11. Financial instruments classification summary continued

Reclassification of financial assets

The Group has reclassified certain financial assets classified as held for trading into the available-for-sale ('AFS') category as these were no longer considered to be held for the purpose of selling or repurchasing in the near term. At the time of transfer, the Group identified the rare circumstances permitting such a transfer as the impact of the ongoing credit crisis in financial markets, particularly from the beginning of 2008, which significantly impacted the liquidity in certain markets. The Group also reclassified certain eligible financial assets from the trading and available-for-sale categories to loans and receivables as set out below. In total, assets with a notional value of $8.3 billion were reclassified.

The following table provides details of the assets reclassified in 2008 as at and up to the date of reclassification:

		Fair value gain or (loss) from 1 January 2008 to the reclassification date recognised within:		Fair value loss to 31 December 2007 recognised within:			
For assets reclassified:	Carrying amount reclassified $million	Income $million	AFS reserve $million	Income $million	AFS reserve $million	Effective interest rate %	Estimated amounts of expected cash flows $million
From trading to AFS							
- asset backed securities	248	(23)	–	(7)	–	8.2	277
- other financial assets	2,558	5	–	(6)	–	5.9	2,799
	2,806	(18)	–	(13)	–		3,076
From trading to loans and receivables			–		–		
- asset backed securities	1,009	(61)	–	(30)	–	5.7	1,017
- other financial assets	1,821	(117)	–	(1)	–	4.9	2,040
	2,830	(178)	–	(31)	–		3,057
From AFS to loan and receivables							
- asset backed securities	2,105	–	(231)	–	(86)	5.5	2,307
	7,741	(196)	(231)	(44)	(86)		8,440

The reclassified assets were included in the following lines on the Group's balance sheet:

	From trading to available-for-sale $million	From trading to loans and receivables $million	From available-for-sale to loans and receivables $million	Total $million
Debt securities and treasury bills	2,796	2,484	2,105	7,385
Loans to banks	–	91	–	91
Loans and advances to customers	10	255	–	265
	2,806	2,830	2,105	7,741

The following table provides details of the reclassified assets from the date of reclassification until 31 December 2008:

			If assets had not been reclassified, fair value loss from the date of reclassification to 31 December 2008 which would have been recognised within		
For assets reclassified:	Carrying amount at 31 December 2008 $million	Fair value at 31 December 2008 $million	Income $million	AFS reserve $million	Income recognised in income statement $million
From trading to AFS	2,485	2,485	*(83)	–	12
From trading to loans and receivables	2,754	2,456	(298)	–	15
From AFS to loan and receivables	2,095	1,685	–	(410)	11
	7,334	6,626	(381)	(410)	38
Of which asset backed securities:					
reclassified to AFS	171	171	*(66)	–	2
reclassified to loans and receivables	3,044	2,532	(102)	(410)	15

* Post-reclassification, this loss is recognised within the available-for-sale reserve

12. Financial assets held at fair value through profit or loss

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

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

	2008			2007		
	Trading $million	**Designated at fair value through profit or loss $million**	**Total $million**	Trading $million	Designated at fair value through profit or loss $million	Total $million
Loans and advances to banks	**1,351**	**12**	**1,363**	2,314	–	2,314
Loans and advances to customers	**4,103**	**231**	**4,334**	1,978	738	2,716
Treasury bills and other eligible bills	**2,502**	**205**	**2,707**	2,942	453	3,395
Debt securities	**6,193**	**203**	**6,396**	13,829	334	14,163
Equity shares	**165**	**460**	**625**	108	262	370
	14,314	**1,111**	**15,425**	21,171	1,787	22,958

Debt securities

	2008 $million	2007 $million
Issued by public bodies:		
Government securities	**4,346**	5,344
Other public sector securities	**17**	30
	4,363	5,374
Issued by banks:		
Certificates of deposit	**33**	479
Other debt securities	**798**	2,672
	831	3,151
Issued by corporate entities and other issuers:		
Other debt securities	**1,202**	5,638
Total debt securities	**6,396**	14,163
Of which:		
Listed on a recognised UK exchange	**14**	536
Listed elsewhere	**2,216**	5,641
Unlisted	**4,166**	7,986
	6,396	14,163

Equity shares

Listed elsewhere	**197**	3
Unlisted	**428**	367
Total equity shares	**625**	370

13. Derivative financial instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The types of derivatives used by the Group are set out below.

All derivatives are classified as trading and recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow hedging has been achieved, in which case the effective portion of changes in fair value go through reserves).

These tables 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.

The Group limits its exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are not presented net in these accounts as in the ordinary course of business they are not intended to be settled net.

Total derivatives	2008 Notional principal amounts $million	2008 Assets $million	2008 Liabilities $million	2007 Notional principal amounts $million	2007 Assets $million	2007 Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	**832,915**	**23,096**	**21,017**	775,663	7,376	7,852
Currency swaps and options	**528,957**	**18,760**	**19,253**	512,833	8,955	8,516
	1,361,872	**41,856**	**40,270**	1,288,496	16,331	16,368
Interest rate derivative contracts:						
Swaps	**1,089,407**	**21,992**	**21,451**	979,727	8,473	8,365
Forward rate agreements and options	**170,700**	**1,076**	**1,451**	166,563	556	745
Exchange traded futures and options	**242,694**	**557**	**429**	322,520	336	282
	1,502,801	**23,625**	**23,331**	1,468,810	9,365	9,392
Credit derivative contracts	**29,033**	**926**	**961**	21,035	165	160
Equity and stock index options	**1,075**	**219**	**233**	1,057	58	106
Commodity derivative contracts	**16,200**	**3,031**	**2,980**	16,971	285	244
Total derivatives	**2,910,981**	**69,657**	**67,775**	2,796,369	26,204	26,270

The Group uses derivatives primarily to mitigate interest rate and foreign exchange risk. Hedge accounting is applied to derivatives and hedged items when the criteria under IAS 39 have been met. The table below lists the types of derivatives that the Group holds for hedge accounting.

Derivatives held for hedging	2008 Notional principal amounts $million	2008 Assets $million	2008 Liabilities $million	2007 Notional principal amounts $million	2007 Assets $million	2007 Liabilities $million
Derivatives designated as fair value hedges:						
Swaps	**18,376**	**1,393**	**251**	13,392	352	161
	18,376	**1,393**	**251**	13,392	352	161
Derivatives designated as cash flow hedges:						
Swaps	**4,514**	**92**	**13**	5,120	35	13
Forward foreign exchange contracts	**1,015**	**6**	**210**	1,414	37	19
	5,529	**98**	**223**	6,534	72	32
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	**600**	**–**	**89**	81	1	–
Total derivatives held for hedging	**24,505**	**1,491**	**563**	20,007	425	193

14. Loans and advances

	2008		2007	
	Loans to banks $million	**Loans to customers $million**	Loans to banks $million	Loans to customers $million
Loans and advances	**47,969**	**180,470**	37,682	158,788
Individual impairment provision	**(17)**	**(1,307)**	(2)	(1,271)
Portfolio impairment provision	**(6)**	**(651)**	(1)	(535)
	47,946	**178,512**	37,679	156,982
Of which: loans and advances held at fair value through profit or loss	**(1,363)**	**(4,334)**	(2,314)	(2,716)
	46,583	**174,178**	35,365	154,266

The Group's exposure to credit risk is concentrated in Hong Kong, Korea, Singapore and the Other Asia Pacific region. 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 has outstanding residential mortgage loans to Korea residents of $17.1 billion (2007: $22.6 billion) and Hong Kong residents of approximately $13.0 billion (2007: $11.8 billion).

The following table shows the movement in impairment provisions for 2008 and 2007:

	2008 Total $million	2007 Total $million
At 1 January	**1,809**	2,225
Exchange translation differences	**(179)**	28
Acquisitions	**109**	–
Amounts written off	**(1,119)**	(1,183)
Recoveries of acquisition fair values	**(78)**	(98)
Recoveries of amounts previously written off	**180**	139
Discount unwind	**(40)**	(66)
Other	**13**	10
New provisions	**1,796**	1,352
Recoveries/provisions no longer required	**(510)**	(598)
Net charge against profit	**1,286**	754
Provisions held at 31 December	**1,981**	1,809

Of which:	**2008 $million**	2007 $million
Individual impairment provision	**1,324**	1,273
Portfolio impairment provision	**657**	536
Provisions held at end of period	**1,981**	1,809

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

	2008 $million	2007 $million
Net charge/(release) against profit on loans and advances:		
Individual impairment charge	**1,168**	769
Portfolio impairment charge/(release)	**118**	(15)
	1,286	754
Provisions/(releases) related to credit commitments	**27**	(3)
Impairment charges relating to debt securities classified as loans	**8**	10
Total impairment charge and other credit risk provisions	**1,321**	761

15. Individually impaired loans and advances

	2008			2007		
	Consumer Banking $million	**Wholesale Banking $million**	**Total $million**	Consumer Banking $million	Wholesale Banking $million	Total $million
Individually impaired loans	**1,062**	**1,611**	**2,673**	1,172	990	2,162
Individual impairment provisions	**(543)**	**(781)**	**(1,324)**	(655)	(618)	(1,273)
Net impaired loans	**519**	**830**	**1,349**	517	372	889

Net impaired loans within Wholesale Banking includes individually impaired loans to banks of $35 million (2007: $10 million) and individual impairment provisions on these loans of $17 million (2007: $2 million).

16. Investment securities

	Held-to-maturity $million	**Available-for-sale $million**	**Loans and receivables $million**	**Total $million**
Treasury and other eligible bills	**–**	**16,713**	**–**	**16,713**
Debt securities	**37**	**43,543**	**7,456**	**51,036**
Equity shares	**–**	**1,593**	**–**	**1,593**
At 31 December 2008	**37**	**61,849**	**7,456**	**69,342**
Treasury and other eligible bills	–	11,667	–	11,667
Debt securities	100	38,098	2,719	40,917
Equity shares	–	2,690	–	2,690
At 31 December 2007	100	52,455	2,719	55,274

	2008					
	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	**37**	**17,849**	**389**			
Other public sector securities	**–**	**1,864**	**–**			
	37	**19,713**	**389**			
Issued by banks:						
Certificates of deposit	**–**	**6,771**	**1,969**			
Other debt securities	**–**	**13,597**	**735**			
	–	**20,368**	**2,704**			
Issued by corporate entities and other issuers:						
Other debt securities	**–**	**3,462**	**4,363**			
Total debt securities	**37**	**43,543**	**7,456**			
Listed on a recognised UK exchange	**–**	**4,096**	**1,217**	**35**	**–**	**5,348**
Listed elsewhere	**35**	**15,479**	**2,750**	**586**	**5,711**	**24,561**
Unlisted	**2**	**23,968**	**3,489**	**972**	**11,002**	**39,433**
	37	**43,543**	**7,456**	**1,593**	**16,713**	**69,342**
Market value of listed securities	**35**	**19,575**	**3,903**	**621**	**5,711**	**29,845**

16. Investment securities continued

	2007					
	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	100	12,658	–			
Other public sector securities	–	1,008	–			
	100	13,666	–			
Issued by banks:						
Certificates of deposit	–	6,248	2,175			
Other debt securities	–	12,904	18			
	–	19,152	2,193			
Issued by corporate entities and other issuers:						
Other debt securities	–	5,280	526			
Total debt securities	100	38,098	2,719			
Listed on a recognised UK exchange	–	3,663	–	58	–	3,721
Listed elsewhere	77	16,060	–	1,842	6,346	24,325
Unlisted	23	18,375	2,719	790	5,321	27,228
	100	38,098	2,719	2,690	11,667	55,274
Market value of listed securities	75	19,723	–	1,900	6,346	28,044

Equity shares largely comprise investments in corporates.

The change in the carrying amount of investment securities comprised:

	2008				2007			
	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	**40,917**	**2,690**	**11,667**	**55,274**	35,497	1,478	12,522	49,497
Exchange translation differences	**(3,318)**	**(97)**	**(2,171)**	**(5,586)**	846	20	171	1,037
Acquisitions	**2,572**	**4**	**382**	**2,958**	–	–	–	–
Additions	**71,073**	**933**	**37,932**	**109,938**	53,574	1,248	23,470	78,292
Reclassifications*	**5,237**	**(69)**	**43**	**5,211**	–	–	–	–
Disposals n sale of business	**–**	**(9)**	**–**	**(9)**	–	–	–	–
Maturities and disposals	**(65,426)**	**(854)**	**(31,476)**	**(97,756)**	(48,850)	(970)	(24,637)	(74,457)
Provisions	**(109)**	**(315)**	**(1)**	**(425)**	(45)	(3)	(2)	(50)
Changes in fair value (including the effect of fair value hedging)	**(106)**	**(687)**	**140**	**(653)**	(205)	920	(19)	696
Amortisation of discounts and premiums	**196**	**(3)**	**197**	**390**	100	(3)	162	259
At 31 December	**51,036**	**1,593**	**16,713**	**69,342**	40,917	2,690	11,667	55,274

* Reclassifications for equity shares relates to a security held by the Group's private equity business which became eligible to be designated at fair value through profit or loss as permitted by IAS 28. The remainder of the reclassifications are in respect of securities reclassified as disclosed in note 11.

Treasury bills and other eligible bills include $903 million (2007: $492 million) of bills sold subject to sale and repurchase transactions. Debt securities include $1,593 million (2007: $1,958 million) of securities sold subject to sale and repurchase transactions.

The Group has taken advantage of the Term Auction Facility ('TAF') introduced by the Federal Reserve Bank of New York, borrowing $2,850 million. Under the TAF, no single security is earmarked as collateral for the borrowing. The value of securities that are considered encumbered in relation to this borrowing is $3,197 million, and the borrowing is included as a sale and repurchase transaction within customer accounts

At 31 December 2008, unamortised premiums on debt securities held for investment purposes amounted to $271 million (2007: $46 million) and unamortised discounts amounted to $743 million (2007: $186 million).

Income from listed equity shares amounted to $20 million (2007: $9 million) and income from unlisted equity shares amounted to $183 million (2007: $270 million).

17. Business combinations

2008 acquisitions

On 25 February 2008, the Group acquired 100 per cent of the share capital of Yeahreum Mutual Savings Bank ('Yeahreum'), a Korean banking company.

On 29 February 2008, the Group acquired 100 per cent of the share capital of American Express Bank Limited ('AEB'), a financial services company. The Group also entered into a put and call option agreement with American Express, exercisable 18 months from the acquisition of AEB, to purchase 100 per cent of American Express International Deposit Corporation at a purchase price equivalent to its net asset value at the time of exercise.

On 27 December 2008, the Group acquired the 'good bank' portion of Asia Trust and Investment Corporation, a Taiwanese banking company.

If the acquisitions had occurred on 1 January 2008, the operating income of the Group would have been approximately $14,093 million and profit before taxation would have been approximately $4,809 million.

During 2008, the Group acquired the remaining 20 per cent minority of A Brain for a consideration of $8 million, generating additional goodwill of $5 million.

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

	AEB		Other acquisitions	
	Fair value $million	Acquiree's carrying amount $million	Fair value $million	Acquiree's carrying amount $million
Cash and balances at central banks*	**1,041**	**1,041**	**131**	**131**
Derivative financial instruments	**511**	**511**	**–**	**–**
Loans and advances to banks	**7,142**	**7,143**	**639**	**667**
Loans and advances to customers	**4,781**	**4,783**	**233**	**233**
Investment securities	**2,864**	**2,883**	**87**	**88**
Intangibles other than goodwill	**88**	**4**	**–**	**–**
Property, plant and equipment	**27**	**34**	**30**	**23**
Deferred tax assets	**10**	**–**	**4**	**–**
Other assets	**527**	**544**	**21**	**23**
Total assets	**16,991**	**16,943**	**1,145**	**1,165**
Derivative financial instruments	**514**	**514**	**–**	**–**
Deposits by banks	**5,519**	**5,519**	**–**	**–**
Customer accounts	**8,392**	**8,392**	**1,192**	**1,192**
Other liabilities	**1,848**	**1,829**	**47**	**43**
Provisions for liabilities and charges	**55**	**–**	**–**	**–**
Retirement benefit obligations	**46**	**46**	**–**	**–**
Subordinated liabilities and other borrowed funds	**190**	**190**	**–**	**–**
Total liabilities	**16,564**	**16,490**	**1,239**	**1,235**
Net assets acquired	**427**	**453**	**(94)**	**(70)**
Purchase consideration settled in cash	**(823)**		**(161)**	
Cash and cash equivalents in subsidiary acquired	**6,700**		**551**	
Cash inflow on acquisition	**5,877**		**390**	
Purchase consideration:				
– cash paid	**798**		**160**	
– direct costs relating to the acquisition	**25**		**1**	
Total purchase consideration	**823**		**161**	
Less: Fair value of net assets/(liabilities) acquired/(assumed)	**427**		**(94)**	
Goodwill	**396**		**255**	
Intangible assets acquired:				
Customer relationships	**84**		**–**	
Capitalised software	**4**		**–**	
Total	**88**		**–**	
Contribution from acquisition to 31 December 2008 :				
Operating income	**552**		**1**	
Loss before taxation	**(124)**		**(9)**	

* Cash and balances at central banks include amounts subject to regulatory restrictions.

The fair value amounts for other acquisitions contain some provisional balances which will be finalised within 12 months of the acquisition date. Goodwill arising on the acquisition of AEB is attributable to the significant synergies expected to arise from their development within the Group and to those intangibles which are not recognised separately, such as the distribution network and acquired workforce. Goodwill arising on other acquisitions is attributable to those intangibles which are not recognised separately, such as the distribution network.

17. Business combinations continued

2007 acquisitions

On 5 October 2007, the Group acquired 100 per cent of the share capital of Pembroke Group Limited, an aircraft leasing, financing and management company. On 3 December 2007, the Group acquired 100 per cent of the share capital of Harrison Lovegrove & Co Limited, an oil and gas advisory boutique company. On 5 December 2007, the Group acquired 80 per cent of A Brain Limited, a Korean fund administration company. None of these acquisitions were individually material.

The acquired businesses contributed operating income of $7 million and loss before tax of $2 million to the Group from the date of their acquisition to 31 December 2007.

If the acquisition had occurred on 1 January 2007, the operating income of the Group would have been approximately $11,132 million and profit before taxation would have been approximately $4,043 million.

During 2007, the Group acquired the remaining minority interest of Hsinchu for a consideration of $43 million and generated additional goodwill of $34 million.

Deferred consideration is payable between 6 months and 36 months after the date of acquisition.

Goodwill arising on these acquisitions is attributable to the synergies expected to arise and to the value of the workforce in place which is not recognised separately.

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

	Fair value* $million	Acquiree's carrying amount $million
Cash and balances at central banks**	66	66
Loans and advances to customers	2	2
Intangibles other than goodwill	63	–
Property, plant and equipment	194	152
Deferred tax assets	5	10
Other assets	28	28
Total assets	358	258
Other liabilities	162	162
Total liabilities	162	162
Minority interest	3	–
Net assets acquired	193	96
Purchase consideration settled in cash	(151)	
Cash and cash equivalents in subsidiary acquired	66	
Cash outflow on acquisition	(85)	
Total purchase consideration***	224	
Fair value of net assets acquired	(193)	
Goodwill	31	
Intangible assets acquired:		
Brand names	6	
Customer relationships	55	
Capitalised software	2	
Total	63	

* Restated as explained in note 36.

** Cash and balances at central banks include amounts subject to regulatory restrictions.

*** Includes cash paid $151 million; loan notes issued $5 million; deferred consideration $65 million; and cost $3 million.

18. Other assets

	2008 $million	2007 $million
Hong Kong SAR Government certificates of indebtedness	**3,097**	2,862
Cash collateral	**9,102**	2,015
Other	**8,175**	6,134
	20,374	11,011

19. Deposits by banks

	2008 $million	2007 $million
Deposits by banks	**31,909**	25,880
Deposits by banks included within:		
Financial liabilities held at fair value through profit or loss (note 21)	**4,077**	2,705
	35,986	28,585

20. Customer accounts

	2008 $million	2007 $million
Customer accounts	**234,008**	179,760
Customer accounts included within:		
Financial liabilities held at fair value through profit or loss (note 21)	**4,583**	2,836
	238,591	182,596

21. Financial liabilities held at fair value through profit or loss

	2008			2007		
	Trading $million	Designated at fair value through profit or loss $million	Total $million	Trading $million	Designated at fair value through profit or loss $million	Total $million
Deposits by banks	**4,028**	**49**	**4,077**	2,532	173	2,705
Customer accounts	**1,207**	**3,376**	**4,583**	772	2,064	2,836
Debt securities in issue	**2,128**	**1,494**	**3,622**	2,665	2,351	5,016
Short positions	**3,196**	**–**	**3,196**	3,693	–	3,693
	10,559	**4,919**	**15,478**	9,662	4,588	14,250

22. Debt securities in issue

	2008			2007		
	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	**13,284**	**10,163**	**23,447**	8,502	18,635	27,137
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 21)	**460**	**3,162**	**3,622**	951	4,065	5,016
	13,744	**13,325**	**27,069**	9,453	22,700	32,153

23. Other liabilities

	2008 $million	2007 $million
Notes in circulation	**3,097**	2,862
Acceptances and endorsements	**2,539**	2,242
Cash collateral	**3,765**	1,086
Cash-settled share based payments	**31**	73
Other liabilities	**7,931**	8,479
	17,363	14,742

Hong Kong currency notes in circulation of $3,097 million (2007: $2,862 million) which are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets.

24. Retirement benefit obligations

Retirement benefit obligations comprise:

	2008 $million	2007 $million
Total market value of assets	**1,721**	2,488
Present value of the schemes' liabilities	**(2,154)**	(2,801)
Defined benefit schemes obligation	**(433)**	(313)
Defined contribution schemes obligation	**(14)**	(9)
Net book amount	**(447)**	(322)

Retirement benefit charge comprises:

	2008 $million	2007 $million
Defined benefit schemes	**45**	110
Defined contribution schemes	**127**	103
	172	213

The pension cost for defined benefit schemes was:

	2008 $million	2007 $million
Current service cost	**88**	95
Past service cost	**5**	7
Gain on settlement and curtailments	**(54)**	(3)
Expected return on pension scheme assets	**(140)**	(132)
Interest on pension scheme liabilities	**146**	143
Total charge to profit before deduction of tax	**45**	110

Loss/(gain) on assets below/(in excess of) expected return	**333**	(30)
Experience gain on liabilities	**(104)**	(207)
Total loss/(gain) directly recognised in Statement of recognised income and expense before tax	**229**	(237)
Deferred taxation	**(60)**	71
Total loss/(gain) after tax	**169**	(166)

25. Subordinated liabilities and other borrowed funds

	2008 $million	2007 $million
Subordinated liabilities and other borrowed funds	**16,986**	15,740

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

Of the total subordinated liabilities and other borrowings, $11,865 million is at fixed interest rates (2007: $10,166 million).

On 19 March 2008, Standard Chartered First Bank Korea Limited ('SCFB') issued KRW90 billion Lower Tier 2 Notes with a coupon of 6.05 per cent maturing March 2018. At 31 December 2008 this is equivalent to $81 million.

On 2 April 2008 and 18 April 2008 Standard Chartered Bank issued two tranches of Lower Tier 2 Notes for GBP500 million and GBP200 million respectively, with a maturity date of April 2018, and a coupon of 7.75 percent. The Notes were consolidated and formed a single series with effect from 29 May 2008. At 31 December 2008 this is equivalent to $1,090 million.

On 10 April 2008 and 18 April 2008, Standard Chartered Bank issued two tranches of Lower Tier 2 Notes for SGD200 million and SGD250 million respectively, with a coupon of 5.25 per cent. The Notes have a maturity date of April 2023, and an issuer's call option in April 2018. The Notes were consolidated and form a single series with effect from 18 April 2008. At 31 December 2008 this is equivalent to $334 million.

On 18 April 2008, Standard Chartered Bank issued EUR400 million Lower Tier 2 Notes, due 2017, with a coupon of 5.875 per cent, as a tap on the EUR700 million Lower Tier 2 Notes issued in September 2007. The two issues were consolidated and formed a single series with effect from 29 May 2008. At 31 December 2008 this is equivalent to $1,609 million.

On 18 April 2008, Standard Chartered Bank issued JPY10 billion Lower Tier 2 Fixed Rate Notes, due 2023 with an issuer's call option after 10 years, with a coupon of 3.35 per cent. At 31 December 2008 this is equivalent to $116 million.

On 25 May 2008, SCFB issued KRW260 billion Lower Tier 2 Fixed Rate Notes, due 2018 with an issuer's call option after five years, with a coupon of 6.08 per cent. At 31 December 2008 this is equivalent to $219 million.

On 27 May 2008, the Company issued $675 million non-cumulative redeemable preference shares of $5 each, with a coupon of 8.125 per cent and with an issuer's call option in November 2013, at a premium of $1,995 each.

On 19 September 2008, the Company issued $250 million 8.125 per cent non-cumulative redeemable preference shares of $5 each, with an issuer's call option in November 2013, at a premium of $1,995 per share. From 27 November 2008, the shares were consolidated to form a single series with the $675 million 8.125 per cent non-cumulative redeemable preference shares issued on 27 May 2008.

On 19 November 2008 the Company launched a tender offer for all Primary Capital Floating Rate Notes denominated in US Dollars for repurchase at 62.5 per cent of their par value. $1,024 million Notes were redeemed, generating a profit of $384 million.

26. Share capital

The authorised share capital of the Company at 31 December 2008 was $4,933 million (2007: $5,269 million) made up of 2,632 million ordinary shares of $0.50 each, 500 million non-cumulative irredeemable preference shares of £1 each, 300 million non-cumulative redeemable preference shares of $5 each and one million non-cumulative redeemable preference share of €1,000 each.

The available profits of the Company are distributed to the holders of the issued preference shares in priority to payments made to holders of the ordinary shares and in priority to, or pari passu with, any payments to the holders of any other class of shares in issue. On a winding up, the assets of the Company are applied to the holders of the preference shares in priority to any payment to the ordinary shareholders and in priority to, or pari passu with, the holders of any other shares in issue, for an amount equal to any dividends accrued and/or payable and the nominal value of the shares together with any premium as determined by the Board. The redeemable preference shares are redeemable at the paid up amount (which includes premium) at the option of the Company in accordance with the terms of the shares. The holders of the preference shares are not entitled to attend or vote at any general meeting except where any relevant dividend due is not paid in full or where a resolution is proposed varying the rights of the preference shares.

As at 31 December 2008, 477,500 $5 non-cumulative redeemable preference shares were in issue, of which 462,500 are classified within 'Subordinated liabilities and other borrowed funds' and include a premium of $923 million. The irredeemable preference shares of £1 each are also classified within 'Subordinated liabilities and other borrowed funds' as required by IAS 32.

	Number of ordinary shares (millions)	Ordinary share capital $million	Preference share capital $million	Total $million
At 1 January 2007	1,384	692	–	692
Capitalised on scrip dividend	16	8	–	8
Shares issued	10	5	–	5
At 31 December 2007	**1,410**	**705**	**–**	**705**
Capitalised on scrip dividend	**11**	**6**	**–**	**6**
Shares issued	**475**	**237**	**–**	**237**
At 31 December 2008	**1,896**	**948**	**–**	**948**

On 16 May 2008, the Company issued 8,142,490 new ordinary shares instead of the 2007 final dividend. On October 2008, the Company issued 2,940,049 new ordinary shares instead of the 2008 interims dividend.

On 24 November 2008 the Company announced the issue of 470,014,830 new ordinary shares by way of rights to Qualifying shareholders at 390 pence per new ordinary share. The issue was on the basis of 30 shares for every 91 ordinary shares held on 24 November 2008. The rights issue raised $2.7billion in additional capital for the Company. The rights issue used a cash box structure involving a Jersey subsidiary ('JerseyCo') which was 89 per cent owned by the Company prior to the transaction. In return for an issue of shares by the Company to the placees, the net proceeds of the placing were paid to JerseyCo. Pursuant to the issue of those shares, the Company acquired the remaining share capital of JerseyCo, being all of its redeemable preference shares and the 11 per cent of the ordinary shares it did not own. Under this structure merger relief applies under Section 131 of the Companies Act 1985 which provides relief from the requirements under Section 130 of the Companies Act 1985 to create a share premium account. JerseyCo then redeemed its redeemable shares in exchange for the placing proceeds.

The middle market price on 17 December 2008 was 766 pence. The proceeds of the issue of ordinary shares was used in the ordinary course of business.

During 2008, 5,410,537 ordinary shares were issued under the Company's employee share plans at prices between nil and 1243 pence.

During 2007, 9,012,891 ordinary shares were issued under the Company's employee share plans at prices between nil and 1064 pence.

On 10 May 2007, the Company issued 12,765,274 new ordinary shares instead of the 2006 final dividend. On 10 October 2007, the Company issued 3,163,466 new ordinary shares instead of the 2007 interim dividend.

On 25 May 2007, the Company issued 7,500 non-cumulative redeemable preference shares of $5 each at a placing price of $100,000 each. The shares are redeemable at the option of the Company in accordance with the terms of the shares at the paid up amount (which includes premium), have discretionary dividend payments and are accordingly classified as equity as required by IAS 32. The shares were issued to fund the continuing business of the Group.

The holding of Standard Chartered PLC shares for the beneficiaries of the Group's share-based award schemes is set out in note 27.

27. Reserves

	*Share premium account $million	Capital reserve $million	Capital redemption reserve $million	Merger reserve $million	Available-for-sale reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Total $million
At 1 January 2007	3,865	5	13	3,149	410	51	678	7,990	16,161
Recognised income and expense	–	–	–	–	340	6	303	3,010	3,659
Capitalised on scrip dividend	(8)	–	–	–	–	–	–	–	(8)
Shares issued, net of expenses	856	–	–	–	–	–	–	–	856
Net own shares adjustment	–	–	–	–	–	–	–	24	24
Share option expense and related taxation	–	–	–	–	–	–	–	55	55
Dividends, net of scrip	–	–	–	–	–	–	–	(601)	(601)
At 31 December 2007	**4,713**	**5**	**13**	**3,149**	**750**	**57**	**981**	**10,478**	**20,146**
Recognised income and expense	**–**	**–**	**–**	**–**	**(755)**	**(140)**	**(2,765)**	**3,239**	**(421)**
Capitalised on scrip dividend	**(6)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6)**
Shares issued, net of expenses	**36**	**–**	**–**	**2,468**	**–**	**–**	**–**	**–**	**2,504**
Rights issue option, net of tax	**–**	**–**	**–**	**(167)**	**–**	**–**	**–**	**–**	**(167)**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(67)**	**(67)**
Share option expense and related taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**128**	**128**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(925)**	**(925)**
At 31 December 2008	**4,743**	**5**	**13**	**5,450**	**(5)**	**(83)**	**(1,784)**	**12,853**	**21,192**

* The premium of $923 million arising on the issue of the $5 non-cumulative redeemable preference shares classified within 'Subordinated liabilities and other borrowed funds' is not included within the share premium account and forms part of the reported liability.

Transaction costs relating to share issues deducted from reserves account total $84 million (2007: $5 million).

Shares of the Group held for the beneficiaries of the Group's share based payment schemes

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	**2008**	2007	**2008**	2007	**2008**	2007
Shares purchased:		190,600		351,340		541,940
- 6 March 2008	**–**	–	**307,849**	–	**307,849**	–
- 9 March 2008	**1,650,000**	–	**–**	–	**1,650,000**	–
- 9 October 2008	**375,000**	–	**–**	–	**375,000**	–
- 17 December 2008 (rights issue)	**731,296**	–	**119,049**	–	**850,345**	–
Market price of shares purchased ($million)	**66**	5	**10**	10	**76**	15
Shares held at the end of the year	**2,949,563**	261,495	**480,166**	377,270	**3,429,729**	638,765
Maximum number of shares held during year					**3,429,729**	2,526,144

28. Minority interests

	$300m 7.267% Hybrid Tier-1 Securities $million	Other minority interests $million	Total $million
At 1 January 2007	333	209	542
Arising on acquisitions	–	3	3
Income in equity attributable to minority interests	–	48	48
Other profits attributable to minority interests	19	129	148
Recognised income and expense	19	177	196
Distributions	(22)	(98)	(120)
Reductions	–	(20)	(20)
At 31 December 2007	**330**	**271**	**601**
Expenses in equity attributable to minority interests	**–**	**(106)**	**(106)**
Other profits attributable to minority interests	**19**	**84**	**103**
Recognised income and expense	**19**	**(22)**	**(3)**
Distributions	**(22)**	**(125)**	**(147)**
Other increases*	**–**	**104**	**104**
At 31 December 2008	**327**	**228**	**555**

* Other increases primarily relate to acquisition of a private equity investment.

29. Cash flow statement

Adjustment for non-cash items and other accounts

	2008 $million	2007 $million
Depreciation and amortisation	**425**	345
Gain on disposal of property, plant and equipment	**(10)**	(1)
Gain on disposal of investment securities and loan and receivable financial assets	**(322)**	(342)
Gain arising on repurchase of subordinated liabilities	**(384)**	–
Rights issue option	**(233)**	–
Gain arising on initial recognition and partial redemption of Visa Inc. shares	**(17)**	(107)
Writedowns relating to asset backed securities	**49**	87
Movement in fair value hedges on available-for-sale assets	**26**	(21)
Amortisation of discounts and premiums of investment securities	**(390)**	(259)
Pension costs for defined benefit schemes	**45**	110
Impairment losses on loans and advances and other credit risk provisions	**1,321**	761
Other impairment	**469**	57
Profit on sale of businesses	**(146)**	(18)
Gains arising on acquisition fair values and discount unwind	**(120)**	(164)
Interest expense on subordinated liabilities	**1,049**	811
Total	**1,762**	1,259

Change in operating assets

	2008 $million	2007 $million
Increase in derivative financial instruments	**(47,138)**	(12,610)
Net decrease/(increase) in debt securities, treasury bills and equity shares held at fair value through profit or loss	**7,590**	(3,691)
Net increase in loans and advances to banks and customers	**(39,160)**	(14,983)
Decrease/(increase) in prepayments and accrued income	**213**	(519)
Increase in other assets	**(8,756)**	(6,396)
Total	**(87,251)**	(38,199)

29. Cash flow statement continued

Change in operating liabilities

	2008 $million	2007 $million
Increase in derivative financial instruments	**44,943**	12,144
Net increase in deposits from banks, customer accounts and debt securities in issue	**60,295**	36,135
Increase in accruals and deferred income	**1,025**	289
(Decrease)/increase in other liabilities	**(453)**	4,534
Total	**105,810**	53,102

30. Cash and cash equivalents

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

	2008 $million	2007 $million
Cash and balances at central banks	**24,161**	10,175
Less restricted balances	**(4,615)**	(4,846)
Treasury bills and other eligible bills	**9,303**	6,203
Loans and advances to banks	**33,913**	32,464
Trading securities	**10,937**	11,342
Total	**73,699**	55,338

31. Net interest margin and interest spread

	2008 %	2007 %
Net interest margin	**2.5**	2.5
Interest spread	**2.2**	1.9

	$million	$million
Average interest earning assets	**299,239**	251,747
Average interest bearing liabilities	**277,996**	219,191

32. Remuneration

The Group employed 73,802 staff at 31 December 2008 (2007: 69,612).

Within the authority delegated by the board of directors, the Board Remuneration Committee is involved in determining the remuneration policy of the Group and specifically for agreeing the individual remuneration packages for executive directors and other highly remunerated individuals. No executive directors are involved in deciding their own remuneration. The Group's remuneration policy is to:

- Support a strong performance-oriented culture and ensure that individual rewards and incentives relate directly to the performance of the individual, the operations and functions for which they are responsible, the Group as a whole and the interests of the shareholders; and
- Maintain competitive reward that reflects the international nature of the Group and enable it to attract and retain talented employees of the highest quality internationally.

The success of the Group depends upon the performance and commitment of talented employees. In terms of applying this policy:

- Base salaries are set at the median of the Group's key international competitors.
- Annual bonus awards are made wholly on the basis of Group and individual performance and also an individual's adherence to the Group's values.

The Group believes strongly in encouraging employee share ownership at all levels in the organisation. The Group operates certain discretionary share plans, which are designed to provide competitive long-term incentives. Of these plans, the Performance Share Plan and the Executive Share Option Scheme are only exercisable upon the achievement of tough performance criteria. In addition, the Group operates two all-employee sharesave schemes in which 37 per cent (2007: 42 per cent) of employees participate.

33. Contingent liabilities and commitments

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

The risk weighted amounts have been calculated in accordance with the FSA guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

	2008 $million	2007 $million
Contingent liabilities*		
Guarantees and irrevocable letters of credit	**28,051**	25,681
Other contingent liabilities	**11,494**	8,038
	39,545	33,719
Commitments*		
Documentary credits and short term trade-related transactions	**5,270**	6,504
Forward asset purchases and forward deposits placed	**40**	64
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	**14,450**	13,888
Less than one year	**14,903**	18,260
Unconditionally cancellable	**42,388**	45,279
	77,051	83,995
Risk weighted amount:		
Contingent liabilities	**19,625**	16,385†
Commitments	**7,258**	7,194†

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

† On a Basel I basis.

34. Liquidity risk

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.

The Risk review section explains the Group's risk management.

	2008				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Assets					
Cash and balances at central banks	**19,546**	**–**	**–**	**4,615**	**24,161**
Derivative financial instruments	**13,791**	**18,743**	**27,821**	**9,302**	**69,657**
Loans and advances to banks**	**33,913**	**11,749**	**2,132**	**152**	**47,946**
Loans and advances to customers**	**63,829**	**27,541**	**38,044**	**49,098**	**178,512**
Investment securities**	**20,736**	**28,137**	**21,758**	**8,439**	**79,070**
Other assets	**12,791**	**1,231**	**27**	**21,673**	**35,722**
Total assets	**164,606**	**87,401**	**89,782**	**93,279**	**435,068**
Liabilities					
Deposits by banks**	**31,168**	**3,382**	**1,359**	**77**	**35,986**
Customer accounts**	**210,449**	**21,674**	**4,824**	**1,644**	**238,591**
Derivative financial instruments	**15,004**	**18,207**	**25,430**	**9,134**	**67,775**
Debt securities in issue**	**12,568**	**5,801**	**5,695**	**3,005**	**27,069**
Other liabilities	**12,163**	**1,707**	**503**	**11,593**	**25,966**
Subordinated liabilities and other borrowed funds	**845**	**1,304**	**2,189**	**12,648**	**16,986**
Total liabilities	**282,197**	**52,075**	**40,000**	**38,101**	**412,373**
Net liquidity gap	**(117,591)**	**35,326**	**49,782**	**55,178**	**22,695**

	2007				
	Three months or less $million	Between three months and one year $million	Between one year and five years $million	More than five years $million	Total $million
Assets					
Cash and balances at central banks	5,329	–	–	4,846	10,175
Derivative financial instruments	6,228	7,042	9,740	3,194	26,204
Loans and advances to banks**	32,461	3,613	1,269	336	37,679
Loans and advances to customers**	51,010	28,334	29,921	47,717	156,982
Investment securities**	18,526	21,269	20,034	13,373	73,202
Other assets*	7,139	1,025	322	17,143	25,629
Total assets	120,693	61,283	61,286	86,609	329,871
Liabilities					
Deposits by banks**	25,524	2,361	540	160	28,585
Customer accounts**	160,925	15,883	3,791	1,997	182,596
Derivative financial instruments	6,810	7,024	9,716	2,720	26,270
Debt securities in issue**	10,964	11,637	6,363	3,189	32,153
Other liabilities*	9,533	1,357	739	11,446	23,075
Subordinated liabilities and other borrowed funds	–	502	6,092	9,146	15,740
Total liabilities	213,756	38,764	27,241	28,658	308,419
Net liquidity gap	(93,063)	22,519	34,045	57,951	21,452

* Amounts have been restated as explained in note 36.

** Amounts include financial instruments held at fair value through profit or loss (see note 11).

35. Fair value of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	2008		2007	
	Book amount $million	**Fair value $million**	Book amount $million	Fair value $million
Assets				
Cash and balances at central banks	**24,161**	**24,161**	10,175	10,175
Loans and advances to banks	**46,583**	**45,855**	35,365	35,316
Loans and advances to customers	**174,178**	**170,410**	154,266	153,828
Investment securities	**7,493**	**6,729**	2,819	2,779
Liabilities				
Deposits by banks	**31,909**	**31,713**	25,880	25,844
Customer accounts	**234,008**	**230,558**	179,760	179,694
Debt securities in issue	**23,447**	**23,097**	27,137	27,072
Subordinated liabilities and other borrowed funds	**16,986**	**13,903**	15,740	15,029

36. Restatement of prior periods

Acquisitions

In the consolidated balance sheet as at 31 December 2007, the fair value amounts in relation to the acquisitions of Pembroke, Harrison Lovegrove and A Brain contained some provisional balances. During the year to 31 December 2008, certain of these balances have been revised. In accordance with IFRS 3 'Business Combinations', the adjustments to the provisional balances have been made as at the date of acquisition and the 2007 balance sheet amounts restated, with a corresponding adjustment to goodwill, reducing goodwill on acquisitions by $6 million. The adjustments primarily relate to a reassessment of the value of property, plant and equipment, together with associated deferred tax. The income statement for 2007 has not been restated, because any effect is immaterial.

	As reported at 2007 $million	Adjustment $million	Restated at 2007 $million
Goodwill and intangible assets	6,380	(6)	6,374
Property, plant and equipment	2,887	5	2,892
Deferred tax assets	559	1	560

Other balance sheet adjustments

A re-presentation was made within the Group's balance sheet at 31 December 2007 in respect of the current tax creditor and deferred tax asset to show the current tax and deferred tax asset and liability separately. Details of the re-presentation are set out below.

	As reported at 2007 $million	Re-presentation $million	Restated at 2007 $million
Current tax assets	–	633	633
Current tax liabilities	185	633	818
Deferred tax assets	560	33	593
Deferred tax liabilities	–	33	33

37. Special purpose entities

The Group uses Special Purpose Entities ('SPEs') in the normal course of business across a variety of activities. SPEs are established for specific limited purposes and take a number of legal forms. The main types of activities for which the Group utilises SPEs cover synthetic credit default swaps for portfolio management purposes, managed investment funds (including specialised principal finance funds) and structured finance. SPEs are consolidated into the Group's financial statements where the Group bears the majority of the residual risk or reward. Most of the Group's consolidated SPEs are in respect of the Group's securitised portfolios of residential mortgages.

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

	2008		2007	
	Total assets $million	**Maximum exposure $million**	Total assets $million	Maximum exposure $million
Portfolio management vehicles	**1,694**	**252**	1,279	176
Principal Finance Funds*	**898**	**124**	150	15
Global Liquidity Fund	**–**	**–**	1,325	251
AEB Funds	**2,487**	**4**	–	–
Structured Finance	**290**	**–**	290	–
	5,369	**380**	3,044	442

* Committed capital for these funds is $375 million (2007: $150 million) of which $124 million (2007: $15 million) has been drawn down.

Since December 2007, the Group has had no capital investment in Whistlejacket Capital Limited, a structured investment vehicle ('SIV') previously sponsored by the Group, which entered into administration on 11 February 2008. Other than the relationship it had with Whistlejacket, the Group has no exposures or commitments to SIVs or SIV-lites.

For the purposes of portfolio management, the Group has entered into synthetic credit default swaps with note-issuing SPEs. The referenced assets remain on the Group's balance sheet as the credit risk is not transferred to these SPEs. The Group's exposure arises from (a) the capitalised start-up costs in respect of the swap vehicles and (b) interest in the first loss notes and investment in a minimal portion of the mezzannine 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 collateralize 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 realization 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 remainder of the Group's exposure represents committed or invested capital in unleveraged investment funds. Standard Chartered Bank was the Investment Manager and Distributor of the US Dollar Liquidity Fund, the single sub fund of Standard Chartered Global Liquidity Funds p.l.c., which closed on 7 July 2008.

Following the acquisition of AEB, the Group is also the investment manager for a number of AEB's investment funds, although the Group's investment in such funds represents approximately 0.2 per cent of these funds' total assets.

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.

38. Related party transactions

Directors and officers

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

	2008 $million	2007 $million
Salaries, allowances and benefits in kind	**20**	19
Pension contributions	**6**	6
Bonuses paid or payable	**18**	23
Share based payments	**25**	22
	69	70

Transactions with directors, officers and others

At 31 December 2008, the total amounts to be disclosed under the Companies Act 1985 (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:

	2008		2007	
	Number	$000	Number	$000
Directors	**2**	**635**	1	14
Officers*	**3**	**7,898**	4	7,090

* For this disclosure, the term 'Officers' means the members of the Group Management Committee, other than those who are directors of Standard Chartered PLC, and the company secretary.

Mr Sunil Mittal, appointed as an independent non-executive director of Standard Chartered PLC with effect from 1 August 2007, is Chairman and Group CEO of the Bharti Enterprises Group. Due to his significant voting power in the Bharti Enterprises Group, it is a related party of Standard Chartered PLC. As at 31 December 2008, the Group had loans to the Bharti Enterprises Group of $137 million (2007: $123 million), guarantees of $39 million (2007: $47 million) and foreign exchange deals with a notional value of $103 million (2007: $52 million).

As at 31 December 2008, Standard Chartered Bank had created a charge over $24 million (2007: $24 million) of cash assets in favour of the independent trustees of its employer financial retirement benefit schemes.

Other than as disclosed, there were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the HK Listing Rules.

Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling $5 million at 31 December 2008 (2007: $4 million), and deposits of $16 million (2007: $7 million).

The Group has loans and advances with STCI totalling $12 million (2007: $nil million).

Associates

On 2 July 2008 the Group acquired a further 6.16 per cent equity stake in Asia Commercial Bank (including convertible bonds) for $211 million to bring the total shareholding to 15 per cent.

Open ended investment company

Standard Chartered Global Liquidity Funds P.L.C. was an open-ended investment company which was closed on 7 July 2008. At 31 December 2008 the Group held an investment in shares of the fund of $nil million (31 December 2007: $251 million).

39. Post balance sheet events

On 13 November 2008, the Group announced that it had entered into an agreement to acquire 100 per cent of Cazenove Asia Limited, a leading Asian equity capital markets, corporate finance and institutional brokerage business, from JPMorgan Cazenove. The acquisition completed on 30 January 2009. The initial accounting for this acquisition has not yet been fully completed.

On 3 March 2009 the board recommended a final dividend of 42.32 cents per share.

40. Corporate governance

The directors confirm that, throughout the period, the Company has complied with the provisions of Appendix 14 of the HK Listing Rules. The directors also confirm that the announcement of these results has been reviewed by the Company's Audit and Risk Committee.

41. Other information

The financial information included within this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2008 were approved by the directors on 3 March 2009. These accounts will be published on 27 March 2009 after which they will be delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified and did not include a statement under section 237(2) or (3) of the Companies Act 1985.

42. UK 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 difference had the accounts been prepared in accordance with Hong Kong Financial Reporting Standards. EU endorsed IFRS may differ from IFRS published by the International Accounting Standards Board if a standard has not been endorsed by the European Union.

Standard Chartered PLC – Directors' responsibility statement

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 2008 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 2008 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
3 March 2009

Summarised consolidated income statement

First and second half 2008	1st half 2008 $million	2nd half 2008 $million	2008 $million
Interest income	8,276	8,102	**16,378**
Interest expense	(4,566)	(4,425)	**(8,991)**
Net interest income	3,710	3,677	**7,387**
Fees and commission income	1,955	1,465	**3,420**
Fees and commission expense	(274)	(205)	**(479)**
Net trading income	1,151	1,254	**2,405**
Other operating income	445	790	**1,235**
Total non-interest income	3,277	3,304	**6,581**
Operating income	6,987	6,981	**13,968**
Staff costs	(2,585)	(2,152)	**(4,737)**
Premises costs	(347)	(391)	**(738)**
General administrative expenses	(767)	(944)	**(1,711)**
Depreciation and amortisation	(201)	(224)	**(425)**
Operating expenses	(3,900)	(3,711)	**(7,611)**
Operating profit before impairment losses and taxation	3,087	3,270	**6,357**
Impairment losses on loans and advances and other credit risk provisions	(465)	(856)	**(1,321)**
Other impairment	(26)	(443)	**(469)**
(Loss)/profit from associates	(10)	11	**1**
Operating profit	2,586	1,982	**4,568**
Rights issue option	-	233	**233**
Profit before taxation	2,586	2,215	**4,801**
Taxation	(698)	(592)	**(1,290)**
Profit for the year	1,888	1,623	**3,511**
Profit attributable to:			
Minority interests	44	59	**103**
Parent company shareholders	1,844	1,564	**3,408**
Profit for the year	1,888	1,623	**3,511**
Basic earnings per ordinary share †	107.0	91.8	**202.4**
Diluted earnings per ordinary share †	106.0	91.4	**201.3**

† As required by IAS 33 'Earnings per share' the impact of the bonus element included within the rights issue has been included within the calculation of the basic and diluted earnings per share for the year and prior periods have been re-presented on this basis.

Financial Calendar

Ex-dividend date	11 March 2009
Record date	13 March 2009
Expected posting to shareholders of 2008 Report and Accounts	27 March 2009
Annual General Meeting	7 May 2009
Payment date – final dividend on ordinary shares	15 May 2009

Copies of this statement are available from:

Investor Relations, Standard Chartered PLC, 1 Aldermanbury Square, London, EC2V 7SB or from our website on http://investors.standardchartered.com

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The following information will be available on our website

- *A live webcast of the annual results analyst presentation (available from 9.45 am GMT)*
- *The archived webcast and Q/A session of analyst presentation in London (available 2 pm GMT)*
- *Interviews with Peter Sands, Group Chief Executive Officer and Richard Meddings, Group Finance Director available from 8.15 am GMT.*
- *Slides for the Group's presentations (available after 2pm GMT)*

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 2008 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.

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