-provision profit in MESA was down $24 million, or 3 per cent, to $874 million. Loan impairment increased $68 million to $265 million, driven by a small number of accounts in the UAE. Operating profit fell 16 per cent to $577 million.

Africa

Income exceeded $1 billion for the first time, increasing $151 million, or 16 per cent, to $1,111 million. On a constant currency basis, income was up 21 per cent. We continue to diversify our revenue engines within this region across products, client groups and countries, with four markets now delivering WB income over $100 million. Income growth was led by a strong Transaction Banking performance, with both Trade and Cash performing well, and higher Corporate Finance income. Nigeria continues to be the largest WB market in the region with income up by 13 per cent, with growth in Rates and Corporate Finance income offsetting lower Lending margins. Income also grew strongly in Ghana, up 22 per cent, Kenya, up 40 per cent, and South Africa, up 28 per cent. Growth in these markets was primarily driven by Transaction Banking reflecting a combination of improved cash margins and higher average balances.

Operating expenses were up $32 million, or 7 per cent, to $478 million. On a constant currency basis, expenses were 12 per cent higher, reflecting investments to build capability together with inflation related increases.

Pre-provision profit was up $119 million, or 23 per cent, to $633 million. Loan impairment remained low at $18 million, up $11 million from 2011. Operating profit was $118 million higher at $615 million, up 24 per cent. On a constant currency basis, operating profit was up 29 per cent.

Americas, UK & Europe

This region acts as a two way bridge, linking Americas, UK & Europe with our markets in Asia, Africa and the Middle East, and leverages capabilities built within the region to support our clients' cross-border needs. Income was up 25 per cent to $2,023 million, with client income up 27 per cent. Double digit income growth was recorded across our core products of Transaction Banking, FX Rates and Corporate Finance, driving increasingly diversified income streams. Transaction Banking grew strongly, reflecting higher average balances and wider margins in Trade. Corporate Finance income grew with an increase in the volume of medium-sized deals as we deepened global relationships. Own account income increased with a strong performance in Credit from selling Asian credit products to US clients.

Operating expenses increased by $622 million, or 59 per cent. Excluding the impact of the settlements with the US authorities, expenses fell by $45 million, reflecting efficiencies and continued cost discipline across the region.

Pre-provision profit fell $218 million, or 39 per cent to $343 million. Loan impairment increased by $23 million to a charge of $22 million whilst other impairment fell by $22 million to a net recovery of $14 million. Operating profit fell 40 per cent to $335 million. Excluding the impact of the settlements with the US authorities, operating profit increased 81 per cent compared to 2011.

Group Summary Consolidated Balance Sheet

	2012 $million	2011 $million	Increase/ (Decrease) $million	Increase/ (Decrease) %
Assets				
Advances and investments				
Cash and balances at central banks	**61,043**	47,364	13,679	29
Loans and advances to banks	**68,381**	65,981	2,400	4
Loans and advances to customers	**283,885**	266,790	17,095	6
Investment securities held at amortised cost	**3,851**	5,493	(1,642)	(30)
	417,160	385,628	31,532	8
Assets held at fair value				
Investment securities held available-for-sale	**95,562**	79,790	15,772	20
Financial assets held at fair value through profit or loss	**27,084**	24,828	2,256	9
Derivative financial instruments	**49,496**	58,524	(9,028)	(15)
	172,142	163,142	9,000	6
Other assets	**47,216**	43,916	3,300	8
Total assets	**636,518**	592,686	43,832	7
Liabilities				
Deposits and debt securities in issue				
Deposits by banks	**36,477**	35,296	1,181	3
Customer accounts	**377,639**	345,726	31,913	9
Debt securities in issue	**55,979**	47,140	8,839	19
	470,095	428,162	41,933	10
Liabilities held at fair value				
Financial liabilities held at fair value through profit or loss	**23,064**	19,599	3,465	18
Derivative financial instruments	**47,192**	56,517	(9,325)	(16)
	70,256	76,116	(5,860)	(8)
Subordinated liabilities and other borrowed funds	**18,799**	16,717	2,082	12
Other liabilities	**31,313**	30,316	997	3
Total liabilities	**590,463**	551,311	39,152	7
Equity	**46,055**	41,375	4,680	11
Total liabilities and shareholders' funds	**636,518**	592,686	43,832	7

Balance sheet

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

The Group remains well capitalised, and generated good levels of organic equity during the year, although our Core Tier 1 ratio of 11.7 per cent was slightly lower than 2011, primarily due to the impact of the settlements with the US authorities.

The profile of our balance sheet remains stable, with 71 per cent of our financial assets held on amortised cost basis, which reduces the risk of short term distress shocks, and 56 per cent of total assets have a residual maturity of less than one year. The Group has low exposure to problem asset classes, no direct sovereign exposure (as defined by the European Banking Authority (EBA)) to Greece, Ireland, and Italy, Portugal and Spain and immaterial direct exposure to the remainder of the eurozone. Further details of our exposures to the eurozone are set out on page 52.

Total assets/liabilities grew by $43.8 billion, or 7 per cent, during the year. On a constant currency basis, growth was 6 per cent as some of the Asian currencies appreciated towards the end of 2012 against the US dollar particularly the Korean Won and the Singapore Dollar. Balance sheet growth was largely driven by an increase in customer lending on the back of significant growth in customer deposits. Surplus liquidity was held with central banks or in liquid investment securities that meet the more stringent regulatory liquidity requirements. Derivative mark to market decreased, largely reflecting lower levels of market volatility.

Cash and balances at central banks

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

Loans and advances

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

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

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

Treasury bills, debt and equity securities

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

Derivatives

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

Deposits

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

Debt securities in issue, subordinated liabilities and other borrowed funds

Debt securities in issue, including those held at fair value, grew 19 per cent to $61.2 billion as we continued see strong demand for our paper. Subordinated debt increased by $2.1 billion, or 12 per cent, on the back of US dollar denominated issues in the second half of 2012.

Equity

Total shareholders' equity increased by $4.7 billion to $46.0 billion due to profit accretion, foreign exchange translation gains and gains on available-for-sale securities, partly offset by dividends paid to shareholders.

Risk overview

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

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

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

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

We have low exposure to asset classes and segments outside of our core markets and target customer base. We have no direct sovereign exposure (as defined by the European Banking Authority (EBA)) to Greece, Ireland, Italy, Portugal or Spain. Our total gross exposure to all counterparties in these countries, more than half of which relates to currency and interest rate derivatives, is 0.6 per cent of total assets. Our direct sovereign exposure to the remainder of the eurozone is immaterial. Further details are given on page 52. Our exposure to countries impacted by the political developments in the Middle East and North Africa are also low. Exposures in Bahrain, Syria, Egypt, Libya, Algeria and Tunisia represent less than 0.5 per cent of our total assets.

Our exposure to commercial real estate and leveraged loans account for less than 2 per cent and 1 per cent of our total assets respectively. The notional value of the Asset Backed Securities (ABS) portfolio, which accounts for 0.7 per cent of our total assets increased by $2.3 billion in 2012 due to investments in high quality, senior ABS and Residential Mortgage Backed Securities (RMBS) assets in the Group's portfolio of liquid assets. Further details are given on page 51.

Market risk is tightly monitored using Value at Risk (VaR) methodologies complemented by sensitivity measures, gross nominal limits and loss triggers at a detailed portfolio level. This is supplemented with extensive stress testing which takes account of more extreme price movements. Further details on market risk are given on page 56.

Our liquidity in 2012 benefited from continued good inflows of customer deposits, which helped us to maintain a strong advances-to-deposits ratio. Liquidity will continue to be deployed to support growth opportunities in our chosen markets. We manage liquidity in each of our geographical locations, ensuring that we can meet all short-term funding requirements and that our balance sheet remains structurally sound. Our customer deposit base is diversified by type and maturity and we are a net provider of liquidity to the interbank money markets. We have a substantial portfolio of marketable securities which can be realised in the event of liquidity stress. Further details on liquidity are given on page 59.

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

We have a well-established risk governance structure, which is set out on page 25, and an experienced senior team. Members of our executive committee (the Court) sit on our principal risk executive 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. Board committees provide additional risk management oversight and challenge.

We continue to build on the Group's culture of risk management discipline. The management of operational risk, in particular, continues to be enhanced across all areas of the Group. We are introducing increased rigour in the process for anticipating a wide variety of operational risks and in our assessments of risks and control effectiveness. Operational risk is covered in more detail on page 64.

Risk performance review

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

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

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

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

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

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

Principal uncertainties

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

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

Deteriorating macroeconomic conditions in footprint countries

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

The world economy is coming out of a difficult period and uncertainty remains. The sovereign crisis in the eurozone continues and, although acute risks have been addressed by ongoing policy initiatives, there is still a need for substantial new structural reform (see additional information on the risk of redenomination on page 52). The US will likely continue to be held back by fiscal challenges unless political compromises are struck, though economic fundamentals are improving.

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

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

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

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

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

Regulatory changes and compliance

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

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

The Group seeks to comply with all applicable laws and regulations but may be subject to regulatory actions and investigations across our markets, the outcome of which are generally difficult to predict and can be material to the Group.

The Group seeks to co-operate with regulators in response to requests for information, inquiries and investigations and takes remedial actions as necessary.

Regulators and other agencies in certain markets are conducting investigations or reviews into submissions made to set various market interest rates and other benchmarks. Certain of the Group's branches and subsidiaries were (and are) submitting data to bodies that set such rates and benchmarks.

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

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

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

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

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

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

We actively monitor the political situation in all our principal markets, such as the development of events in the Middle East and territorial disputes in North East Asia. We conduct stress tests of the impact of extreme but plausible geopolitical events on our performance and the potential for such events to jeopardise our ability to operate within our stated risk appetite. Further details on stress testing are given on page 26.

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

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

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

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

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

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

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

Risk management

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

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

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

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

- Balancing risk and return: risk is taken in support of the requirements of our stakeholders, in line with our strategy and within our risk appetite
- Responsibility: it is the responsibility of all employees to ensure that risk-taking is disciplined and focused. We take account of our social responsibilities and our commitments to customers in taking risk to produce a return

- Accountability: risk is taken only within agreed authorities and where there is appropriate infrastructure and resource. All risk-taking must be transparent, controlled and reported
- Anticipation: We seek to anticipate future risks and ensure awareness of all known risks
- Competitive advantage: We seek to achieve competitive advantage through efficient and effective risk management and control.

Risk governance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Risk function

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

The role of the Risk function is:

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

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

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

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

Risk appetite

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

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

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

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

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

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

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

Stress testing

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

Our stress testing framework is designed to:

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

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

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

Stress tests are also performed at country and business level.

Credit risk management

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

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

Credit policies

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

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

Credit rating and measurement

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

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

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

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

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

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

Credit approval

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

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

Credit concentration risk

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

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

Credit monitoring

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

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

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

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

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

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

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

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

Credit risk mitigation

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

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

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

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

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

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

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

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

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

For certain types of lending – typically mortgages, asset financing – the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. The requirement for collateral is however not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

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

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

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

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

Traded products

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

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

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

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

Credit portfolio

Maximum exposure to credit risk

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

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

The Group's maximum exposure to credit risk has increased by $29.2 billion when compared to 2011. Exposure to loans and advances to banks and customers has increased by $19.7 billion since 2011 due to growth in the unsecured lending portfolio in Consumer Banking and broad based growth across several industry sectors in Wholesale Banking. Further details of the loan portfolio are set out on page 30. The Group's credit risk exposure arising from derivatives has decreased by $9.0 billion when compared to 2011.

	2012 $million	2011 $million
Derivative financial instruments	**49,496**	58,524
Loans and advances to customers	**288,863**	271,778
Loans and advances to banks	**69,155**	66,549
Investment securities[1]	**114,313**	100,419
Contingent liabilities	**44,449**	42,880
Undrawn irrevocable standby facilities, credit lines and other commitments to lend	**56,697**	52,700
Documentary credits and short term trade-related transactions	**7,752**	8,612
Forward asset purchases and forward deposits placed	**711**	733
	631,436	602,195

1 Excludes equity shares.

Credit risk mitigation

Loans and advances

The Group holds collateral against loans and advances to customer and banks of $140 billion (2011: $142 billion). Further details of collateral held by businesses and held for past due and individually impaired loans are set on page 32.

The Group has transferred to third parties by way of securitisation the rights to any collection of principal and interest on customer loan assets with a face value of $1,321 million (2011: $2,212 million). The Group continues to recognise these assets in addition to the proceeds and related liability of $1,093 million (2011: $1,843 million) arising from the securitisations. The Group considers the above customer loan assets to be encumbered. Further details of encumbered assets are provided on page 60.

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $22.1 billion (2011: $20.3 billion). These credit default swaps are accounted for as guarantees. The Group continues to hold the underlying assets referenced in the credit default swaps as it continues to be exposed to related credit and foreign exchange risk on these assets. Further details of the transactions as set out in the special purposes entity note 32 of the financial statement on page 108.

Derivatives financial instruments

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

The Group holds cash collateral against derivative and other financial instruments of $3,245 million (2011: $3,145 million) as disclosed in note 24 on page 103.

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

Off-balance sheet exposures

For certain types of exposures such as letters of credit and guarantees, the Group obtains collateral such as cash depending on internal credit risk assessments as well as the case of letters of credit holding legal title to the underlying assets should a default take place.

Loan portfolio
Overview

This section covers a summary of the Group's loan portfolio broadly analysed by business and geography, along with an analysis of the maturity profile, credit quality and provisioning of the loan book. A more detailed analysis is set out for Consumer Banking on pages 36 to 42 and Wholesale Banking on pages 43 to 49.

Geographic analysis

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

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Consumer Banking	**31,324**	**27,567**	**28,587**	**29,161**	**5,190**	**5,418**	**1,710**	**3,919**	**132,876**
Wholesale Banking	**21,515**	**28,321**	**7,710**	**24,336**	**6,827**	**14,672**	**6,327**	**47,023**	**156,731**
Portfolio impairment provision	**(74)**	**(47)**	**(132)**	**(188)**	**(39)**	**(138)**	**(63)**	**(63)**	**(744)**
Total loans and advances to customers[1,2]	**52,765**	**55,841**	**36,165**	**53,309**	**11,978**	**19,952**	**7,974**	**50,879**	**288,863**
Total loans and advances to banks[1,2]	**19,356**	**6,205**	**4,633**	**8,720**	**571**	**3,172**	**378**	**26,120**	**69,155**

	2011								
	Hong Kong	Singapore	Korea	Other Asia Pacific[3]	India	Middle East & Other S Asia	Africa[3]	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Consumer Banking	27,554	24,014	31,546	27,913	4,830	4,615	1,341	3,437	125,250
Wholesale Banking	23,432	24,815	6,646	23,890	6,407	13,957	6,002	42,139	147,288
Portfolio impairment provision	(72)	(41)	(126)	(184)	(84)	(138)	(49)	(66)	(760)
Total loans and advances to customers[1,2,3]	50,914	48,788	38,066	51,619	11,153	18,434	7,294	45,510	271,778
Total loans and advances to banks[1,2,3]	19,097	7,301	3,777	8,305	362	2,426	638	24,643	66,549

1 Amounts net of impairment provision and include financial instruments held at fair value through profit or loss (see note 12 on page 87).
2 Loans and advances to customers in the above table are presented on the basis of booking location of the loan. The analysis of loans and advances by geography presented on page 79 in note 2 to the financial statements present loans based on the location of the customers.
3 Amounts have been restated as explained in note 34.

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

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

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

Credit quality analysis

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

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

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

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

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

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

	2012				2011			
	Loans to banks	**Loans to customers – Wholesale Banking**	**Loans to customers – Consumer Banking**	**Total loans to customers**	Loans to banks	Loans to customers – Wholesale Banking	Loans to customers – Consumer Banking	Total loans to customers
	$million	**$million**	**$million**	**$million**	$million	$million	$million	$million
Neither past due nor individually impaired loans								
- Grades 1-5	**59,697**	**63,274**	**59,280**	**122,554**	54,838	59,755	55,965	115,720
- Grades 6-8	**7,762**	**62,368**	**41,833**	**104,201**	10,432	60,162	40,238	100,400
- Grades 9-11	**1,457**	**22,272**	**23,597**	**45,869**	980	22,925	22,579	45,504
- Grade 12	**32**	**1,400**	**2,689**	**4,089**	76	1,674	1,835	3,509
	68,948	**149,314**	**127,399**	**276,713**	66,326	144,516	120,617	265,133
Past due but not individually impaired loans								
- Up to 30 days past due	**3**	**1,602**	**3,832**	**5,434**	75	577	3,187	3,764
- 31 - 60 days past due	**-**	**115**	**515**	**630**	-	129	477	606
- 61 - 90 days past due	**-**	**3,058**	**238**	**3,296**	-	203	217	420
- 91 - 150 days past due	**-**	**-**	**216**	**216**	-	-	154	154
	3	**4,775**	**4,801**	**9,576**	75	909	4,035	4,944
Individually impaired loans	**309**	**4,437**	**1,249**	**5,686**	232	3,262	1,089	4,351
Individual impairment provisions	**(103)**	**(1,795)**	**(573)**	**(2,368)**	(82)	(1,399)	(491)	(1,890)
Net individually impaired loans	**206**	**2,642**	**676**	**3,318**	150	1,863	598	2,461
Total loans and advances	**69,157**	**156,731**	**132,876**	**289,607**	66,551	147,288	125,250	272,538
Portfolio impairment provision	**(2)**	**(309)**	**(435)**	**(744)**	(2)	(326)	(434)	(760)
	69,155	**156,422**	**132,441**	**288,863**	66,549	146,962	124,816	271,778
Of which, held at fair value through profit or loss:								
Neither past due nor individually impaired								
- Grades 1-5	**555**	**1,237**	**-**	**1,237**	217	1,599	-	1,599
- Grades 6-8	**219**	**3,048**	**-**	**3,048**	351	2,651	-	2,651
- Grades 9-11	**-**	**692**	**-**	**692**	-	563	-	563
- Grade 12	**-**	**1**	**-**	**1**	-	175	-	175
	774	**4,978**	**-**	**4,978**	568	4,988	-	4,988

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

For loans and advances to banks and customer (including those held at fair value through profit or loss), the table below sets out the fair value of collateral held by the Group adjusted where appropriate in accordance with the risk mitigation policy as outlined on page 27 and for the effect of over-collateralisation.

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

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

Further details on collateral are explained in Consumer Banking and Wholesale Banking sections on page 39 and 47 respectively.

	Consumer Banking			Wholesale Banking			Total		
	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans	Total	Past due but not individually impaired loans	Individually impaired loans
As at 31 December 2012	$million	$million	$million	$million	$million	$million	$million	$million	$million
Collateral	**88,119**	**2,802**	**570**	**51,594**	**1,823**	**591**	**139,713**	**4,625**	**1,161**
Amount outstanding[1]	**132,876**	**4,801**	**1,249**	**225,888**	**4,778**	**4,746**	**358,764**	**9,579**	**5,995**
As at 31 December 2011									
Collateral	88,471	2,481	568	53,790	328	459	142,261	2,809	1,027
Amount outstanding[1]	125,250	4,035	1,089	213,839	984	3,494	339,089	5,019	4,583

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

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

The table below details the carrying value of collateral possessed and held by the Group at 31 December 2012 and 31 December 2011:

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

Problem credit management and provisioning

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

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

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

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

Non-performing loans

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

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

The gross non-performing loans in Consumer Banking have increased by 18 per cent since 31 December 2011 mainly reflecting the shift in mix towards unsecured lending, the impact of the Personal Debt Rehabilitation Scheme (PDRS) regulation in Korea and seasoning of the loan portfolio. In Wholesale Banking, non-performing loans have increased by $1.2 billion mainly due to a small number of large exposures in India and UAE. The table below presents a summary of the non-performing loans and cover ratio for Consumer Banking and Wholesale Banking. Further details by geography are set out in pages 42 and 49 for Consumer Banking and Wholesale Banking respectively.

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

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

Individual and portfolio impairment provisions

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

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

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

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

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

Forbearance and other renegotiated loans

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

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

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

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

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

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

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

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

If the terms of the restructure are such that an independent party in the same geographic area would not be prepared to provide financing on substantially the same terms and conditions, or where the present value of the new cash flows is lower than the present value of the original cash flows, the loan would be considered to be impaired and at a minimum a discount provision would be raised. These accounts are monitored as described on page 27.

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

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

Consumer Banking loan portfolio

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

Geographic analysis

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

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

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

Maturity analysis

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

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

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

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

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

Credit quality analysis

The tables below set out the loan portfolio for Consumer Banking by product and by geography between those loans that are neither past due nor impaired, those that are past due but not individually impaired and those that are individually impaired.

The overall credit quality of the portfolio remains good with over 95 per cent of the portfolio neither past due nor impaired. The mortgage portfolio is well collateralised and has an average loan to value ratio of 47.8 per cent.

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

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

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

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

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

Credit risk mitigation

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

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

Mortgage loan to value ratios by geography

The following table provides an analysis of loan to value (LTV) ratios by geography for the mortgages portfolio. LTV ratios are determined based on the ratio of the current mortgage outstanding to the current fair value of the properties on which they are secured. Overall the average LTV ratio for the book is 47.8 per cent compared to 49.0 per cent in 2011. Our major mortgage markets of Hong Kong, Singapore and Korea have an average LTV of less than 50 per cent. The proportion of the portfolio with average LTVs in excess of 100 per cent has declined from 0.8 per cent to 0.5 per cent. This has been primarily seen within the UAE due to improving economic conditions in the current year, such as job market stability. At 31 December 2012 average LTVs in Hong Kong and MESA regions were lower as new business was originated at lower LTVs and in Hong Kong the current book benefitted from an increase in property prices.

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

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

Problem credit management and provisioning

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

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

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

The provisions are based on the estimated present values of future cashflows, in particular those resulting from the realisation of security. Following such realisation any remaining loan will be written off. The days past due used to trigger write offs and IIPs are broadly driven by past experience, which shows that once an account reaches the relevant number of days past due, the probability of recovery (other than by realising security where appropriate) is low. For all products there are certain situations where the individual impairment provisioning or write off process is accelerated, such as in cases involving bankruptcy, customer fraud and death. Write off and IIPs are accelerated for all restructured accounts to 90 days past due (unsecured and automobile finance) and 120 days past due (secured) respectively. Individually impaired loans for Consumer Banking will therefore not equate to those reported as non-performing on page 42, because non-performing loans include all those over 90 days past due. This difference reflects the fact that, while experience shows that an element of delinquent loans are impaired it is not possible to identify which individual loans the impairment relates to until the delinquency is sufficiently prolonged that loss is almost certain, which, in the Group's experience, is generally around 150 days in Consumer Banking. Up to that point the inherent impairment is captured in portfolio impairment provision (PIP).

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

The procedures for managing problem credits for the Private Bank and the medium-sized enterprises in the SME segment of Consumer Banking are similar to those adopted in Wholesale Banking (described on page 47).

Loan impairment

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

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

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

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

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

The following table sets out the movement in total impairment provisions for Consumer Banking loans and advances as at 31 December by each principal category of borrower:

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

	Impairment provision held as at 1 January 2011 $million	Net impairment charge 2011 $million	Amounts written off/ other movements 2011 $million	Impairment provision held as at 31 December 2011 $million
Loans to individuals				
Mortgages	128	21	(12)	137
Other	180	412	(440)	152
Small and medium enterprises	198	101	(97)	202
	506	534	(549)	491
Portfolio impairment provision	451	(10)	(7)	434
	957	524	(556)	925

Non-performing loans

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

The cover ratio is a common metric used in considering trends in provisioning and non-performing loans. It should be noted, as explained above, a significant proportion of the PIP is intended to reflect losses inherent in the loan portfolio that is less than 90 days delinquent and hence recorded as performing. This metric should be considered in conjunction with other credit risk information including that contained in page 33.

The following tables set out the total non-performing loans and related provisions for Consumer Banking by geography :

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

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

	2011								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans and advances									
Gross non-performing	48	52	194	345	72	291	28	66	1,096
Individual impairment provision[1]	(17)	(14)	(68)	(113)	(32)	(159)	(16)	(39)	(458)
Non-performing loans net of individual impairment provision	31	38	126	232	40	132	12	27	638
Portfolio impairment provision									(434)
Net non-performing loans and advances									204
Cover ratio									81%

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

The following table sets out the movement in individually impaired loans, those renegotiated loans excluded from non-performing and total non-performing loans. Renegotiated loans are excluded from non-performing loans if certain specific criteria are met as explained on page 33.

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

Wholesale Banking loan portfolio

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

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

Single borrower concentration risk has been mitigated by active distribution of assets to banks and institutional investors, some of which is achieved through credit-default swaps and synthetic risk transfer structures (see page 29).

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

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

Geographic analysis

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Agriculture, forestry and fishing	54	806	4	469	13	261	785	2,079	4,471
Construction	374	484	487	570	629	1,183	259	659	4,645
Commerce	4,983	11,773	665	4,297	815	4,428	768	6,229	33,958
Electricity, gas and water	510	407	-	561	7	366	251	2,723	4,825
Financing, insurance and business services	2,702	2,184	52	4,514	378	2,295	455	10,149	22,729
Governments	50	790	651	765	2	319	47	630	3,254
Mining and quarrying	700	1,938	-	1,059	394	778	602	9,495	14,966
Manufacturing	6,018	3,845	4,182	9,348	2,864	2,893	2,208	8,941	40,299
Commercial real estate	3,524	2,296	1,354	1,445	1,270	1,082	64	540	11,575
Transport, storage and communication	2,400	3,330	194	1,074	447	965	809	5,411	14,630
Other	200	468	121	234	8	102	79	167	1,379
	21,515	28,321	7,710	24,336	6,827	14,672	6,327	47,023	156,731
Portfolio impairment provision	(24)	(21)	(16)	(35)	(19)	(94)	(41)	(59)	(309)
Total loans and advances to customers	21,491	28,300	7,694	24,301	6,808	14,578	6,286	46,964	156,422
Total loans and advances to banks	19,356	6,205	4,633	8,720	571	3,172	378	26,120	69,155

	2011								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific[1] $million	India $million	Middle East & Other S Asia $million	Africa[1] $million	Americas UK & Europe $million	Total $million
Agriculture, forestry and fishing	356	472	16	473	13	248	823	781	3,182
Construction	345	639	371	668	463	790	237	291	3,804
Commerce	4,858	7,645	439	3,826	547	4,067	851	5,999	28,232
Electricity, gas and water	523	908	-	665	7	300	300	1,771	4,474
Financing, insurance and business services	3,824	4,107	167	4,536	645	3,247	595	8,837	25,958
Governments	-	1,312	11	1,949	2	230	9	2,160	5,673
Mining and quarrying	1,019	1,325	-	841	353	300	333	8,103	12,274
Manufacturing	7,248	2,602	3,818	8,413	2,461	2,604	1,825	7,904	36,875
Commercial real estate	3,136	1,952	1,416	1,332	1,131	681	64	543	10,255
Transport, storage and communication	1,905	3,223	228	929	776	1,257	771	5,607	14,696
Other	218	630	180	258	9	233	194	143	1,865
	23,432	24,815	6,646	23,890	6,407	13,957	6,002	42,139	147,288
Portfolio impairment provision	(27)	(19)	(25)	(25)	(63)	(75)	(30)	(62)	(326)
Total loans and advances to customers	23,405	24,796	6,621	23,865	6,344	13,882	5,972	42,077	146,962
Total loans and advances to banks	19,097	7,301	3,777	8,305	362	2,426	638	24,643	66,549

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

Maturity analysis

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

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

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

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

Credit quality analysis

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

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

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

Loans past due but not individually impaired increased by $3.9 billion compared to 2011. Of this increase $.1.0 billion was in the less than 30 days past due category and related to a small number of exposures in UAE (within Construction and Commerce), in Hong Kong (within Mining and Construction) and in Singapore (within Financing, insurance and business services). The remainder of the increase was in the 60-90 days past due category and related to the Financing, insurance and business services and Manufacturing sectors in the Americas, UK & Europe. As explained on page 31, a majority of these past due balances relate to a small number of exposures and have since been either repaid or renegotiated shortly after the balance-sheet date.

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

Loans to banks remain predominantly high quality and more than 99 per cent of the portfolio is neither past due nor individually impaired.

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

Loans and advances to banks	68,948	3	309	69,260	66,326	75	232	66,633
Individual impairment provision				(103)				(82)
Portfolio impairment provision				(2)				(2)
Total loans and advances to banks				69,155				66,549

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

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

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

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Neither past due nor individually impaired	**19,349**	**6,205**	**4,633**	**8,635**	**570**	**3,076**	**378**	**26,102**	**68,948**
Past due but not individually impaired loans	**2**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**3**
Individually impaired loans	**5**	**-**	**-**	**164**	**-**	**97**	**-**	**43**	**309**
Individual impairment provisions	**-**	**-**	**-**	**(78)**	**-**	**-**	**-**	**(25)**	**(103)**
Portfolio impairment provision	**-**	**-**	**-**	**(1)**	**-**	**(1)**	**-**	**-**	**(2)**
Total loans and advances to banks	**19,356**	**6,205**	**4,633**	**8,720**	**571**	**3,172**	**378**	**26,120**	**69,155**

	2011								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Neither past due nor individually impaired	19,027	7,288	3,777	8,217	362	2,427	637	24,591	66,326
Past due but not individually impaired loans	62	13	-	-	-	-	-	-	75
Individually impaired loans	8	-	-	165	-	-	1	58	232
Individual impairment provisions	-	-	-	(76)	-	-	-	(6)	(82)
Portfolio impairment provision	-	-	-	(1)	-	(1)	-	-	(2)
Total loans and advances to banks	19,097	7,301	3,777	8,305	362	2,426	638	24,643	66,549

Credit risk mitigation

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

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

Problem credit management and provisioning

Loans are classified as impaired and considered non-performing in line with definition on page 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.

Loan impairment

The individual impairment charge increased by $212 million or 64 per cent compared to 2011 which is in line with the increase in non-performing loans mentioned on page 49 in India and the UAE. These arose primarily in the Commerce, and Transport, storage and communication sectors. Portfolio provisions were reduced in some markets in 2012 with a release of sector specific provisions in India. Consequently, there was a net portfolio impairment release in 2012 of $22 million compared to a $24 million charge in 2011.

The table below sets out the net impairment charge for Wholesale Banking loans and advances and other credit risk provisions by geography.

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

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

Impairment provisions on loans and advances

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

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

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

Non-performing loans

Gross non-performing loans in Wholesale Banking have increased by $1,222 million, or 40 per cent, since December 2011. These increases were primarily driven by a very small number of exposures in India and the UAE. The cover ratio reflects the extent to which gross non-performing loans are covered by individual and portfolio impairment provisions and was 51 per cent at 31 December 2012, down from 58 per cent at 31 December 2011 largely due to the factors previously outlined. The balance of non-performing loans not covered by individual impairment provisions represents the value of collateral held and the Group's estimate of the net outcome of any workout strategy. The cover ratio after taking into account collateral is 65 per cent (2011: 72 per cent).

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

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

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

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

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

The following table set out the movement in individually impaired loans, those renegotiated loans excluded from non-performing and the total non-performing loans. Renegotiated loans are excluded from non-performing loans if certain specific criteria are met as explained on page 33.

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

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

	2012			2011		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
Net impaired securities:						
Impaired securities	**404**	**-**	**404**	432	-	432
Impairment	**(159)**	**-**	**(159)**	(187)	-	(187)
	245	**-**	**245**	245	-	245
Securities neither past due nor impaired:						
AAA	**20,698**	**6,516**	**27,214**	15,164	3,285	18,449
AA- to AA+	**20,232**	**6,594**	**26,826**	18,806	7,959	26,765
A- to A+	**23,570**	**10,694**	**34,264**	23,849	8,712	32,561
BBB- to BBB+	**10,244**	**3,949**	**14,193**	7,090	4,396	11,486
Lower than BBB-	**3,027**	**502**	**3,529**	2,435	1,347	3,782
Unrated	**6,471**	**1,571**	**8,042**	6,541	590	7,131
	84,242	**29,826**	**114,068**	73,885	26,289	100,174
	84,487	**29,826**	**114,313**	74,130	26,289	100,419
Of which:						
Assets at fair value[1]						
Trading	**14,890**	**2,955**	**17,845**	13,025	4,609	17,634
Designated at fair value	**333**	**-**	**333**	45	-	45
Available-for-sale	**65,413**	**26,871**	**92,284**	55,567	21,680	77,247
	80,636	**29,826**	**110,462**	68,637	26,289	94,926
Assets at amortised cost[1]						
Loans and receivables	**3,851**	**-**	**3,851**	5,475	-	5,475
Held-to-maturity	**-**	**-**	**-**	18	-	18
	3,851	**-**	**3,851**	5,493	-	5,493
	84,487	**29,826**	**114,313**	74,130	26,289	100,419

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

The provision for impairment has declined due to partial release of provision relating to a bond investment in India.

The above table also analyses debt securities and treasury bills that are neither past due nor impaired by external credit rating. The standard credit ratings used by the Group are those used by Standard & Poor's or their equivalent. Debt securities held that have a short-term rating are reported against the long-term rating of the issuer. For securities that are unrated, the Group applies an internal credit rating as described under credit rating and measurements on page 26.

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

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

Asset backed securities

Total exposures to asset backed securities

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

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

The carrying value of asset backed securities (ABS) represents 0.7 per cent (2011: 0.3 per cent) of our total assets.

The Group has an existing portfolio of ABS which it reclassified from trading and available-for-sale to loans and receivables with effect from 1 July 2008. No assets have been reclassified since 2008.This portfolio has been gradually managed down since 2010. The carrying value and fair value for this part of the portfolio were $0.97 billion and $1.0 billion respectively as at the end of 2012. Note 12 to the financial statements provides details of the remaining balance of those assets reclassified in 2008.

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

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

Financial statement impact of asset backed securities

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

Selected European country exposures

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

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

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

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

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

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

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

Selected European country exposures continued

Country	2011 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.

Selected European country exposures continued

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

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

[1] Based on ISDA netting

Other selected eurozone countries

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

	France $million	Germany $million	Netherlands $million	Luxembourg $million	Total $million
Direct sovereign exposure	236	443	-	-	679
Banks	2,712	11,765	4,712	1,097	20,286
Other financial institutions	147	-	333	893	1,373
Other corporate	643	601	7,069	604	8,917
Total net exposure at 31 December 2012	3,738	12,809	12,114	2,594	31,255
Total net exposure at 31 December 2011	4,900	7,665	7,831	1,445	21,841

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

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

Country cross-border risk

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

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

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

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

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

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

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

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

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

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

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

Market risk

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

The primary categories of market risk for Standard Chartered are:

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

Market risk governance

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

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

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

Value at Risk

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

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

We apply two VaR methodologies:

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

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

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

Back testing

To assess their predictive power, VaR models are back tested against actual results. In 2012 there have been no exceptions in the regulatory back testing, compared with four in 2011. This is within the 'green zone' applied internationally to internal models by bank supervisors, and implies that model reliability is statistically greater than 95 per cent.

Stress testing

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

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

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

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

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

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

Market risk changes

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

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

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

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

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

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

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

Average daily income earned from market risk related activities

	2012	2011
Trading	$million	$million
Interest rate risk	**6.7**	4.6
Foreign exchange risk	**5.1**	5.7
Commodity risk	**1.6**	2.0
Equity risk	**0.4**	0.3
Total	**13.8**	12.6
Non-Trading		
Interest rate risk	**3.8**	3.6
Equity risk	**0.1**	(0.4)
Total	**3.9**	3.2

Market risk VaR coverage

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

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

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

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

Group Treasury NII sensitivity to parallel shifts in yield curves

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

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

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

	2012 $million	2011 $million
Hong Kong dollar	**6,619**	5,712
Korean won	**6,301**	5,316
Indian rupee	**4,025**	3,305
Taiwanese dollar	**2,946**	2,847
Chinese yuan	**2,245**	1,993
Singapore dollar	**1,195**	1,791
Thai baht	**1,662**	1,514
UAE dirham	**1,598**	1,490
Malaysian ringgit	**1,360**	1,213
Indonesian rupiah	**1,164**	892
Pakistani rupee	**586**	639
Other	**3,648**	3,152
	33,349	29,864

An analysis has been performed on these exposures to assess the impact of a one per cent fall in the US dollar exchange rates adjusted to incorporate the impacts of correlations of these currencies to the US dollar. The impact on the positions above would be an increase of $255 million (2011: $221 million). Changes in the valuation of these positions are taken to reserves.

Derivatives

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

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

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

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

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

Hedging

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

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

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

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

Liquidity risk

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

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

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

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

Policies and procedures

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

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

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

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

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

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

Impact of Basel III

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

Primary sources of funding

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

We maintain access to wholesale funding markets in all major financial centres and countries in which we operate as well as to commercial paper issuance. This seeks to ensure that we have flexibility around maturity transformation, have market intelligence, maintain stable funding lines and can obtain optimal pricing when we perform our interest rate risk management activities. In the next 12 months approximately $7.0 billion of the Group's senior and subordinated debt is falling due for repayment either contractually or callable by the Group. Further details of the Group's senior and subordinated debt by geography are provided in note 2 on page 80.

Encumbered assets

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

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

	2012			2011		
	Unencumbered assets $million	Encumbered assets $million	Total assets $million	Unencumbered assets $million	Encumbered assets $million	Total assets $million
Cash and balances at central banks	51,480	227	51,707	37,403	-	37,403
Restricted balances at central banks	-	9,336	9,336	-	9,961	9,961
Derivative financial instruments	49,496	-	49,496	58,524	-	58,524
Loans and advances to banks[1]	68,432	723	69,155	66,549	-	66,549
Loans and advances to customers[1]	286,485	2,378	288,863	269,551	2,227	271,778
Investment securities[1]	119,147	1,598	120,745	101,776	2,779	104,555
Other assets	19,559	9,259	28,818	18,387	8,899	27,286
Current tax assets	215	-	215	232	-	232
Prepayments and accrued income	2,581	-	2,581	2,521	-	2,521
Interests in associates	953	-	953	903	-	903
Goodwill and intangible assets	7,312	-	7,312	7,061	-	7,061
Property, plant and equipment	6,646	-	6,646	5,078	-	5,078
Deferred tax assets	691	-	691	835	-	835
Total	612,997	23,521	636,518	568,820	23,866	592,686

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

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

Liquidity 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.

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

[1] see note 16 to the financial statements on page 98.
[2] see note 22 to the financial statements on page 103.

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

	2012 $ million	2011 $million
Cash and balances at central banks	61,043	47,364
Restricted balances	(9,336)	(9,961)
Loans and advances to banks	69,155	66,549
Deposits by banks	(37,445)	(36,388)
Treasury bills	29,826	26,289
Debt securities	84,487	74,130
of which :		
Issued by governments	33,688	28,635
Issued by banks	32,261	27,198
Issued by corporate and other entities	18,538	18,297
Illiquid securities	(1,706)	(1,415)
Other encumbered assets	(2,398)	(1,850)
Liquid assets	193,626	164,718
Total assets	636,518	592,686
Liquid assets to total asset ratio (%)	30.4%	27.8%

Geographic spread of liquid assets

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

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

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

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

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

As at 31 December 2012 all countries passed the stress.

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

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

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

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

Liquidity analysis of the Group's balance sheet

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

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

	2012				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years and undated $million	Total $million
Assets					
Cash and balances at central banks	51,707	-	-	9,336	61,043
Derivative financial instruments	10,492	9,523	19,034	10,447	49,496
Loans and advances to banks[1]	47,308	18,916	2,760	171	69,155
Loans and advances to customers[1]	90,800	45,695	71,240	81,128	288,863
Investment securities[1]	24,919	34,128	47,282	14,416	120,745
Other assets	22,331	2,840	289	21,756	47,216
Total assets	247,557	111,102	140,605	137,254	636,518
Liabilities					
Deposits by banks[1]	35,482	1,294	597	72	37,445
Customer accounts[1]	318,871	53,086	10,873	7,052	389,882
Derivative financial instruments	10,077	10,150	17,567	9,398	47,192
Senior debt	1,618	2,713	15,539	1,786	21,656
Other debt securities in issue	23,823	9,890	3,147	2,724	39,584
Other liabilities	17,117	5,434	1,606	11,748	35,905
Subordinated liabilities and other borrowed funds	617	944	3,496	13,742	18,799
Total liabilities	407,605	83,511	52,825	46,522	590,463
Net liquidity gap	(160,048)	27,591	87,780	90,732	46,055

[1] Amounts include financial instruments held at fair value through profit or loss (see note 12 on page 87).

Liquidity risk continued

	2011				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years 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	15,270	12,019	58,524
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	68,430	75,602	271,778
Investment securities[1]	20,695	32,456	41,208	10,196	104,555
Other assets	14,898	5,966	310	22,742	43,916
Total assets	217,796	115,352	128,487	131,051	592,686
Liabilities					
Deposits by banks[1]	34,092	1,488	524	284	36,388
Customer accounts[1]	300,079	40,242	7,284	7,239	354,844
Derivative financial instruments	11,621	19,232	13,842	11,822	56,517
Senior debt	1,768	2,725	13,045	384	17,922
Other debt securities in issue	22,781	5,268	3,473	2,129	33,651
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	389,506	71,271	40,042	50,492	551,311
Net liquidity gap	(171,710)	44,081	88,445	80,559	41,375

1 Amounts include financial instruments held at fair value through profit or loss (see note 12 on page 87).

Behavioural maturity of financial assets and liabilities

As discussed on pages 59 to 63 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 62 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:

	2012				
	Three months or less $million	**Between three months and one year $million**	**Between one year and five years $million**	**More than five years and undated $million**	**Total $million**
Loans and advances to customers	**82,464**	**51,309**	**89,714**	**65,376**	**288,863**
Loans and advances to banks	**49,975**	**15,903**	**3,106**	**171**	**69,155**
Total loans and advances	**132,439**	**67,212**	**92,820**	**65,547**	**358,018**
Deposits by banks	**35,315**	**1,451**	**607**	**72**	**37,445**
Customer accounts	**166,223**	**65,206**	**149,956**	**8,497**	**389,882**
Total deposits	**201,538**	**66,657**	**150,563**	**8,569**	**427,327**
Net gap	**(69,099)**	**555**	**(57,743)**	**56,978**	**(69,309)**

	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
Loans and advances to customers	66,706	40,826	102,686	61,560	271,778
Loans and advances to banks	45,481	16,536	3,980	552	66,549
Total loans and advances	112,187	57,362	106,666	62,112	338,327
Deposits by banks	33,717	1,745	628	298	36,388
Customer accounts	142,394	57,673	125,291	29,486	354,844
Total deposits	176,111	59,418	125,919	29,784	391,232
Net gap	(63,924)	(2,056)	(19,253)	32,328	(52,905)

Operational risk

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

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

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

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

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

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

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

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

Reputational risk

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

Reputational risk could arise from the failure by the Group to effectively mitigate the risks in its businesses including one or more of country, credit, liquidity, market, regulatory, legal or other operational risk. Damage to the Group's reputation could cause existing clients to reduce or cease to do business with the Group and prospective clients to be reluctant to do business with the Group. All employees are responsible for day to day identification and management of reputational risk. These responsibilities form part of the Group Code of Conduct and are further embedded through values-based performance assessment.

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

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

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

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

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

Pension risk

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

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

Capital management

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

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

The capital plan takes the following into account:

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

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

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

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

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

Current compliance with Capital Adequacy Regulations

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

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

The capital that we are required to hold by the FSA is determined by our balance sheet, off-balance sheet, counterparty and other risk exposures. Further detail on counterparty and risk exposures is included in the Risk review on pages 28 to 29.

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 67 summarises the consolidated capital position of the Group.

Basel II

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

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

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

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

Basel III

The Basel III rules text published in December 2010, and updated in June 2011 by the Basel Committee on Banking Supervision (BCBS) serves to bring together the details of global regulatory standards on bank capital adequacy and liquidity. While these give us greater clarity on the global regulatory standards and the various timelines for transition, significant uncertainty remains around the specific application in particular via the implementation of European Union legislation (the package of reforms commonly referred to as the Capital Requirements Directive IV (CRD IV)) comprising the current proposals for a Capital Requirements Regulation and a Capital Requirements Directive.

Capital base

	2012 $million	2011 $million
Shareholders' equity		
Parent company shareholders' equity per balance sheet	45,362	40,714
Preference share classified as equity included in Tier 1 capital	(1,495)	(1,494)
	43,867	39,220
Non-controlling interests		
Non-controlling interests per balance sheet	693	661
Non-controlling Tier 1 capital included in other Tier 1 capital	(320)	(320)
	373	341
Regulatory adjustments		
Unrealised (gains)/losses on available-for-sale debt securities	(97)	282
Unrealised gains on available-for-sale equity securities included in Tier 2	(490)	(241)
Cash flow hedge reserve	(81)	13
Other adjustments	(35)	(46)
	(703)	8
Deductions		
Goodwill and other intangible assets	(7,312)	(7,061)
50 per cent excess of expected losses [1]	(966)	(702)
50 per cent of tax on expected losses	240	186
50 per cent of securitisation positions	(118)	(106)
Other regulatory adjustments	(42)	(53)
	(8,198)	(7,736)
Core Tier 1 capital	35,339	31,833
Other Tier 1 Capital		
Preference shares included within shareholder's equity	1,495	1,494
Preference shares included within 'Subordinated debt and other borrowings'	1,205	1,194
Innovative Tier 1 securities (excluding non-controlling Tier 1 capital)	2,553	2,506
Non-controlling Tier 1 Capital	320	320
	5,573	5,514
Deductions		
50 per cent of tax on expected losses	240	186
50 per cent of material holdings	(552)	(521)
	(312)	(335)
Total Tier 1 capital	40,600	37,012
Tier 2 capital:		
Qualifying subordinated liabilities:[2]		
Subordinated liabilities and other borrowed funds as per balance sheet	18,799	16,717
Preference shares eligible for Tier 1 capital	(1,205)	(1,194)
Innovative Tier 1 securities eligible for Tier 1 capital	(2,553)	(2,506)
Adjustments relating to fair value hedging and non-eligible securities	(2,052)	(1,669)
	12,989	11,348
Regulatory adjustments		
Reserves arising on revaluation of available-for-sale equities	490	241
Portfolio impairment provision	248	239
	738	480
Deductions		
50 per cent excess of expected losses[1]	(966)	(702)
50 per cent of material holdings	(552)	(521)
50 per cent of securitisation positions	(118)	(106)
	(1,636)	(1,329)
Total Tier 2 capital	12,091	10,499
Deductions from Tier 1 and Tier 2 capital	(3)	(4)
Total capital base	52,688	47,507

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

[2] Consists of perpetual subordinated debt $1,314 million (2011: $1,489 million) and other eligible subordinated debt $11,675 million (2011: $9,859 million). Lower Tier 2 instruments that will mature within 5 years includes amortisation.

Movement in Total capital

	2012 $million	2011 $million
Opening Core Tier 1 capital:	**31,833**	28,922
Ordinary shares issued in the year and share premium	**59**	64
Profit for the year	**4,887**	4,849
Dividends, net of scrip	**(1,407)**	(1,152)
Increase in goodwill and other intangible assets	**(251)**	(64)
Foreign currency translation differences	**513**	(982)
(Increase)/decrease in unrealised gains on available for sale assets	**(379)**	107
Movement in eligible other comprehensive income	**306**	100
Increase in excess expected loss, net of tax	**(210)**	(37)
(Increase)/decrease in securitisation positions	**(12)**	26
Closing Core Tier 1 capital	**35,339**	31,833
Opening Other Tier 1 capital	**5,179**	5,373
Increase in tax benefit of excess expected loss	**54**	1
Increase in material holdings deducted from capital	**(31)**	(195)
Other	**59**	-
Closing Other Tier 1 capital	**5,261**	5,179
Opening Tier 2 capital	**10,499**	10,770
Issuance of subordinated loan capital, net of redemptions and foreign currency translation differences	**1,641**	252
Increase/(decrease) in revaluation reserve	**249**	(289)
Increase/(decrease) in portfolio impairment provision	**9**	(27)
Increase in excess expected loss	**(264)**	(38)
Increase in material holdings deducted from capital	**(31)**	(195)
(Increase)/decrease in securitisation positions	**(12)**	26
Closing Tier 2 capital	**12,091**	10,499
Deductions from total capital	**(3)**	(4)
Closing Total capital	**52,688**	47,507

Risk weighted assets and capital ratios

	2012 $million	2011 $million
Credit risk	**246,650**	220,394
Operational risk	**30,761**	28,762
Market risk	**24,450**	21,354
Total risk weighted assets	**301,861**	270,510
Capital ratios		
Core Tier 1 capital	**11.7%**	11.8%
Tier 1 capital	**13.4%**	13.7%
Total capital ratio	**17.4%**	17.6%

Risk weighted assets by business and geography

	2012 $million	2011 $million
Consumer Banking	80,889	71,970
Credit risk	71,481	62,856
Operational risk	9,408	9,114
Wholesale Banking	220,972	198,540
Credit risk	175,169	157,538
Operational risk	21,353	19,648
Market risk	24,450	21,354
Total risk weighted assets	301,861	270,510
Hong Kong	36,534	31,528
Singapore	45,064	36,465
Korea	26,667	25,447
Other Asia Pacific	52,313	50,707
India	23,145	21,266
Middle East & Other S Asia	33,119	33,477
Africa	19,856	15,689
Americas, UK & Europe	73,527	63,976
	310,225	278,555
Less : Netting balances[1]	(8,364)	(8,045)
Total risk weighted assets	301,861	270,510

[1] Risk weighted assets by geography are reported gross of any netting benefits.

Risk weighted contingent liabilities and commitments[2]

	2012 $million	2011 $million
Contingent liabilities	14,725	12,917
Commitments	12,640	10,135

[2] These amounts are included in total risk weighted assets and include amounts relating to the Group's share of its joint ventures.

Movement in risk weighted assets

	Wholesale Banking Credit Risk $million	Consumer Banking Credit Risk $million	Total Credit Risk $million	Market risk $million
Opening risk weighted assets at 1 January 2012	157,538	62,856	220,394	21,354
Assets growth	10,236	3,763	13,999	2,000
Credit migration	4,940	1,164	6,104	-
RWA efficiencies	(2,800)	(1,000)	(3,800)	-
Model, methodology and policy changes	5,324	2,713	8,037	(700)
Foreign currency translation differences	(69)	1,985	1,916	-
Stressed VaR	-	-	-	1,796
Closing risk weighted assets at 31 December 2012	175,169	71,481	246,650	24,450

Risk weighted assets (RWA) increased by $ 31.3 billion or 12 per cent compared to 31 December 2011, with an increase in Wholesale Banking and Consumer Banking of $ 22.4 billion and $ 8.9 billion, respectively. Wholesale Banking RWA growth was mainly in Americas, UK & Europe, Singapore, Hong Kong and Other Asia Pacific. Consumer Banking RWA growth was mainly in Singapore, Hong Kong and Korea.

Wholesale Banking credit risk RWA increased by $17.6 billion. $10.2 billion was driven by asset growth in Transaction Banking and Corporate Finance, across Americas, UK & Europe, Africa, and Middle East & Other South Asia. RWA efficiencies, being those activities undertaken by the Group to manage proactively credit risk, through optimising collateral arrangements, improving data quality and portfolio management activities, such as through secondary distribution, reduced RWA by $2.8 billion. These RWA efficiencies were partially offset by increased RWA due to lower collateral and netting recoveries in America, UK & Europe. Credit migration increased RWA by $4.9 billion, as a result of internal rating downgrades in India and Korea. Following FSA guidance issued during 2012, the Group applies a floor of 45 per cent for the loss given default (LGD) associated with sovereign exposures, which increased RWA by $3.5 billion. Additional changes to the modelling of sovereign exposures increased RWA by $0.7 billion. The FSA also required the Group to recognise additional RWA for transactions that bear transfer risk, which increased RWA by $1.1 billion. Transfer risk is the risk that governments impose controls on the servicing of foreign currency debt.

The growth in Consumer Banking credit risk RWA, of $8.6 billion, was driven by $2 billion due to foreign currency translation differences, as a result of movements in Korean Won and Indonesian Rupiah, $3.8 billion due to underlying asset growth and $1.2 billion due to credit migration mainly in Korea, Malaysia and Thailand. Asset growth was driven by increased personal loans in Korea and credit cards in Hong Kong and Singapore, along with growth in SME mainly in Malaysia, India and Indonesia.

The impact of model adjustments increased RWA by $0.8 billion. Changes to the calculation of exposure for certain revolving credit portfolios further increased RWA by $0.9 billion. FSA approval was obtained during 2012 for the use of an advanced model for the Hong Kong SME portfolio, which increased RWA by $0.4 billion. In Private Banking, RWA increased by $0.6 billion following reduction in collateral. These RWA increases of $2.7 billion relating to model and methodology changes, were offset by a $1 billion reduction in RWA following the implementation of an improved mortgage credit scoring process in Singapore.

At 31 December 2012 our market risk RWA was $24.5 billion (31 December 2011: $21.4 billion). The increase in market risk RWA was driven by an increased issuance of Equity Options during the year, which increased RWA by $2 billion, and $1.8 billion due to an increase in Stressed VaR.

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. In 2012, the Commodities Coal business was approved for inclusion in the Group's CAD2 permission and reduced RWA by $0.7 billion. Positions outside the CAD2 permission continue to be assessed according to standard FSA rules. Of the total market risk RWA, 39 per cent is subject to CAD2 internal models and 61 per cent is under standard rules.

Operational risk RWA increased by $2 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 remains strongly capitalised with a focus on Common Equity Tier 1 (CET1) capital. Although the CRD IV rules have not been finalised, we expect our CET1 ratio would be around 100 bps lower than our reported Basel II Core Tier 1 ratio on a pro forma basis. This movement is driven by increased RWAs, in particular the introduction of capital requirements for Credit Valuation Adjustments (CVA) and increased regulatory deductions from CET1. The actual outcome will depend on how emerging rules are implemented, the future shape of the Group, and the extent to which the Group's regulators give recognition to the Group's implementation of internal models for the calculation of RWA.

Consolidated income statement

For the year ended 31 December 2012

	Notes	2012 $million	2011 $million
Interest income		**18,258**	16,584
Interest expense		**(7,248)**	(6,431)
Net interest income		**11,010**	10,153
Fees and commission income		**4,618**	4,466
Fees and commission expense		**(497)**	(420)
Net trading income	3	**2,748**	2,645
Other operating income	4	**1,192**	793
Non-interest income		**8,061**	7,484
Operating income		**19,071**	17,637
Staff costs	5	**(6,584)**	(6,630)
Premises costs	5	**(886)**	(862)
General administrative expenses	5	**(2,758)**	(1,804)
Depreciation and amortisation	6	**(668)**	(621)
Operating expenses		**(10,896)**	(9,917)
Operating profit before impairment losses and taxation		**8,175**	7,720
Impairment losses on loans and advances and other credit risk provisions	7	**(1,221)**	(908)
Other impairment	8	**(194)**	(111)
Profit from associates		**116**	74
Profit before taxation		**6,876**	6,775
Taxation	9	**(1,891)**	(1,842)
Profit for the year		**4,985**	4,933

Profit attributable to:			
Non-controlling interests	28	**98**	84
Parent company shareholders		**4,887**	4,849
Profit for the year		**4,985**	4,933

		Cents	Cents
Earnings per share:			
Basic earnings per ordinary share	11	**199.7**	200.8
Diluted earnings per ordinary share	11	**197.7**	198.2
Dividends per ordinary share :			
Interim dividends paid	10	**27.23**	24.75
Final proposed dividend[1]	10	**56.77**	51.25

	$million	$million
Total dividend:		
Interim dividend paid	**650**	586
Final proposed dividend[1]	**1,366**	1,216

[1] The final proposed dividend in respect of 2012 will be accounted for in 2013 as explained in note 10.

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Notes	2012 $million	2011 $million
Profit for the year		4,985	4,933
Other comprehensive income:			
Items that will not be reclassified to Income statement:			
Actuarial losses on retirement benefit obligations	26	(76)	(189)
Items that may be reclassified subsequently to Income statement:			
Exchange differences on translation of foreign operations:			
Net gains/(losses) taken to equity		575	(1,003)
Net (losses) /gains on net investment hedges		(73)	5
Share of other comprehensive income from associates		(2)	1
Available-for-sale investments:			
Net valuation gains/(losses) taken to equity		1,056	(212)
Reclassified to income statement		(339)	(267)
Cash flow hedges:			
Net gains taken to equity		133	4
Reclassified to income statement		(20)	(94)
Taxation relating to components of other comprehensive income		(132)	98
Other comprehensive income for the year, net of taxation		1,122	(1,657)
Total comprehensive income for the year		6,107	3,276
Total comprehensive income attributable to:			
Non-controlling interests	28	84	56
Parent company shareholders		6,023	3,220
		6,107	3,276

Consolidated balance sheet

As at 31 December 2012

	Notes	2012 $million	2011[1] $million
Assets			
Cash and balances at central banks	12, 30	**61,043**	47,364
Financial assets held at fair value through profit or loss	12, 13	**27,084**	24,828
Derivative financial instruments	12, 14	**49,496**	58,524
Loans and advances to banks	12, 15	**68,381**	65,981
Loans and advances to customers	12, 16	**283,885**	266,790
Investment securities	12, 17	**99,413**	85,283
Other assets	12, 18	**28,818**	27,286
Current tax assets		**215**	232
Prepayments and accrued income		**2,581**	2,521
Interests in associates		**953**	903
Goodwill and intangible assets	20	**7,312**	7,061
Property, plant and equipment		**6,646**	5,078
Deferred tax assets		**691**	835
Total assets		**636,518**	592,686
Liabilities			
Deposits by banks	12, 21	**36,477**	35,296
Customer accounts	12, 22	**377,639**	345,726
Financial liabilities held at fair value through profit or loss	12, 13	**23,064**	19,599
Derivative financial instruments	12, 14	**47,192**	56,517
Debt securities in issue	12, 23	**55,979**	47,140
Other liabilities	12, 24	**24,504**	23,834
Current tax liabilities		**1,069**	1,005
Accruals and deferred income		**4,860**	4,458
Subordinated liabilities and other borrowed funds	12, 25	**18,799**	16,717
Deferred tax liabilities		**161**	131
Provisions for liabilities and charges		**215**	369
Retirement benefit obligations	26	**504**	519
Total liabilities		**590,463**	551,311
Equity			
Share capital	27	**1,207**	1,192
Reserves		**44,155**	39,522
Total parent company shareholders' equity		**45,362**	40,714
Non-controlling interests	28	**693**	661
Total equity		**46,055**	41,375
Total equity and liabilities		**636,518**	592,686

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

Consolidated statement of changes in equity

For the year ended 31 December 2012

	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 2011	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)[2]	(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**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,887**	**4,887**	**98**	**4,985**
Other comprehensive income	**-**	**-**	**-**	**-**	**588**	**94**	**513**	**(59)[3]**	**1,136**	**(14)**	**1,122**
Distributions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(60)**	**(60)**
Shares issued, net of expenses	**2**	**57**	**-**	**-**	**-**	**-**	**-**	**-**	**59**	**-**	**59**
Net own shares adjustment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(386)**	**(386)**	**-**	**(386)**
Share option expense, net of taxation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**359**	**359**	**-**	**359**
Capitalised on scrip dividend	**13**	**(13)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends, net of scrip	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,407)**	**(1,407)**	**-**	**(1,407)**
Other increases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**8**
At 31 December 2012	**1,207**	**5,476**	**18**	**12,421**	**479**	**81**	**(881)**	**26,561**	**45,362**	**693**	**46,055**

[1] Includes capital reserve of $5 million and capital redemption reserve of $13 million

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

[3] Comprises actuarial losses, net of taxation and non-controlling interests, of $59 million

Consolidated cash flow statement

For the year ended 31 December 2012

	Notes	2012 $million	2011 $million
Cash flows from operating activities			
Profit before taxation		**6,876**	6,775
Adjustments for:			
Non-cash items included within income statement	29	**2,465**	2,823
Change in operating assets	29	**(15,882)**	(68,011)
Change in operating liabilities	29	**26,416**	78,478
Contributions to defined benefit schemes		**(204)**	(77)
UK and overseas taxes paid		**(1,791)**	(1,618)
Net cash from operating activities		**17,880**	18,370
Net cash flows from investing activities			
Purchase of property, plant and equipment		**(168)**	(286)
Disposal of property, plant and equipment		**195**	139
Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired		**(63)**	(906)
Purchase of investment securities	17	**(157,325)**	(131,260)
Disposal and maturity of investment securities		**145,905**	119,831
Dividends received from investment in associates		**14**	10
Net cash used in investing activities		**(11,442)**	(12,472)
Net cash flows from financing activities			
Issue of ordinary and preference share capital, net of expenses		**59**	64
Purchase of own shares		**(425)**	(146)
Exercise of share options through ESOP		**39**	57
Interest paid on subordinated liabilities		**(871)**	(842)
Gross proceeds from issue of subordinated liabilities		**3,390**	929
Repayment of subordinated liabilities		**(1,701)**	(540)
Interest paid on senior debts		**(867)**	(894)
Gross proceeds from issue of senior debts		**11,453**	15,594
Repayment of senior debts		**(5,938)**	(8,092)
Dividends paid to non-controlling interests and preference shareholders, net of scrip		**(161)**	(170)
Dividends paid to ordinary shareholders, net of scrip		**(1,306)**	(1,051)
Net cash from financing activities		**3,672**	4,909
Net increase in cash and cash equivalents		**10,110**	10,807
Cash and cash equivalents at beginning of year		**70,450**	59,734
Effect of exchange rate movements on cash and cash equivalents		**40**	(91)
Cash and cash equivalents at end of year	30	**80,600**	70,450

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 endorsed by the European Union (EU). EU endorsed IFRS may differ from IFRS published by the International Accounting Standards Board (IASB) if a standard has not been endorsed by the EU.

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

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

Amendments to IFRS 7 *Financial Instruments*: Disclosure requires additional disclosures when an asset is transferred but is not derecognised. These amendments also require disclosure of assets that are derecognised but where the entity continues to have a continuing exposure to the asset after sale. Refer to note 12 for the Group's disclosure with respect to transferred assets.

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

A summary of the Group's significant accounting policies will be included in the 2012 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 clients and customers, rather than maximising a particular product line. Hence the Group evaluates segmental performance based on overall profit or loss before taxation (excluding corporate items not allocated) and not individual product profitability. Product revenue information is used as a way of assessing client and customer needs and trends in the market place. The strategies adopted by Consumer Banking and Wholesale Banking need to be adapted to local market and regulatory requirements, which is the responsibility of country management teams. While not the primary driver of the business, country performance is an important part of the Group's matrix structure and is also used to evaluate performance and reward staff. Corporate items not allocated are not aggregated into the businesses because of the one-off nature of these items.

The Group's entity-wide disclosure which include profit before tax, net interest margin and structure of the Group's deposits comprises geographic areas, classified by the location of the customer, except for Financial Market products which are classified by the location of the dealer.

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

2. Segmental Information continued

By class of business

	2012					2011				
	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	(16)	16	-	-	-	(44)	44	-	-	-
Net interest income	4,923	6,087	11,010	-	11,010	4,628	5,525	10,153	-	10,153
Other income	2,295	5,676	7,971	90	8,061	2,207	5,277	7,484	-	7,484
Operating income	7,202	11,779	18,981	90	19,071	6,791	10,846	17,637	-	17,637
Operating expenses	(4,723)	(5,999)	(10,722)	(174)	(10,896)	(4,605)	(5,147)	(9,752)	(165)	(9,917)
Operating profit before impairment losses and taxation	2,479	5,780	8,259	(84)	8,175	2,186	5,699	7,885	(165)	7,720
Impairment losses on loans and advances and other credit risk provisions	(697)	(524)	(1,221)	-	(1,221)	(524)	(384)	(908)	-	(908)
Other impairment	(4)	(120)	(124)	(70)	(194)	(12)	(99)	(111)	-	(111)
Profit from associates	-	-	-	116	116	-	-	-	74	74
Profit before taxation	1,778	5,136	6,914	(38)	6,876	1,650	5,216	6,866	(91)	6,775
Total assets employed[4]	143,250	491,409	634,659	1,859	636,518	135,154	455,562	590,716	1,970	592,686
Total liabilities employed[4]	189,779	399,454	589,233	1,230	590,463	172,710	377,465	550,175	1,136	551,311
Other segment items:										
Capital expenditure[1]	210	2,042	2,252	-	2,252	178	1,397	1,575	-	1,575
Depreciation	148	263	411	-	411	169	199	368	-	368
Investment in associates	-	-	-	953	953	-	-	-	903	903
Amortisation of intangible assets	83	174	257	-	257	73	180	253	-	253

1 Includes capital expenditure in Wholesale Banking of $1,788 million in respect of operating lease assets (2011: $1,049 million).

2 Relates to profits realised from repurchase of subordinated liabilities, UK bank levy, impairment of investment in associates and the Group's share of profit from associates.

3 Relates to UK bank levy, and the Group's share of profit from associates.

4 Amounts have been restated as explained in note 34.

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

	2012 $million	2011 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	2,707	2,422
Wealth Management	1,275	1,272
Deposits	1,566	1,409
Mortgage and Auto Finance	1,390	1,478
Other	264	210
	7,202	6,791
Wholesale Banking		
Lending and Portfolio Management	891	841
Transaction Banking		
Trade	1,940	1,595
Cash Management and Custody	1,731	1,652
Global Markets		
Financial Markets	3,663	3,688
Asset and Liability Management (ALM)	849	921
Corporate Finance	2,222	1,873
Principal Finance	483	276
	7,217	6,758
	11,779	10,846

2. Segmental Information continued

Entity-wide information

By geography

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

	2012								
	Hong Kong	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	111	(107)	(85)	93	129	84	60	(285)	-
Net interest income	1,564	1,251	1,421	2,397	920	1,143	917	1,397	11,010
Fees and commissions income, net	830	551	210	719	304	471	416	620	4,121
Net trading income	653	377	147	584	157	448	157	225	2,748
Other operating income	190	131	159	167	75	88	43	339	1,192
Operating income	3,348	2,203	1,852	3,960	1,585	2,234	1,593	2,296	19,071
Operating expenses	(1,572)	(1,169)	(1,081)	(2,432)	(753)	(1,100)	(784)	(2,005)	(10,896)
Operating profit before impairment losses and taxation	1,776	1,034	771	1,528	832	1,134	809	291	8,175
Impairment losses on loans and advances and other credit risk provisions	(109)	(66)	(249)	(246)	(165)	(316)	(38)	(32)	(1,221)
Other impairment	(7)	(2)	(8)	(155)	9	(32)	-	1	(194)
Profit from associates	-	-	-	115	-	-	-	1	116
Profit before taxation	1,660	966	514	1,242	676	786	771	261	6,876
Capital expenditure[2]	1,828	247	23	63	27	19	37	8	2,252

1 Americas UK & Europe includes operating income of $1,187 million in respect of the UK, the Company's country of domicile.

2 Includes capital expenditure in Hong Kong of $1,788 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment and software related intangibles (note 20) including any post-acquisition additions made by the acquired entities.

	2011								
	Hong Kong	Singapore	Korea	Other Asia Pacific[3]	India	Middle East & Other S Asia	Africa[3]	Americas UK & Europe[1]	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Internal income	70	(98)	(66)	19	96	51	85	(157)	-
Net interest income	1,532	1,075	1,430	2,169	889	1,146	760	1,152	10,153
Fees and commissions income, net	752	509	197	760	423	443	346	616	4,046
Net trading income	559	571	77	404	275	488	172	99	2,645
Other operating income	136	129	80	159	122	91	19	57	793
Operating income	3,049	2,186	1,718	3,511	1,805	2,219	1,382	1,767	17,637
Operating expenses	(1,395)	(1,105)	(1,335)	(2,065)	(829)	(1,085)	(714)	(1,389)	(9,917)
Operating profit before impairment losses and taxation	1,654	1,081	383	1,446	976	1,134	668	378	7,720
Impairment losses on loans and advances and other credit risk provisions	(103)	(48)	(198)	(135)	(112)	(286)	(24)	(2)	(908)
Other impairment	-	(31)	(13)	31	(60)	(14)	(16)	(8)	(111)
Profit from associates	-	-	-	73	-	-	-	1	74
Profit before taxation	1,551	1,002	172	1,415	804	834	628	369	6,775
Capital expenditure [2]	781	221	25	74	60	20	25	369	1,575

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

2 Includes capital expenditure in Hong Kong of $724 million and in the UK of $325 million in respect of operating lease assets. Other capital expenditure comprises additions to property and equipment and software related intangibles (note 20) including any post-acquisition additions made by the acquired entities.

3 Amounts have been restated as explained in note 34.

2. Segmental Information continued

Net interest margin and yield

	2012 $million	2011 $million
Net interest margin (%)	**2.3**	2.3
Net interest yield (%)	**2.2**	2.2
Average interest earning assets	**488,178**	441,892
Average interest bearing liabilities	**461,480**	410,602

Net interest margin by geography

2012

	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[1] $million	Intra-group/ tax assets $million	Total $million
Total assets employed	**130,601**	**107,973**	**62,903**	**117,786**	**36,935**	**46,219**	**20,890**	**179,516**	**(66,305)**	**636,518**
Of which : Loans to customers[2]	**53,330**	**51,318**	**36,165**	**58,977**	**23,994**	**25,200**	**11,304**	**28,575**	**-**	**288,863**
Average interest-earning assets	**106,574**	**76,288**	**54,069**	**105,083**	**29,747**	**36,928**	**18,260**	**113,626**	**(52,397)**	**488,178**
Net interest income	**1,716**	**1,144**	**1,335**	**2,461**	**1,050**	**1,230**	**976**	**1,098**	**-**	**11,010**
Net interest margin (%)	**1.6**	**1.5**	**2.5**	**2.3**	**3.5**	**3.3**	**5.3**	**1.0**	**-**	**2.3**

[1] Americas, UK & Europe includes total assets employed of $108,775 million in respect of the UK, the Company's country of domicile.

2011

	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe[1] $million	Intra-group/ tax assets $million	Total $million
Total assets employed[3]	117,700	104,021	63,134	113,471	42,607	56,223	20,403	148,064	(72,937)	592,686
Of which : Loans to customers[2,3]	50,996	43,827	38,072	53,979	23,686	23,299	11,231	26,688	-	271,778
Average interest-earning assets	91,923	67,952	57,031	93,333	31,299	33,851	14,569	96,396	(44,462)	441,892
Net interest income	1,631	1,011	1,348	2,185	985	1,202	836	955	-	10,153
Net interest margin (%)	1.8	1.5	2.4	2.3	3.1	3.6	5.7	1.0	-	2.3

[1] Americas UK & Europe includes total assets employed of $93,891 million in respect of the UK, the Company's country of domicile.
[2] The analysis of loans and advances to customers is based on the location of the customer rather than booking location of the loan.
[3] Amounts have been restated as explained in note 34.

2. Segmental Information continued

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

2012	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Non-interest bearing current and demand accounts	8,178	9,260	49	3,529	2,691	9,223	4,380	4,920	42,230
Interest bearing current accounts and savings deposits	56,261	28,978	21,368	32,519	2,224	4,159	2,392	27,240	175,141
Time deposits	35,224	37,968	16,989	41,370	7,380	12,367	3,318	49,281	203,897
Other deposits	199	242	595	918	1,636	455	163	1,851	6,059
Total	99,862	76,448	39,001	78,336	13,931	26,204	10,253	83,292	427,327
Deposits by banks	1,585	2,005	1,769	5,678	441	1,934	540	23,493	37,445
Customer accounts	98,277	74,443	37,232	72,658	13,490	24,270	9,713	59,799	389,882
	99,862	76,448	39,001	78,336	13,931	26,204	10,253	83,292	427,327
Debt securities in issue:									
Senior debt	1,291	-	4,038	1,485	-	69	6	14,767	21,656
Other debt securities	5	1,903	1,999	3,617	47	-	294	31,719	39,584
Subordinated liabilities and other borrowed funds	1,454	-	871	560	-	29	62	15,823	18,799
Total	102,612	78,351	45,909	83,998	13,978	26,302	10,615	145,601	507,366

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

2011	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Non-interest bearing current and demand accounts	6,956	9,013	66	4,181	2,557	8,813	3,886	3,038	38,510
Interest bearing current accounts and savings deposits[1]	48,543	24,567	19,381	29,172	2,285	3,874	2,985	22,378	153,185
Time deposits	33,951	32,730	19,337	41,806	6,706	10,964	3,094	44,447	193,035
Other deposits	283	295	748	1,682	1,691	352	109	1,342	6,502
Total	89,733	66,605	39,532	76,841	13,239	24,003	10,074	71,205	391,232
Deposits by banks[1]	2,025	2,299	1,603	5,844	175	2,059	569	21,814	36,388
Customer accounts[1]	87,708	64,306	37,929	70,997	13,064	21,944	9,505	49,391	354,844
	89,733	66,605	39,532	76,841	13,239	24,003	10,074	71,205	391,232
Debt securities in issue:									
Senior debt	1,708	-	3,549	955	56	-	13	11,641	17,922
Other debt securities	112	770	4,449	4,546	307	56	215	23,196	33,651
Subordinated liabilities and other borrowed funds	1,687	-	837	601	-	8	41	13,543	16,717
Total	93,240	67,375	48,367	82,943	13,602	24,067	10,343	119,585	459,522

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

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

3. Net trading income

	2012 $million	2011 $million
Gains less losses on instruments held for trading:		
Foreign currency [1]	1,854	1,789
Trading securities	730	23
Interest rate derivatives	180	333
Credit and other derivatives	(153)	632
	2,611	2,777
Gains less losses from fair value hedging:		
Gains less losses from fair value hedged items	10	(808)
Gains less losses from fair value hedging instruments	(13)	795
	(3)	(13)
Gains less losses on instruments designated at fair value:		
Financial assets designated at fair value through profit or loss	229	52
Financial liabilities designated at fair value through profit or loss	(256)	(438)
Derivatives managed with financial instruments designated at fair value through profit or loss	167	267
	140	(119)
	2,748	2,645

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

4. Other operating income

	2012 $million	2011 $million
Other operating income includes:		
Gains less losses on disposal of financial assets:		
Available-for-sale	339	267
Loans and receivables	37	27
Dividend income	92	73
Gains arising on repurchase of subordinated liabilities	90	-
Gains arising on assets fair valued at acquisition	3	12
Rental income from operating lease assets	347	268
Gains on disposal of property, plant and equipment	100	52
Gain arising on sale of business	15	-

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

5. Operating expenses

	2012 $million	2011 $million
Staff costs:		
Wages and salaries	4,955	4,973
Social security costs	148	155
Other pension costs (note 26)	302	282
Share based payment costs	374	392
Other staff costs	805	828
	6,584	6,630

Variable compensation is included within wages and salaries. Other staff costs include training and travel costs.

5. Operating expenses continued

The following tables summarise the number of employees within the Group :

	2012			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	**55,237**	**19,752**	**14,069**	**89,058**
Average for the year	**54,650**	**19,565**	**13,354**	**87,569**

	2011			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	54,604	19,517	12,744	86,865
Average for the year	53,242	19,236	12,758	85,236

Premises and equipment expenses:

	2012 $million	2011 $million
Rental of premises	**438**	420
Other premises and equipment costs	**417**	410
Rental of computers and equipment	**31**	32
	886	862

General administrative expenses:

	2012 $million	2011 $million
UK bank levy	**174**	165
Settlements with the US authorities	**667**	-
Other general administrative expenses	**1,917**	1,639
	2,758	1,804

The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting. The rate of the levy for 2012 is 0.088 per cent for chargeable short term liabilities, with a lower rate of 0.044 per cent generally applied to chargeable equity and long term liabilities (i.e. liabilities with a remaining maturity greater than one year). The rate for 2013 has been increased to 0.13 per cent for qualifying liabilities, with a long term rate of 0.065 per cent.

During 2012, the Group reached settlements with the US authorities regarding US sanctions compliance in the period 2001 to 2007, involving a Consent Order by the New York Department of Financial Services (NYDFS), a Cease and Desist Order by the Federal Reserve Bank of New York (FRBNY), Deferred Prosecution Agreements with each of the Department of Justice and with the District Attorney of New York and a Settlement Agreement with the Office of Foreign Assets Control.

6. Depreciation and amortisation

	2012 $million	2011 $million
Premises	**127**	123
Equipment:		
Operating lease assets	**148**	100
Others	**136**	145
Intangibles:		
Software	**190**	184
Acquired on business combinations	**67**	69
	668	621

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 provisions :

	2012 $million	2011 $million
Net charge against profit on loans and advances:		
Individual impairment charge	**1,247**	867
Portfolio impairment (release)/charge	**(27)**	14
	1,220	881
Provisions related to credit commitments	**5**	2
Impairment (release)/charge relating to debt securities classified as loans and receivables	**(4)**	25
Total impairment losses and other credit risk provisions	**1,221**	908

An analysis of impairment provisions on loans and advances by geography and business is set out within the Risk review on pages 34, 41 and 47.

8. Other impairment

	2012 $million	2011 $million
Impairment losses on available-for-sale financial assets :		
- Asset backed securities	**(3)**	7
- Other debt securities	**(16)**	52
- Equity shares	**134**	42
	115	101
Impairment of investment in associates	**70**	-
Other	**34**	40
	219	141
Recovery of impairment on disposal of equity instruments[1]	**(25)**	(30)
	194	111

[1] Relates to private equity instruments sold during the year which had impairment provisions raised against them in previous periods.

9. Taxation

Determining the Group's taxation charge for the year involves a degree of estimation and judgement.

Analysis of taxation charge in the year:

	2012 $million	2011 $million
The charge for taxation based upon the profits for the year comprises:		
Current tax:		
United Kingdom corporation tax at 24.5 per cent (2011: 26.5 per cent):		
Current tax on income for the year	110	1,037
Adjustments in respect of prior periods (including double taxation relief)	10	(101)
Double taxation relief	(9)	(912)
Foreign tax:		
Current tax on income for the year	1,711	1,645
Adjustments in respect of prior periods	(4)	8
	1,818	1,677
Deferred tax:		
Origination/reversal of temporary differences	65	207
Adjustments in respect of prior periods	8	(42)
	73	165
Tax on profits on ordinary activities	1,891	1,842
Effective tax rate	27.5%	27.2%

The UK corporation tax rate was reduced from 26 per cent to 24 per cent with an effective date of 1 April 2012, giving a blended rate of 24.5 per cent for the year. This change has reduced the UK deferred tax asset by $24 million.

Foreign taxation includes taxation on Hong Kong profits of $189 million (2011: $170 million) provided at a rate of 16.5 per cent (2011: 16.5 per cent) on the profits assessable in Hong Kong. Deferred taxation includes origination/(reversal) of temporary differences in Hong Kong profits of $3 million (2011: $28 million) provided at a rate of 16.5 per cent (2011: 16.5 per cent) on the profits assessable in Hong Kong.

10. Dividends

Ordinary equity shares	2012 Cents per share	2012 $million	2011 Cents per share	2011 $million
2011/2010 final dividend declared and paid during the year	**51.25**	**1,216**	46.65	1,089
2012/2011 interim dividend declared and paid during the year	**27.23**	**650**	24.75	586
		1,866		1,675

The amounts in the table above reflect the actual dividend per share declared and paid to shareholders in 2012 and 2011. 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 2011 final dividend of 51.25 cents per ordinary share ($1,216 million) was paid to eligible shareholders on 15 May 2012 and the 2012 interim dividend of 27.23 cents per ordinary share ($650 million) was paid to eligible shareholders on 11 October 2012.

2012 recommended final ordinary equity share dividend

The 2012 final ordinary equity share dividend recommended by the Board is 56.77 cents per share ($1,366 million), which makes the total dividend for 2012 84.00 cents per share (2011: 76 cents per share). The final dividend will be paid in either pounds sterling, Hong Kong dollars or US dollars on 14 May 2013 to shareholders on the UK register of members at the close of business in the UK (10:00 pm London time) on 15 March 2013, 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 15 March 2013. The 2012 final ordinary equity share dividend will be paid in Indian rupees on 14 May 2013 to Indian Depository Receipt holders on the Indian register at the close of business in India on 15 March 2013.

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 28 March 2013. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

Preference shares		2012 $million	2011 $million
Non-cumulative irredeemable preference shares:	7 3/8 per cent preference shares of £1 each[1]	**11**	11
	8 1/4 per cent preference shares of £1 each[1]	**13**	13
Non-cumulative redeemable preference shares:	8.125 per cent preference shares of $5 each[1]	**75**	75
	7.014 per cent preference shares of $5 each[2]	**53**	53
	6.409 per cent preference shares of $5 each[2]	**48**	48

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

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

11. Earnings per ordinary share

	2012			2011		
	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						
Basic earnings per ordinary share	**4,786**	**2,396,737**	**199.7**	4,748	2,364,445	200.8
Effect of dilutive potential ordinary shares:						
Options[2]	**–**	**24,534**	**–**	–	31,408	–
Diluted earnings per ordinary share	**4,786**	**2,421,271**	**197.7**	4,748	2,395,853	198.2

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.

	2012	2011
	$million	$million
Profit attributable to ordinary shareholders	**4,786**	4,748
Amortisation and impairment of intangible assets arising on business combinations	**69**	69
Gain on disposal of property	**(91)**	(49)
Gains arising on repurchase of subordinated liabilities	**(90)**	-
Recovery on structured notes	**-**	(96)
Gain arising on sale of business	**(15)**	-
Settlements with the US authorities	**667**	-
Impairment of associates	**70**	-
Tax on normalised items	**2**	10
Normalised earnings	**5,398**	4,682
Normalised basic earnings per ordinary share (cents)	**225.2**	198.0 [2]
Normalised diluted earnings per ordinary share (cents)	**222.9**	195.4 [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 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		**-**	**-**	**-**	**-**	**61,043**	**-**	**-**	**61,043**
Financial assets held at fair value through profit or loss									
Loans and advances to banks[1]		**677**	**-**	**97**	**-**	**-**	**-**	**-**	**774**
Loans and advances to customers[1]		**4,793**	**-**	**185**	**-**	**-**	**-**	**-**	**4,978**
Treasury bills and other eligible bills	13	**2,955**	**-**	**-**	**-**	**-**	**-**	**-**	**2,955**
Debt securities	13	**14,890**	**-**	**333**	**-**	**-**	**-**	**-**	**15,223**
Equity shares	13	**2,140**	**-**	**1,014**	**-**	**-**	**-**	**-**	**3,154**
		25,455	**-**	**1,629**	**-**	**-**	**-**	**-**	**27,084**
Derivative financial instruments	14	**47,134**	**2,362**	**-**	**-**	**-**	**-**	**-**	**49,496**
Loans and advances to banks[1]	15	**-**	**-**	**-**	**-**	**68,381**	**-**	**-**	**68,381**
Loans and advances to customers[1]	16	**-**	**-**	**-**	**-**	**283,885**	**-**	**-**	**283,885**
Investment securities									
Treasury bills and other eligible bills	17	**-**	**-**	**-**	**26,871**	**-**	**-**	**-**	**26,871**
Debt securities	17	**-**	**-**	**-**	**65,413**	**3,851**	**-**	**-**	**69,264**
Equity shares	17	**-**	**-**	**-**	**3,278**	**-**	**-**	**-**	**3,278**
		-	**-**	**-**	**95,562**	**3,851**	**-**	**-**	**99,413**
Other assets	18	**-**	**-**	**-**	**-**	**21,659**	**-**	**7,159**	**28,818**
Total at 31 December 2012		**72,589**	**2,362**	**1,629**	**95,562**	**438,819**	**-**	**7,159**	**618,120**
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[1,2]	14	56,485	2,039	-	-	-	-	-	58,524
Loans and advances to banks[1]	15	-	-	-	-	65,981	-	-	65,981
Loans and advances to customers[1,2]	16	-	-	-	-	266,790	-	-	266,790
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		80,286	2,039	1,027	79,790	406,164	18	6,732	576,056

[1] Further analysed in Risk review on pages 22 to 65.

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

12. Financial instruments continued

Classification continued

Liabilities	Notes	Liabilities at fair value: 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
Financial liabilities held at fair value through profit or loss							
Deposits by banks		**933**	**-**	**35**	**-**	**-**	**968**
Customer accounts		**4,858**	**-**	**7,385**	**-**	**-**	**12,243**
Debt securities in issue		**3,902**	**-**	**1,359**	**-**	**-**	**5,261**
Short positions		**4,592**	**-**	**-**	**-**	**-**	**4,592**
		14,285	**-**	**8,779**	**-**	**-**	**23,064**
Derivative financial instruments	14	**46,459**	**733**	**-**	**-**	**-**	**47,192**
Deposits by banks	21	**-**	**-**	**-**	**36,477**	**-**	**36,477**
Customer accounts	22	**-**	**-**	**-**	**377,639**	**-**	**377,639**
Debt securities in issue	23	**-**	**-**	**-**	**55,979**	**-**	**55,979**
Other liabilities	24	**-**	**-**	**-**	**19,739**	**4,765**	**24,504**
Subordinated liabilities and other borrowed funds	25	**-**	**-**	**-**	**18,799**	**-**	**18,799**
Total at 31 December 2012		**60,744**	**733**	**8,779**	**508,633**	**4,765**	**583,654**
Financial liabilities held at fair value through profit or loss							
Deposits by banks		973	-	119	-	-	1,092
Customer accounts		1,518	-	7,600	-	-	9,118
Debt securities in issue		2,441	-	1,992	-	-	4,433
Short positions		4,956	-	-	-	-	4,956
		9,888	-	9,711	-	-	19,599
Derivative financial instruments[1]	14	55,441	1,076	-	-	-	56,517
Deposits by banks	21	-	-	-	35,296	-	35,296
Customer accounts[1]	22	-	-	-	345,726	-	345,726
Debt securities in issue	23	-	-	-	47,140	-	47,140
Other liabilities	24	-	-	-	19,169	4,665	23,834
Subordinated liabilities and other borrowed funds	25	-	-	-	16,717	-	16,717
Total at 31 December 2011		65,329	1,076	9,711	464,048	4,665	544,829

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

12. Financial instruments continued

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	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable	One or more significant inputs that are not based on observable market data (unobservable inputs)
Types of financial assets:	Actively traded government and other securities Listed equities Listed derivative instruments Investments in publicly traded mutual funds with listed market prices	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives Asset backed securities Private equity investments	Asset backed securities Private equity investments Highly structured OTC derivatives with unobservable inputs Illiquid or highly structured corporate bonds with unobservable inputs
Types of financial liabilities:	Listed derivative instruments	OTC derivatives Structured deposits Credit structured debt securities in issue	Highly structured OTC derivatives with unobservable inputs Illiquid highly structured debt securities in issue with unobservable inputs

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2012.

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	97	677	-	774
Loans and advances to customers	-	4,068	910	4,978
Treasury bills and other eligible bills	2,812	143	-	2,955
Debt securities	8,531	6,516	176	15,223
Equity shares	2,029	-	1,125	3,154
	13,469	11,404	2,211	27,084
Derivative financial instruments	260	48,750	486	49,496
Investment securities				
Treasury bills and other eligible bills	22,912	3,901	58	26,871
Debt securities	20,828	44,189	396	65,413
Equity shares	1,307	13	1,958	3,278
	45,047	48,103	2,412	95,562
At 31 December 2012	58,776	108,257	5,109	172,142
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	968	-	968
Customer accounts	68	12,175	-	12,243
Debt securities in issue	-	5,147	114	5,261
Short positions	4,320	272	-	4,592
	4,388	18,562	114	23,064
Derivative financial instruments	383	46,246	563	47,192
At 31 December 2012	4,771	64,808	677	70,256

There were no significant transfers between level 1 and level 2 in 2012.

12. Financial instruments continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2011.

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	110	458	-	568
Loans and advances to customers	5	4,983	-	4,988
Treasury bills and other eligible bills	4,502	107	-	4,609
Debt securities	7,516	5,261	293	13,070
Equity shares	1,027	-	566	1,593
	13,160	10,809	859	24,828
Derivative financial instruments	396	57,852	276	58,524
Investment securities				
Treasury bills and other eligible bills	18,831	2,800	49	21,680
Debt securities	17,938	36,884	745	55,567
Equity shares	1,116	9	1,418	2,543
	37,885	39,693	2,212	79,790
At 31 December 2011	51,441	108,354	3,347	163,142

Liabilities	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Deposit by banks	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	55,784	184	56,517
At 31 December 2011	5,136	70,624	356	76,116

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

Level 3 movement tables

Financial assets

	Held at fair value through profit or loss				Investment securities			
Assets	Loans and advances to customers $million	Debt securities $million	Equity shares $million	Derivative financial instruments $million	Treasury bills $million	Debt securities $million	Equity shares $million	Total $million
At 1 January 2012	-	293	566	276	49	745	1,418	3,347
Total gains/(losses) recognised in income statement	-	9	313	(48)	-	48	(13)	309
Total (losses)/gains recognised in other comprehensive income	-	-	-	-	-	(56)	133	77
Purchases	-	22	310	336	42	134	525	1,369
Sales	-	(5)	(64)	(13)	-	(199)	(71)	(352)
Settlements	(27)	(97)	-	(60)	-	(17)	(23)	(224)
Transfers out	-	(96)	-	(5)	(33)	(261)	(16)	(411)
Transfers in	937	50	-	-	-	2	5	994
At 31 December 2012	910	176	1,125	486	58	396	1,958	5,109
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2012	-	(10)	195	(30)	-	-	-	155

Transfers in during the year primarily relate to loans held within the Group's global syndicates underwriting book where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain corporate desk securities where the valuation parameters became observable during the year and were transferred to level 2 financial assets.

12. Financial instruments continued

Level 3 movement tables continued

Financial assets continued

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 debt securities and equity shares becoming illiquid or where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to level 2 financial assets.

Financial liabilities

Liabilities	**2012: Debt securities in issue $million**	**2012: Derivative financial instruments $million**	**2012: Total $million**	2011: Debt securities in issue $million	2011: Derivative financial instruments $million	2011: Total $million
At 1January	**172**	**184**	**356**	311	282	593
Total (gains)/losses recognised in income statement	**(43)**	**80**	**37**	(8)	38	30
Issues	**50**	**324**	**374**	65	51	116
Settlements	**(28)**	**(25)**	**(53)**	(242)	(128)	(370)
Transfers out	**(37)**	**-**	**(37)**	(34)	(59)	(93)
Transfers in	**-**	**-**	**-**	80	-	80
At 31 December	**114**	**563**	**677**	172	184	356
Total losses/(gains) recognised in the income statement relating to liabilities held at 31 December	**3**	**44**	**47**	(38)	37	(1)

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

Transfers out during the year primarily relate to certain financial instruments where the valuation parameters became observable during the year and were transferred to level 2 financial liabilities.

12. Financial instruments continued

Instruments carried at amortised cost

The following table summarises the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. The fair values in the table below may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

	2012		2011	
	Carrying value $million	Fair value $million	Carrying value $million	Fair value $million
Assets				
Cash and balances at central banks	61,043	61,043	47,364	47,364
Loans and advances to banks	68,381	68,345	65,981	65,964
Loans and advances to customers	283,885	282,919	266,790	267,554
Investment securities	3,851	3,803	5,493	5,241
Other assets	21,659	21,659	20,554	20,554
Liabilities				
Deposits by banks	36,477	36,011	35,296	35,259
Customer accounts	377,639	376,467	345,726	345,569
Debt securities in issue	55,979	56,469	47,140	46,836
Subordinated liabilities and other borrowed funds	18,799	19,988	16,717	16,599
Other liabilities	19,739	19,739	19,169	19,169

The following sets out the Group's basis of establishing fair values of the financial instruments shown above.

Cash and balances at central banks

The fair value of cash and balances at central banks is their carrying amounts.

Loans and advances to banks and customers

For loans and advances to banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity.

The Group's loans and advances to customers portfolio is well diversified by geography and industry. Approximately one-third of the portfolio reprices within one month, and approximately half reprices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, where appropriate, credit spreads. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical, with no one assumption being material.

Investment securities

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

Deposits and borrowings

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

Debt securities in issue, subordinated liabilities and other borrowed funds

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity.

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:

			If assets had not been reclassified, fair value gains from 1 January 2012 to 31 December 2012 which would have been recognised within				
	Carrying amount at 31 December 2012	Fair value at 31 December 2012	Income	AFS reserve	Income recognised in income statement in 2012	Effective interest rate at date of reclassification	Estimated amounts of expected cash flows
For assets reclassified:	$million	$million	$million	$million	$million	%	$million
From trading to AFS	85	85	5 [1]	-	10	4.1	195
From trading to loans and receivables	550	532	34	-	28	5.0	609
From AFS to loans and receivables	673	661	-	45	26	5.3	826
	1,308	1,278	39	45	64		
Of which asset backed securities:							
reclassified to AFS	81	81	5 [1]	-	8		
reclassified to loans and receivables	924	896	68	45	43		

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

			If assets had not been reclassified, fair value gains/(losses) from 1 January 2011 to 31 December 2011 which would have been recognised within				
	Carrying amount at 31 December 2011	Fair value at 31 December 2011	Income	AFS reserve	Income recognised in income statement in 2011	Effective interest rate at date of reclassification	Estimated amounts of expected cash flows
For assets reclassified:	$million	$million	$million	$million	$million	%	$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.

12. Financial instruments continued

Transfers of financial assets

Transfers where financial assets are not derecognised

Repurchase transactions

The Group enters into collateralised repurchase agreements (repos) and securities borrowing and lending transactions. These transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos continue to be recognised on the balance sheet as the Group retains substantially the associated risk and rewards of these securities. The counterparty liability is included in deposits by banks or customer accounts, as appropriate.

The table below sets out the financial assets provided by the Group as collateral for repurchase transactions:

Collateral pledged against repurchase agreements	Fair value through profit and loss $million	Available for sale $million	Loans and receivables $million	Total $million
On balance sheet				
Treasury bills and other eligible bills	62	424	-	486
Debt securities	522	590	-	1,112
Loan and advances to banks and customers	-	-	1,780	1,780
Off balance sheet				
Repledged collateral received	97	-	1,281	1,378
At 31 December 2012	681	1,014	3,061	4,756

Balance sheet liabilities - Repurchase agreements	
Banks	1,338
Customers	1,917
At 31 December 2012	3,255

Collateral pledged against repurchase agreements	Fair value through profit and loss $million	Available for sale $million	Loans and receivables $million	Total $million
On balance sheet				
Treasury bills and other eligible bills	234	490	-	724
Debt securities	933	1,107	15	2,055
Loan and advances to banks and customers	-	-	15	15
Off balance sheet				
Repledged collateral received	104	-	901	1,005
At 31 December 2011	1,271	1,597	931	3,799

Balance sheet liabilities - Repurchase agreements	
Banks	1,913
Customers	1,850
At 31 December 2011	3,763

12. Financial instruments continued

Repurchase and reverse repurchase agreements

The Group also undertakes reverse repurchase transactions as set out in the table below:

Balance sheet assets - Reverse repurchase agreements

	2012 $million	2011 $million
Banks	7,759	5,706
Customers	2,900	1,890
	10,659	7,596

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

	2012 $million	2011 $million
Securities and collateral which can be repledged or sold (at fair value)	10,517	7,076
Thereof repledged/transferred to others for financing activities, to satisfy commitments under short sale transactions or liabilities under sale and repurchase agreements (at fair value)	1,378	1,005

Securitisation transactions

The Group has also entered into a number of securitisation transactions where the underlying loans and advances have been transferred to special purpose entities (SPEs) that are fully consolidated by the Group. As a result, the Group continues to recognise the assets on its balance sheet, together with the associated liability instruments issued by the special purpose entities. The holders of the liability instruments have recourse only to the assets transferred to the SPE. Further details of SPE in note 32.

The following table sets out the carrying value and fair value of the assets transferred and the carrying value and fair value of the associated liabilities at 31 December 2012 and 2011 respectively.

	2012		2011	
	Carrying value $million	Fair value $million	Carrying value $million	Fair value $million
Loan and advances	1,321	1,319	2,212	2,011
Securitisation liability	1,093	1,093	1,843	1,843
Net	228	226	369	168

The Group did not undertake any transactions that required the recognition of an asset representing continuing involvement in financial assets.

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

	2012			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	10,182			
Other public sector securities	131			
	10,313			
Issued by banks:				
Certificates of deposit	255			
Other debt securities	1,723			
	1,978			
Issued by corporate entities and other issuers:				
Other debt securities	2,932			
Total debt securities	15,223			
Of which:				
Listed on a recognised UK exchange	467	23	-	490
Listed elsewhere	9,086	2,081	949	12,116
Unlisted	5,670	1,050	2,006	8,726
	15,223	3,154	2,955	21,332
Market value of listed securities	9,553	2,104	949	12,606

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

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.

	2012			2011		
Total derivatives	**Notional principal amounts $million**	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets[1] $million	Liabilities[1] $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	**1,220,949**	**11,636**	**12,697**	1,130,075	17,412	16,521
Currency swaps and options	**853,498**	**13,932**	**12,370**	1,098,433	15,406	16,180
Exchange traded futures and options	**8,772**	**-**	**-**	363	-	-
	2,083,219	**25,568**	**25,067**	2,228,871	32,818	32,701
Interest rate derivative contracts:						
Swaps	**1,463,778**	**19,107**	**18,343**	2,009,872	17,182	15,405
Forward rate agreements and options	**145,020**	**1,266**	**796**	242,843	1,086	1,093
Exchange traded futures and options	**306,054**	**-**	**-**	273,089	343	347
	1,914,852	**20,373**	**19,139**	2,525,804	18,611	16,845
Credit derivative contracts	**61,186**	**830**	**1,130**	77,776	1,783	1,807
Equity and stock index options	**12,223**	**355**	**372**	12,057	678	845
Commodity derivative contracts	**138,642**	**2,370**	**1,484**	62,426	4,634	4,319
Total derivatives	**4,210,122**	**49,496**	**47,192**	4,906,934	58,524	56,517

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

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 only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business. Details of the amounts available for offset under master netting agreement can be found in the Risk review on page 29.

The Derivatives and Hedging sections of the Risk review on pages 58 and 59 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.

	2012			2011		
	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	51,383	2,236	636	45,249	1,806	760
Currency swaps	2,910	18	5	3,768	60	221
Forward foreign exchange contracts	427	-	9	843	67	-
	54,720	2,254	650	49,860	1,933	981
Derivatives designated as cash flow hedges:						
Interest rate swaps	17,033	33	17	23,536	40	21
Options	-	-	-	-	-	-
Forward foreign exchange contracts	2,066	52	1	2,999	2	72
Currency swaps	8,955	23	13	3,609	30	2
	28,054	108	31	30,144	72	95
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	671	-	52	707	34	-
Total derivatives held for hedging	83,445	2,362	733	80,711	2,039	1,076

15. Loans and advances to banks

	2012 $million	2011 $million
Loans and advances to banks	69,260	66,633
Individual impairment provision	(103)	(82)
Portfolio impairment provision	(2)	(2)
	69,155	66,549
Of which: loans and advances held at fair value through profit or loss (note 12)	(774)	(568)
	68,381	65,981

Analysis of loans and advances to banks by geography are set out in the Risk review section on page 30.

16. Loans and advances to customers

	2012 $million	2011 [1] $million
Loans and advances to customers	291,975	274,428
Individual impairment provision	(2,368)	(1,890)
Portfolio impairment provision	(744)	(760)
	288,863	271,778
Of which: loans and advances held at fair value through profit or loss (note 12)	(4,978)	(4,988)
	283,885	266,790

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

The Group has outstanding residential mortgage loans to Korea residents of $16.7 billion (2011:$20.8 billion) and Hong Kong residents of $21.4 billion (2011: $19.2 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 30 to 49.

17. Investment securities

	2012					
	Debt securities					
	Held-to-maturity $million	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:						
Government securities	-	23,116	390			
Other public sector securities	-	1,229	-			
	-	24,345	390			
Issued by banks:						
Certificates of deposit	-	5,974	-			
Other debt securities	-	24,195	114			
	-	30,169	114			
Issued by corporate entities and other issuers:						
Other debt securities	-	10,899	3,347			
Total debt securities	-	65,413	3,851			
Of which:						
Listed on a recognised UK exchange	-	6,858	173[1]	70	-	7,101
Listed elsewhere	-	22,816	878[1]	1,104	13,039	37,837
Unlisted	-	35,739	2,800	2,104	13,832	54,475
	-	65,413	3,851	3,278	26,871	99,413
Market value of listed securities	-	29,674	1,006	1,174	13,039	44,893

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.

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

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

Equity shares largely comprise investments in corporates.

17. Investment securities continued

The change in the carrying amount of investment securities comprised:

	2012				2011			
	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million
At 1 January	61,060	2,543	21,680	85,283	55,384	2,517	17,895	75,796
Exchange translation differences	675	14	615	1,304	(960)	5	(848)	(1,803)
Additions	111,438	783	45,104	157,325	79,385	982	50,893	131,260
Maturities and disposals	(104,700)	(217)	(40,988)	(145,905)	(72,668)	(672)	(46,491)	(119,831)
Impairment, net of recoveries on disposal	24	(109)	-	(85)	(84)	(12)	-	(96)
Changes in fair value (including the effect of fair value hedging)	728	264	57	1,049	99	(277)	(38)	(216)
Amortisation of discounts and premiums	39	-	403	442	(96)	-	269	173
At 31 December	69,264	3,278	26,871	99,413	61,060	2,543	21,680	85,283

At 31 December 2012, unamortised premiums on debt securities held for investment purposes amounted to $607 million (2011: $387 million) and unamortised discounts amounted to $443 million (2011: $308 million). Income from listed equity shares amounted to $54 million (2011: $36 million) and income from unlisted equity shares amounted to $38 million (2011: $37 million).

18. Other assets

	2012 $million	2011 $million
Financial assets held at amortised cost (note 12)		
Hong Kong SAR government certificates of indebtedness (note 24)	4,191	4,043
Cash collateral	5,068	4,856
Acceptances and endorsements	5,156	5,485
Unsettled trades and other financial assets	7,244	6,170
	21,659	20,554
Non-financial assets		
Commodities	5,574	3,523
Other	1,585	3,209
	28,818	27,286

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

2012 acquisitions

On 4 November 2012, the Group completed the acquisition of 100 per cent of the issued and paid up share capital of Credit Agricole Yatirim Bankasi Turk A.S. (CAYBT), a wholly-owned subsidiary of Credit Agricole Corporate and Investment Bank, for a consideration of $63 million, recognising goodwill of $26 million. The net assets acquired primarily comprised balances held with central banks. The goodwill acquired largely represents intangibles that are not separately recognised, and primarily relates to the associated banking license.

2011 acquisitions

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

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

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

The assets and liabilities arising from the acquisitions were 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
Fair value of interest held prior to change in control	5
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 of loans to banks was $16 million. The gross contractual amount due was $16 million, which is expected to be collected. The fair value of loans to customers was $1,545 million. The gross contractual amount due was $1,554 million, of which $9 million was the best estimate of the contractual cash flows not expected to be collected.

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

20. Goodwill and intangible assets

	2012 Goodwill $million	2012 Acquired intangibles $million	2012 Software $million	2012 Total $million	2011 Goodwill $million	2011 Acquired intangibles $million	2011 Software $million	2011 Total $million
Cost at 31 December	6,539	680	933	8,152	6,347	666	816	7,829
Provision for amortisation at 31 December	-	501	339	840	-	423	345	768
Net book value	6,539	179	594	7,312	6,347	243	471	7,061

An annual assessment is made as to whether the current carrying value of goodwill is impaired. For the purposes of impairment testing goodwill is allocated at the date of acquisition to a cash-generating unit (CGU), and the table below sets out the goodwill allocated to each CGU. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amounts for all the CGUs were measured based on value-in-use. The key assumptions used in determining the recoverable amounts are set out below and are solely estimates for the purposes of assessing impairment of acquired goodwill.

The calculation of value-in-use for each CGU is based on cash flow projections over a 20 year period, including a terminal value which is determined based on long-term earnings multiple consistent with available market data. These cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the CGU as set out in the table below.

The cash flow projections are based on budgets and forecasts approved by management covering one year, except for Taiwan, Korea, Thailand, Pakistan and Permata CGUs, where management forecasts cover four years to 2016. Management forecasts project growth rates greater than long-term GDP rates but which are in line with past performance as adjusted to reflect the current economic climate. For the period after management approved forecasts, the cash flows are extrapolated forward using steady long-term forecast GDP growth rates appropriate to the CGU.

At 31 December 2012, the results of our review indicate that there is no goodwill impairment. The Group also believes that a reasonable possible change in any of the key assumptions on which the recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

It is possible that certain scenarios could be constructed where a combination of a material change in the discount rate coupled with a reduction in current business plan forecasts or the GDP growth rate, could potentially result in the carrying amount of the goodwill exceeding the recoverable amount in the future.

Based on our review and assessment, we believe that the Korea CGU would be more sensitive to such a scenario.

The following table sets out the allocation of goodwill arising on acquisitions to CGUs, together with the pre-tax discount rate and long-term GDP growth rates used in determining value-in-use.

Acquisition	Cash Generating Unit	2012 Goodwill $million	2012 Pre-tax discount rate per cent	2012 Long-term forecast GDP growth rates per cent	2011 Goodwill $million	2011 Pre-tax discount rate per cent	2011 Long-term forecast GDP growth rates per cent
KFB, A Brain and Yeahreum	Korean business	1,850	16.4	3.9	1,720	18.1	4.0
Union Bank	Pakistan business	270	27.6	3.5	292	27.1	4.8
Hsinchu and Asia Trust	Taiwan business	1,348	16.3	4.8	1,294	17.2	4.9
Manhattan Card Business	Credit card and personal loan - Asia, India & MESA	896	15.8	1.8	895	16.5	1.6
Grindlays (India) and STCI	India business	364	16.8	6.8	377	18.7	8.1
Grindlays (MESA)	MESA business	368	20.4	4.0	370	21.1	3.7
Standard Chartered Bank (Thai)	Thailand business	331	16.1	5.0	324	16.3	4.9
Permata	Group's share of Permata (Indonesia business)	162	16.9	6.7	172	20.0	6.9
American Express Bank	Financial Institutions and Private Banking business	396	15.2	1.8	396	15.6	1.6
Harrison Lovegrove, Pembroke, Cazenove Asia, First Africa and Gryphon partners.	Corporate advisory business	77	15.9	1.8	76	16.7	1.6
GE Money and GE Singapore	Consumer banking business in Singapore	228	12.6	3.8	208	12.8	4.1
Other		249	15.6 - 17.0	1.8 - 7.5	223	15.9 - 17.4	1.6 - 5.3
		6,539			6,347		

21. Deposits by banks

	2012 $million	2011 $million
Deposits by banks	**36,477**	35,296
Deposits by banks included within:		
Financial liabilities held at fair value through profit or loss (note 12)	**968**	1,092
	37,445	36,388

22. Customer accounts

	2012 $million	2011 [1] $million
Customer accounts	**377,639**	345,726
Customer accounts included within:		
Financial liabilities held at fair value through profit or loss (note 12)	**12,243**	9,118
	389,882	354,844

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

Included in customer accounts were deposits of $2,862 million (2011: $2,000 million) held as collateral for irrevocable commitments under import letters of credit.

23. Debt securities in issue

	2012			2011		
	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	**16,982**	**38,997**	**55,979**	15,783	31,357	47,140
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 12)	**165**	**5,096**	**5,261**	166	4,267	4,433
	17,147	**44,093**	**61,240**	15,949	35,624	51,573

24. Other liabilities

	2012 $million	2011 $million
Financial liabilities held at amortised cost (note 12)		
Notes in circulation	**4,191**	4,043
Acceptances and endorsements	**5,053**	5,473
Cash collateral	**3,245**	3,145
Unsettled trades and other financial liabilities	**7,250**	6,508
	19,739	19,169
Non-financial liabilities		
Cash-settled share based payments	**84**	85
Other liabilities	**4,681**	4,580
	24,504	23,834

Hong Kong currency notes in circulation of $4,191 million (2011: $4,043 million) that are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 18).

25. Subordinated liabilities and other borrowed funds

	2012 $million	2011 $million
Subordinated liabilities and other borrowed funds	**18,799**	16,717

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, $17,467 million is at fixed interest rates (2011: $12,918 million).

On 25 January 2012, Standard Chartered PLC (the Company) issued $1 billion 5.7 per cent fixed interest rate notes due January 2022.

25. Subordinated liabilities and other borrowed funds continued

On 15 June 2012, PT Bank Permata Tbk issued IDR 700 billion 8.9 per cent fixed interest rate notes due June 2019.

On 27 June 2012, Standard Chartered Bank (Botswana) Limited issued BWP 50 million floating interest rate notes due June 2022 and BWP 127.26 million fixed interest rate notes due June 2022.

On 29 June 2012, Standard Chartered Bank (Pakistan) Limited issued PKR 2.5 billion floating interest rate notes due June 2022.

On 12 July 2012, Standard Chartered PLC (the Company) issued $1.25 billion 4.0 per cent fixed interest rate notes due July 2022 and on 23 November 2012, the Company issued €750 million fixed interest rate notes due November 2022.

On 19 December 2012, PT Bank Permata Tbk issued IDR 1,800 billion 9.4 per cent fixed interest rate notes due December 2019.

On 2 January 2012, Standard Chartered Bank Korea Limited redeemed KRW 30 billion floating rate subordinated debt on maturity.

On 3 February 2012, Standard Chartered Bank exercised its right to redeem its €750 million 3.625 per cent notes in full on the first optional call date.

On 13 April 2012, Standard Chartered Bank Hong Kong Limited exercised its right to redeem its $300 million floating rate subordinated notes in full on the first optional call date.

On 15 November 2012, Standard Chartered Bank Malaysia Berhad exercised its right to redeem its MYR 500 million 4.28 per cent subordinated bonds in full on the first optional call date.

26. Retirement benefit obligations

Retirement benefit obligations comprise:

	2012 $million	2011 $million
Total market value of assets	2,366	2,118
Present value of the schemes' liabilities	(2,849)	(2,617)
Defined benefit schemes obligation	(483)	(499)
Defined contribution schemes obligation	(21)	(20)
Net book amount	(504)	(519)

Retirement benefit charge comprises:

	2012 $million	2011 $million
Defined benefit schemes	99	103
Defined contribution schemes	203	179
Charge against profit	302	282

The pension cost for defined benefit schemes was:

	2012 $million	2011 $million
Current service cost	102	101
Past service cost	3	3
Gain on settlements and curtailments	(6)	(5)
Expected return on pension scheme assets	(112)	(120)
Interest on pension scheme liabilities	112	124
Total charge to profit before deduction of tax	99	103
(Gain)/Loss on assets above expected return	(75)	58
Experience loss on liabilities	151	131
Total loss recognised directly in Other comprehensive income before tax	76	189
Deferred taxation	(14)	(37)
Total loss after tax	62	152

27. Share capital, reserves and own shares

Group and Company

	Number of ordinary shares (millions)	Ordinary share capital $million	Preference share capital $million	Total $million
At 1 January 2011	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**
Capitalised on scrip dividend	**25**	**13**	**-**	**13**
Shares issued	**4**	**2**	**-**	**2**
At 31 December 2012	**2,413**	**1,207**	**-**	**1,207**

2012
On 14 May 2012, the Company issued 6,961,782 new ordinary shares instead of the 2011 final dividend and on 11 October 2012 the Company issued 18,454,741 new ordinary shares instead of the 2012 interim dividend.

During the year 3,559,652 new ordinary shares were issued under employee share plans at prices between nil and 1,842 pence.

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 new ordinary shares were issued under employee share plans at prices between nil and 1,463 pence.

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	**2012**	2011	**2012**	2011	**2012**	2011
Shares purchased	**15,984,057**	4,500,000	**977,761**	1,136,086	**16,961,818**	5,636,086
Market price of shares purchased ($ million)	**386**	117	**25**	29	**411**	146
Shares held at the end of the year	**6,808,375**	11,049,476	**211,415**	281,670	**7,019,790**	11,331,146
Maximum number of shares held during year					**18,321,546**	15,590,159

28. Non-controlling interests

	$300m 7.267% Hybrid Tier 1 Securities $million	Other non-controlling interests $million	Total $million
At 1 January 2011	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**
Expenses in equity attributable to non-controlling interests	**-**	**(14)**	**(14)**
Other profits attributable to non-controlling interests	**22**	**76**	**98**
Comprehensive income for the year	**22**	**62**	**84**
Distributions	**(22)**	**(38)**	**(60)**
Other increases	**-**	**8**	**8**
At 31 December 2012	**320**	**373**	**693**

29. Cash flow statement

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

	2012 $million	2011 $million
Amortisation of discounts and premiums of investment securities	(442)	(173)
Interest expense on subordinated liabilities	582	474
Interest expense on senior debts liabilities	418	809
Other non-cash items	125	204
Pension costs for defined benefit schemes	99	103
Share based payment costs	374	392
UK bank levy	10	69
Impairment losses on loans and advances and other credit risk provisions	1,221	908
Other impairment	194	111
Profit from associates	(116)	(74)
Total	2,465	2,823

Change in operating assets

	2012 $million	2011 $million
Decrease/(increase) in derivative financial instruments	9,441	(21,617)
Increase in debt securities, treasury bills and equity shares held at fair value through profit or loss	(3,121)	(2,373)
Increase in loans and advances to banks and customers	(19,135)	(38,771)
Increase in pre-payments and accrued income	(34)	(440)
Increase in other assets	(3,033)	(4,810)
Total	(15,882)	(68,011)

Change in operating liabilities

	2012 $million	2011 $million
(Decrease)/increase in derivative financial instruments	(9,726)	20,266
Net increase in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions	35,941	55,069
Increase in accruals and deferred income	113	217
Increase in other liabilities	88	2,926
Total	26,416	78,478

30. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central banks (unless restricted) and balances with less than three months maturity from the date of acquisition, including: treasury bills and other eligible bills, loans and advances to banks, and short-term government securities. The following balances with less than three months maturity from the date of acquisition have been identified by the Group as being cash and cash equivalents. Restricted balances comprise minimum balances required to be held at central banks.

	2012 $million	2011 $million
Cash and balances at central banks	61,043	47,364
Less restricted balances	(9,336)	(9,961)
Treasury bills and other eligible bills	3,101	3,244
Loans and advances to banks	24,485	27,470
Trading securities	1,307	2,333
Total	80,600	70,450

31. Contingent liabilities and commitments

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

	2012 $million	2011 $million
Contingent liabilities[1]		
Guarantees and irrevocable letters of credit	**34,281**	27,022
Other contingent liabilities	**10,168**	15,858
	44,449	42,880
Commitments[1]		
Documentary credits and short term trade-related transactions	**7,752**	8,612
Forward asset purchases and forward deposits placed	**711**	733
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	**39,309**	28,507
Less than one year	**17,388**	24,193
Unconditionally cancellable	**110,138**	88,652
	175,298	150,697

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

The Group receives legal claims against it in a number of jurisdictions arising in the normal course of business. The Group considers none of these matters as material either individually or in aggregate. Where appropriate the Group recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation.

The Group seeks to comply with all applicable laws and regulations, but may be subject to regulatory actions and investigations across our markets, the outcome of which are generally difficult to predict and can be material to the Group.

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 only consolidated when the Group has control of the SPE. Control is assessed based on the Group's exposure to the majority of the risks of the SPE and the right to obtain the majority of the benefits of the SPE. The assessment of risks and benefits is based on the assessed risk exposures at inception and these risks and benefits are re-considered if and when circumstances change. These circumstances may include situations when the Group acquires additional interests in the SPE, or the Group acquires control of the financial and operating policies of the SPE.

Most of the Group's consolidated SPEs are in respect of the Group's securitised portfolios of residential mortgages (see page 29 of the Risk review).

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

	2012		2011	
	Total assets $million	Maximum exposure $million	Total assets $million	Maximum exposure $million
Portfolio management vehicles	**1,267**	**44**	1,136	130
Principal Finance Funds[1]	**766**	**181**	1,089	131
Structured finance	**464**	**103**	291	99
	2,497	**328**	2,516	360

[1] Committed capital for these funds is $375 million (2011: $375 million) of which $145 million (2011: $129 million) has been drawn down net of provisions for impairment of $33 million (2011: $33 million).

32. Special purpose entities continued

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

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

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

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

33. Post balance sheet events

Tax

On 5 December 2012, the UK government announced a further reduction in the main rate of UK corporation tax of one per cent with effect from 1 April 2014, in addition to the stepped reductions as previously announced. The combined effect of the reductions is to lower the main rate of UK corporation tax to 24 per cent in 2012-13, to 23 per cent in 2013-14, and 21 per cent in 2014-15.

At 31 December 2012, only the further tax rate change for 2013-14 to 23 per cent had been substantively enacted. Had the further rate change for 2014-15 been substantively enacted at the balance sheet date, the Group estimates that the UK deferred tax assets would have reduced by a further $24 million.

34. Restatement of prior year

The Group has re-presented certain balances in the consolidated balance sheet to reflect the effect of enhanced system capabilities introduced during the year. The Group has also re-presented the entity-wide geographic disclosures following the transfer of the governance of its franchise in Mauritius from Other Asia Pacific to Africa to align with Group's overall strategy in Africa. The impact of these changes has required: (i) gross up of loans and advances to customers (Mortgages) and customer deposit accounts (Interest-bearing current accounts) that were previously recorded net; (ii) netting of certain Interest rate derivative which were previously shown gross; and (iii) change of the Group's entity-wide geographic disclosures to reflect the transfer of Mauritius from Other Asia Pacific to Africa. For consistency, comparative balances have also been re-presented on a similar basis to enhance the comparability of information presented.

Balance sheet

	As reported at 2011	Restated	Restated at 2011
	$million	$million	$million
Loans and advances to customers	263,765	3,025	266,790
Customer accounts	342,701	3,025	345,726
Derivative assets	67,933	(9,409)	58,524
Derivative liabilities	65,926	(9,409)	56,517
Total assets	599,070	(6,384)	592,686
Total liabilities	557,695	(6,384)	551,311

34. Restatement of prior year continued

Entity-wide geographic regions

Note 2 - Segmental information

	Hong Kong $million	Singapore $million	Other Asia Pacific $million	India $million	Africa $million	Americas UK & Europe $million
Loans and advances to customers						
As reported at 2011	50,541	42,574	54,196	23,379	10,004	-
Mortgage restatement	455	1,253	1,010	307	-	-
Mauritius geographic change	-	-	(1,227)	-	1,227	-
Restated at 2011	50,996	43,827	53,979	23,686	11,231	-
Total assets employed						
As reported at 2011	117,245	102,768	115,588	42,300	17,276	157,473
Mortgage restatement	455	1,253	1,010	307	-	-
Derivative restatement	-	-	-	-	-	(9,409)
Mauritius geographic change	-	-	(3,127)	-	3,127	-
Restated at 2011	117,700	104,021	113,471	42,607	20,403	148,064

	Hong Kong $million	Singapore $million	Other Asia Pacific $million	India $million	Africa $million
Customer accounts (Current accounts)					
As reported at 2011	87,253	63,053	70,657	12,757	8,835
Deposit restatement	455	1,253	1,010	307	-
Mauritius geographic change	-	-	(670)	-	670
Restated at 2011	87,708	64,306	70,997	13,064	9,505
Deposit by banks					
As reported at 2011	-	-	5,881	-	532
Mauritius geographic change	-	-	(37)	-	37
Restated at 2011	-	-	5,844	-	569

	Other Asia Pacific			Africa Region		
	As reported at 2011 $million	Restated $million	As restated at 2011 $million	As reported at 2011 $million	Restated $million	As restated at 2011 $million
Operating income	3,553	(42)	3,511	1,340	42	1,382
Operating expenses	(2,076)	11	(2,065)	(703)	(11)	(714)
Loan impairment	(134)	(1)	(135)	(25)	1	(24)
Other impairment	31	-	31	(16)	-	(16)
Profit from associates	73	-	73	-	-	-
Profit before tax	1,447	(32)	1,415	596	32	628

34. Restatement of prior year continued

Loans and advances to customers - Risk review disclosure

	Hong Kong $million	Singapore $million	Other Asia Pacific $million	India $million	Africa $million
As reported at 2011	50,459	47,535	51,835	10,846	6,068
Mortgage restatement	455	1,253	1,010	307	-
Mauritius geographic change	-	-	(1,227)	-	1,227
Restated at 2011	50,914	48,788	51,618	11,153	7,295

35. Related party transactions

Directors and officers

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

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises non-executive directors and members of the Group Management Committee (from January 2013, the Executive Management Committee), which includes all executive directors.

	2012 $million	2011 $million
Salaries, allowances and benefits in kind	**21**	20
Pension contributions	**5**	5
Bonuses paid or receivable	**10**	11
Share based payments	**35**	39
	71	75

The 2011 salaries, allowances and benefits in kind figure has been restated to include the part of Sir John Peace's annual fee that is delivered in restricted shares

Transactions with directors, officers and others

At 31 December 2012, 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:

	2012		2011	
	Number	$000	Number	$000
Directors	**4**	**4,898**	2	2,550
Officers[1]	**1**	**18**	2	3,064

[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.

Directors, connected persons or officers

There were no material 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 $29 million and $32 million respectively at 31 December 2012 (2011: $39 million and $172 million respectively) and amounts payable to Merchant Solutions and China Bohai Bank of $21 million and $16 million respectively at 31 December 2012 (2011: $30 million and $10 million respectively).

Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling $18 million at 31 December 2012 (2011: $7 million), and deposits of $23 million (2011: $29 million). The Group has investments in subordinated debt issued by PT Bank Permata Tbk of $128 million (2011: $132 million).

36. Corporate governance

The directors confirm that, throughout the year, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited ("HK Listing Rules"). Specifically, the Company complied with the code provisions of old Appendix 14 during the period from 1 January 2012 to 31 March 2012 and the code provisions of new Appendix 14 during the period from 1 April 2012 to 31 December 2012. The directors also confirm that the announcement of these results has been reviewed by the Company's Audit Committee. 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 and that the directors of the Company have complied with this code of conduct throughout the year.

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 2012 were approved by the directors on 5 March 2013. These accounts will be published on 28 March 2013 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.

Standard Chartered PLC – 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 2012 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 2012 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
5 March 2013

A. Remuneration

The Group employed 89,058 staff at 31 December 2012 (2011: 86,865).

Performance and reward philosophy and principles

Our performance, reward and benefits approach supports and drives our business strategy and sustained performance in the context of a clearly articulated risk appetite and a Group-wide framework, under which we apply a consistent approach to reward for all employees. Our distinctive culture is underpinned by the importance we place on our values as part of compensation decision-making. We believe that performance and related reward outcomes should be a consequence of 'what' an employee has achieved as well as 'how' they have achieved it.

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 that reflects our international nature and enable 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.
- encourages an appropriate mix of fixed and variable compensation based on (i) the individual's accountability and (ii) the individual's and their business' risk profile.

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. Variable reward recognises employees' performance against agreed objectives and behaviours and is targeted at our best performers through a focus on differentiation.

We are supportive of, and aligned to, the Financial Stability Board's principles on sound remuneration practices.

B. Summarised consolidated income statement

First and second half 2012	1st half 2012 $million	2nd half 2012 $million	**2012 $million**
Interest income	9,092	9,166	**18,258**
Interest expense	(3,609)	(3,639)	**(7,248)**
Net interest income	5,483	5,527	**11,010**
Fees and commission income	2,229	2,389	**4,618**
Fees and commission expense	(255)	(242)	**(497)**
Net trading income	1,565	1,183	**2,748**
Other operating income	489	703	**1,192**
Total non-interest income	4,028	4,033	**8,061**
Operating income	9,511	9,560	**19,071**
Staff costs	(3,353)	(3,231)	**(6,584)**
Premises costs	(423)	(463)	**(886)**
General administrative expenses	(863)	(1,895)	**(2,758)**
Depreciation and amortisation	(324)	(344)	**(668)**
Operating expenses	(4,963)	(5,933)	**(10,896)**
Operating profit before impairment losses and taxation	4,548	3,627	**8,175**
Impairment losses on loans and advances and other credit risk provisions	(583)	(638)	**(1,221)**
Other impairment	(74)	(120)	**(194)**
Profit from associates	57	59	**116**
Profit before taxation	3,948	2,928	**6,876**
Taxation	(1,048)	(843)	**(1,891)**
Profit for the year	2,900	2,085	**4,985**

Profit attributable to:			
Non-controlling interests	44	54	**98**
Parent company shareholders	2,856	2,031	**4,887**
Profit for the year	2,900	2,085	**4,985**
Earnings per share:			
Basic earnings per ordinary share (cents)	117.6	82.3	**199.7**
Diluted earnings per ordinary share (cents)	116.5	81.4	**197.7**

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.
ASEAN	Association of South East Asian Nations (ASEAN) which includes the Group's operation 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 are being phased from 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 **ABS** 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.

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).

Individually assessed loan impairment provisions	Also known as specific impairment provisions. Impairment is measured individually for assets that are individually significant to the Group. Typically assets within the Wholesale Banking business of the Group are assessed individually.
Innovative Tier 1 Capital	Innovative Tier 1 capital consists of instruments which incorporate certain features, the effect of which is to weaken (but only marginally) the key characteristics of **Tier 1 capital** (that is, fully subordinated, perpetual and non-cumulative). Innovative Tier 1 capital is subject to a limit of 15 per cent of total Tier 1 capital.
Internal Ratings Based (IRB) approach	The IRB approach is used to calculate risk weighted assets in accordance with the Basel Capital Accord where capital requirements are based on a firm's own estimates of certain parameters.
Investment grade	A **debt security**, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.
Jaws	The rate of income growth less the rate of expense growth, expressed as positive jaws when income growth exceeds expense growth (and vice versa for negative jaws).
Leveraged finance	Loans or other financing agreements provided to companies whose overall level of debt is high in relation to their cash flow (net debt : EBITDA (earnings before interest tax, depreciation and amortisation)) typically arising from private equity sponsor led acquisitions of the businesses concerned.
Liquidity and credit enhancements	Credit enhancement facilities are used to enhance the creditworthiness of financial obligations and cover losses due to asset default. Two general types of credit enhancement are third-party loan guarantees and self-enhancement through over-collateralisation. Liquidity enhancement makes funds available if required, for other reasons than asset default, e.g. to ensure timely repayment of maturing **commercial paper.**
Liquid asset buffer	High quality unencumbered assets that meet the UK FSA's requirements for liquidity. These assets include high quality government or central bank securities, certain deposits with central banks and securities issued by designated multilateral development banks.
Liquid asset ratio	Ratio of total liquid assets to total assets. Liquid assets comprise cash (less restricted balances), net interbank, treasury bills and debt securities less illiquid securities.
Loans and advances	This represents lending made under bilateral agreements with customers entered into in the normal course of business and is based on the legal form of the instrument. An example of a loan product is a home loan.
Loans to individuals	Money loaned to individuals rather than institutions. The loans may be for car or home purchases, medical care, home repair, holidays, and other consumer uses.
Loan-to-value ratio	The loan-to-value ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The loan-to-value ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.
Loans past due	Loans on which payments have been due for up to a maximum of 90 days including those on which partial payments are being made.
Loss given default (LGD)	LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.
Master netting agreement	An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.
Mezzanine capital	Financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.
Mortgage Backed Securities (MBS)	Securities that represent interests in a group of mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Mortgage related assets	Assets which are referenced to underlying mortgages.
Medium term notes (MTNs)	Corporate notes continuously offered by a company to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years.
Net asset value per share	Ratio of net assets (total assets less total liabilities) to the number of ordinary shares outstanding at the end of a reporting period.
Net interest income	The difference between interest received on assets and interest paid on liabilities.
Net interest margin	The margin is expressed as net interest income divided by average interest earning assets.
Net interest yield	Interest income divided by average interest earning assets less interest expense divided by average interest bearing liabilities.

Non-performing loans	A non performing loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is: – **renegotiated** before 90 days past due, and on which no default in interest payments or loss of principal is expected; or – **renegotiated** at or after 90 days past due, but on which there has been no default in interest or principal payments for more than 180 days since renegotiation, and against which no loss of principal is expected.
Normalised earnings	**Profit attributable to ordinary shareholders** adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.
Over the counter (OTC) derivatives	A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.
Pre-provision profit	Operating profit before impairment losses and taxation.
Private equity investments	Equity securities in operating companies *generally* not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.
Probability of default (PD)	PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.
Profit attributable to ordinary shareholders	Profit for the year after non-controlling interests and dividends declared in respect of preference shares classified as equity.
Renegotiated loans	**Loans and advances** are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. Such assets will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation may lead to a new agreement, which would be treated as a new loan.
Repo/Reverse repo	A repurchase agreement or repo is a short term funding agreements which allow a borrower to sell a financial asset, such as **ABS** or Government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.
Residential mortgage	A loan to purchase a residential property which is then used as collateral to guarantee repayment of the loan. The borrower gives the lender a lien against the property, and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a Home loan.
Residential Mortgage Backed Securities (RMBS)	Securities that represent interests in a group of **residential mortgages.** Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Return on equity	Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.
Risk weighted assets	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the FSA.
Seasoning	The emergence of credit loss patterns in portfolio over time.
Secured (fully and partially)	A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.
Securitisation	Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a **special purpose entity (SPE)** who then issues securities backed by the assets based on their value. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors.
Senior debt	Senior debt, frequently issued in the form of senior notes, is debt that takes priority over other unsecured or otherwise more "junior" debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure after subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment.

Sovereign exposures	**Exposures** to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned. Sovereign exposures as defined by the European Banking Authority includes only exposures to central governments.
Special purpose entities (SPEs)	SPEs are entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities. Transactions with SPEs take a number of forms, including: – The provision of financing to fund asset purchases, or commitments to provide finance for future purchases. – Derivative transactions to provide investors in the SPE with a specified exposure. – The provision of liquidity or backstop facilities which may be drawn upon if the SPE experiences future funding difficulties. – Direct investment in the notes issued by SPEs.
Standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
Stressed value at risk	A regulatory market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.
Structured finance /notes	A structured note is an investment tool which pays a return linked to the value or level of a specified asset or index and sometimes offers capital protection if the value declines. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
Sub-prime	Sub-prime is defined as loans to borrowers typically having weakened credit histories that include payment delinquencies and potentially more severe problems such as court judgements and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, high debt-to-income ratios, or other criteria indicating heightened risk of default.
Tangible net asset value per share	Ratio of parent shareholders' equity less preference shares classified as equity and goodwill and intangible assets to the number of ordinary shares outstanding at the end of the reporting period.
Tier 1 capital	Tier 1 capital comprises **Core Tier 1 capital** plus innovative Tier 1 securities and preference shares and tax on excess expected losses less material holdings in credit or financial institutions.
Tier 1 capital ratio	**Tier 1 capital** as a percentage of risk weighted assets.
Tier 2 capital	Tier 2 capital comprises qualifying subordinated liabilities, allowable portfolio impairment provision and unrealised gains in the eligible revaluation reserves arising from the fair valuation of equity instruments held as available-for-sale.
UK bank levy	A levy that applies to certain UK banks and the UK operations of foreign banks from 1 January 2011. The levy is payable each year based on a percentage of the chargeable liabilities of the Group as at 31 December.
Value at Risk (VaR)	VaR is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.
Working profit	Operating profit before impairment losses and taxation.
Write Downs	After an advance has been identified as impaired and is subject to an **impairment allowance**, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write downs will occur when and to the extent that, the whole or part of a debt is considered irrecoverable.

Financial Calendar

Financial Calendar

Ex-dividend date	13 Mar 2013
Record date[1]	15 Mar 2013
Expected posting to shareholders of 2012 Report and Accounts	28 Mar 2013
Annual General Meeting	8 May 2013
Payment date – final dividend on ordinary shares	14 May 2013

[1] The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has granted a waiver to the Company on 7 December 2011 from 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.

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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/global/mc/plib/directors_p01.html

Information regarding the Group's commitment to Sustainability is available at http://www.standardchartered.com/sustainability

The 2012 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.

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By Order of the Board
Annemarie Durbin
Group Company Secretary

Hong Kong, 5 March 2013

As at the date of this announcement, the Board of Directors of Standard Chartered PLC comprises:

Chairman:
Sir John Wilfred Peace

Executive Directors:
Mr Peter Alexander Sands; Mr Stefano Paolo Bertamini; Mr Jaspal Singh Bindra; Mr Richard Henry Meddings; Mr Alun Michael Guest Rees and Mr Viswanathan Shankar

Independent Non-Executive Directors:
Mr Om Prakash Bhatt; Dr Louis Chi-Yan Cheung; Mr James Frederick Trevor Dundas; Mrs Margaret Ewing; Dr Han Seung-soo, KBE; Mr Simon Jonathan Lowth; Mr Rudolph Harold Peter Markham (Senior Independent Director); Ms Ruth Markland; Mr John Gregor Hugh Paynter; Mr Paul David Skinner; Mr Oliver Henry James Stocken and Dr Lars Henrik Thunell