Standard Chartered PLC – Highlights

For the year ended 31 December 2013

Reported results[1]

- Profit before tax of $6,958[2] million in 2013 down 7 per cent from $7,518[2] million in 2012
- Statutory profit before taxation was $6,064 million down 11 per cent. Statutory profit attributable to ordinary shareholders[3] was $3,989 million
- Operating income excluding OCA was down 1 per cent to $18,671 million (2012: $18,783 million)
- Customer advances increased 4 per cent to $296 billion from $285 billion in 2012 and customer deposits increased 2 per cent to $391 billion from $385 billion in 2012

Performance metrics[4]

- Dividend per share increased 2 per cent to 86.0 cents per share
- Normalised earnings per share declined 9 per cent at 204.0 cents from 225.2 cents in 2012
- Normalised return on ordinary shareholders' equity of 11.2 per cent (2012: 12.8 per cent)

Capital and liquidity metrics

- Tangible net asset value per share increased 5 per cent to 1,597.6 cents (2012: 1,526.5 cents)
- Core Tier 1 capital ratio of 11.8 per cent (2012: 11.7 per cent)
- Total capital ratio of 18.0 per cent (2012: 17.4 per cent)
- Advances-to-deposits ratio of 75.7 per cent (2012: 73.9 per cent)
- Liquid asset ratio of 29.8 per cent (2012: 30.5 per cent)

Significant highlights

- Broad based performance across multiple markets, with operating income of over $100 million in 25 markets
- Hong Kong, our largest market grew income 11 per cent and operating profit 16 per cent
- Strong increases in customer volumes in Transaction Banking, Financial Markets, and Corporate Finance partially offset margin and spread compression
- The Group was the No. 2 global underwriter of offshore yuan bonds in 2013 and partnered Agricultural Bank of China to provide RMB clearing services in London
- Subsidiarised our retail operations in Singapore and acquired a custody business in South Africa
- The balance sheet continues to be highly liquid, well diversified and strongly capitalised with a Basel III end point common equity tier one ratio of 11.2 per cent.

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

"2013 was a challenging year, for the industry and for Standard Chartered, but the bank remains an exciting growth story. We are focused on driving profitable growth, delivering further value for shareholders. The Group has an excellent balance sheet, remains well capitalised and continues to support our clients as they seek to invest and expand across Asia, Africa and the Middle East".

[1] Amounts for 2012 have been restated as explained in note 31 on page 137

[2] 2013 profit before tax excludes own credit adjustment and goodwill impairment. 2012 profit before tax excludes the settlements with the US authorities. The US authorities comprise The New York Department of Financial Services (DFS), the Office of Foreign Assets Control (OFAC), the New York District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Federal Reserve (NYFED)

[3] 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 111)

[4] 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 112

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Unless another currency is specified, the word 'dollar', symbol '$' or reference to USD in this document means United States (US) dollar and the word 'cent' or symbol 'c' means one-hundredth of one US 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 2013

	2013 $million	2012[4] $million
Results		
Operating income (excluding own credit adjustment of $106 million in 2013)	**18,671**	18,783
Operating expenses[5]	**(10,193)**	(10,722)
Impairment losses on loans and advances and other credit risk provisions	**(1,617)**	(1,196)
Goodwill impairment	**(1,000)**	-
Other impairment	**(129)**	(196)
Profit before own credit adjustment, goodwill impairment and US settlements	**6,958**	7,518
Statutory profit before taxation	**6,064**	6,851
Statutory profit attributable to parent company shareholders	**4,090**	4,887
Statutory profit attributable to ordinary shareholders[1]	**3,989**	4,786
Balance sheet		
Total assets	**674,380**	631,208
Total equity	**46,841**	46,055
Total capital base	**58,019**	52,688
Information per ordinary share	**Cents**	Cents
Earnings per share – normalised[2]	**204.0**	225.2
– basic	**164.4**	199.7
Dividend per share[3]	**86.0**	84.0
Net asset value per share	**1,872.8**	1,852.3
Tangible net asset value per share	**1,597.6**	1,526.5
Ratios		
Return on ordinary shareholders' equity – normalised basis[2]	**11.2%**	12.8%
Cost income ratio – normalised basis[2]	**54.4%**	53.7%
Capital ratios		
Core Tier 1 capital	**11.8%**	11.7%
Tier 1 capital	**13.1%**	13.4%
Total capital	**18.0%**	17.4%

1 Profit attributable to ordinary shareholders is after the deduction of dividends payable to the holders of those non-cumulative redeemable preference shares classified as equity (see note 10 on page 111)

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 112

3 For 2013 and 2012 respectively, represents the recommended final dividend per share for the year ended 31 December 2013 / 31 December 2012, together with the interim dividend per share declared and paid for the six months ended 30 June 2013 / 30 June 2012

4 Amounts have been restated as explained in note 31 on page 137

5 Includes settlements with the US authorities of $667 million in 2012

Standard Chartered PLC – Chairman's statement

2013 has been a challenging year, for the industry and for Standard Chartered. While our clients have remained very active, the overall outcome for the Group has not been as good as we would have liked.

- Profit before taxation, goodwill, own credit and the settlements with the US authorities in 2012 was down 7 per cent to $6.96 billion
- Statutory profit before taxation was down 11 per cent at $6.06 billion
- Income excluding own credit fell 1 per cent to $18.67 billion
- Normalised earnings per share declined 9 per cent to 204.0 cents

We are recommending a final dividend of 57.20 cents, bringing the total annual dividend to 86.00 cents, up 2 per cent.

Our annual strategy review in 2013 confirmed that we are in markets with good opportunities for profitable growth. The new organisation structure, which we announced in January 2014, will ensure that the Group is best placed to take advantage of these opportunities, by supporting clients and customers in a more seamless way, providing them with access to a broad range of products and services.

The Board remains intensely focused on the interests of shareholders. The business has grown substantially over the last decade, and we continue to view Standard Chartered as an exciting growth story over the medium to long term. We remain focused on delivering profitable, sustainable growth that is within our risk appetite.

The Board seeks to grow consistently over time the amount we return to shareholders. We have increased the amount of dividend paid each year for well over a decade. Ensuring that the business continues to focus on the returns generated for shareholders is a top priority for the Board.

A further priority is maintaining our well capitalised, highly liquid and diverse balance sheet. Since 2010 we have grown our balance sheet organically, increasing our loans and advances to customers by 21 per cent. Yet, we still have the same Core Tier 1 capital ratio at the end of 2013 as we had at the end of 2010. We are confident in our ability to achieve capital accretive growth, while supporting our clients and the creation of wealth across our markets.

Consistent with past practice, we reward our people – most of whom are located outside the UK – for good performance, while taking into account how individuals deliver long-term, sustainable and profitable business. Reflecting our performance in 2013, the bonus pool is down by 15 per cent on 2012, and we are returning to shareholders by way of dividends around twice as much as we are paying out in bonuses. Overall, our staff costs were broadly flat in 2013 compared to 2012.

When we announced the reorganisation of the Group in January 2014, we set out a few Board level changes. Steve Bertamini will step down from the Board at the end of March 2014, after more than five years leading Consumer Banking. I would like to thank Steve for the very considerable contribution he has made to the business over that time and wish him every success in the future. By the end of June 2014, we will also be saying farewell to Richard Meddings who has been on our Board for eleven years. Richard's contribution to the business has been immense, and he will be greatly missed. Finally, I would like to take this opportunity to congratulate Mike Rees as he takes up his new role as Deputy Group CEO on 1 April 2014.

While 2013 has been a challenging year, I believe we remain in good shape to support our clients and customers, and the growth opportunities for the business remain compelling. We will continue to support the growth of trade and wealth across our markets, and drive value for our shareholders, making use of our competitive strengths and the opportunities we see in markets we know well. At the same time, we have intensified our focus on conduct. We expect the right behaviour at all times, as being Here for good is firmly embedded in our DNA.

We are therefore confident that we are well positioned to drive further value for our shareholders over the coming months.

I would like to thank our clients, customers and shareholders for their support during 2013 and, above all, our great people for their hard work and ongoing commitment to Standard Chartered.

Sir John Peace
Chairman
5 March 2014

In 2013 Standard Chartered faced margin pressures in a number of key businesses and markets. Regulatory requirements and the bank levy put upward pressure on costs. Various factors drove a sharp increase in unsecured loan impairment. A much more negative sentiment towards emerging markets affected valuations and transaction flows in Wholesale Banking. We also had to take a goodwill impairment on our business in Korea, given the severity of the challenges facing us and the industry as a whole in that market.

As a result, we slipped from our trajectory of record income and profits, posting lower income and profits for the first time in over a decade. Our share price fell, reflecting both our own performance and investor sentiment towards our markets.

This is not what we aspire to achieve. As the challenges have mounted, and our momentum slowed, we have been taking action to mitigate the impact and adapt to the changing environment. Some of the steps we have taken are tactical, such as putting even tighter controls on spend and headcount, and de-risking certain portfolios. However, the more fundamental changes relate to our strategy and how we are organising ourselves and deploying our resources to deliver the sustainable, profitable growth and returns that drive shareholder value.

Opportunities in our markets
Investor sentiment towards emerging markets turned sharply sour from May 2013, and remains negative. At least as far as our markets are concerned, we believe this is a short-term phenomenon, and that the longer-term attractions of Asia, Africa and the Middle East remain compelling.

In fact, we expect our markets to do rather better in 2014 than they did in 2013, with aggregate GDP growth rising from 2.8 per cent to 3.5 per cent. The underlying drivers of economic growth across the emerging world – demographics, urbanisation, rapid growth in the consuming middle class and investment in infrastructure – remain very strong. By 2030, Asia alone will add just over 2.2 billion people to the middle class, taking its share of the global total to 66 per cent.

When I talk to our clients, it is clear there is some disconnect between the dynamics of global financial markets and the drivers of the real economy. Our clients see much, if not most, of their growth coming from the emerging world and particularly from Asia. They see a robust recovery in the US and even a weak recovery in Europe as huge positives for Asia, Africa and the Middle East.

It may make perfect sense for investors to rebalance their portfolios to capture the rebound in the West, but the resulting negative impact on emerging market indices and valuations risks disguising the fundamental attractiveness of these markets.

Challenges in our markets
While we are fundamentally positive about our markets, we are not complacent, nor blind to the challenges. Some of our markets face difficult political and social transitions that could have a significant impact on business confidence. India and Indonesia face important elections this year, which will determine the pace of future reforms and GDP growth. We are also concerned about the tensions between China and Japan in the South China Sea.

However, in our view, China poses less risk than many Western analysts believe. We don't underestimate the challenges China faces in shifting its economy from a resource-intensive, export-driven growth model to a more sustainable and balanced model, in which consumption and services play a much bigger role. Nor do we underestimate the task of taming excessive credit expansion, reining in the shadow banking sector and moving to full interest rate liberalisation. However, many of these issues, not least the nature of shadow banking, are often misunderstood, and deliberate acts of policy are sometimes misinterpreted as problems. China will encounter adjustment strains as it reshapes its economy and financial markets, but these are unlikely to knock the country off a growth rate of around 7 per cent. The new leadership is firmly in charge and seems capable and determined to push ahead with ambitious reforms.

The shape of our business in China reflects our assessment of such risks. We are investing for growth, but we have no exposure to the so-called 'trust sector' or to municipal government investment vehicles. Our lending to commercial real estate and Chinese banks is highly selective.

Some of the countries in our footprint are being directly challenged by the impact of the tapering of quantitative easing on currency and bond markets. Underlying structural weaknesses have been exposed by the shift in sentiment. However, in terms of foreign exchange reserves, and the ability to finance balance of payments deficits, countries like India and Indonesia are in a far better place than they were at the time of the Asia crisis in the late 1980s.

Broader challenges

In addition to issues specific to our markets, we face some broader challenges. One is the ongoing torrent of regulatory change. The Basel III agenda is nearing completion, which is a considerable achievement, and one we welcome, but this risks being undermined by a profusion of unilateral initiatives and interpretations. What the global economy needs now is consistency and stability in the international financial framework.

A second big challenge, which affects the entire industry, is to rebuild trust and credibility. Put bluntly, society expects more of us. We must raise the bar on conduct, so that every employee looks to comply with the spirit, not just the letter, of the laws and regulations in everything we do.

In 2013 we launched a multi-pronged programme to address this challenge. We have increased substantially the resources we devote to conduct issues. We have invested in systems to enhance our controls and reduce the risk of manual errors. We have re-launched our Code of Conduct, requiring every member of staff to complete mandatory in-depth training, and personally commit to the Code. We have also sharpened the way we link performance assessment and reward to personal values and behaviours. We recognise that we haven't got everything right in the past and that we still have a lot of work to do in this area, but we are determined to make doing the right thing an imperative for everyone in the Group. That is what Here for good is all about.

A third challenge is technology. As a fundamentally digitisable industry, every aspect of banking can be transformed by technology. This is as much an opportunity as a threat. Through technology-driven innovation, we can empower our clients, cut costs and improve risk management, reinventing every aspect of the business. The trick is to make it happen to our advantage, rather than have it happen to us.

Sharpening our strategic focus

At our annual strategy Board in June 2013 we took stock of our strategy, asking tough questions about the growth potential in our markets, our ability to win market share and the impact of a more challenging regulatory and market environment. Since capital and investment spend were going to be even scarcer resources, we wanted to sharpen our focus, get clear on what we should be investing in and where we should cut back.

Our answer, which we set out in November 2013, was to go to the core of what we are all about. We bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East. This is the essence of who we are. We are not trying to bank everybody, but we do want to bank those that are making things happen. We are focused on investment, trade and wealth, and we are sticking to the markets we know well: Asia, Africa and the Middle East.

From this core statement, we built an overarching framework that links our strategy to our performance, the way we run the bank, and our immediate priorities:

First, five strategic aspirations that flesh out how we will grow the core.

Second, five tests that we are applying to more peripheral businesses to ensure we reinforce the core.

Third, a significant reorganisation of our regions, business and functions, to ensure alignment to the strategy and streamline the way we work.

Fourth, our 'flexed' financial framework, which now comprises five metrics, including both positive jaws and capital accretion. We will use this to explain our performance and ensure that we are balancing the imperatives of near-term delivery against longer-term strategic progress.

Finally, our five priorities for 2014. These are used to set personal and team objectives across the Group, ensuring that everybody is marching to the same tune.

Client relationships

The five strategic aspirations crystallise what we want to achieve. Our strategy revolves around client relationships, not products or transactions. We believe that we have scope to deepen our client relationships further, particularly by focusing on the next 500 clients. We could also do more to build deep relationships with our smaller corporate, private banking and retail clients. This is one of the key reasons why we are reorganising our business, combining Wholesale and Consumer Banking to create three client segment groups and five product groups, under the leadership of Mike Rees, with effect from 1 April 2014.

For example, we are creating a Commercial Banking segment which will make it much easier to focus on the needs of mid-sized corporate clients. These are a huge part of the economies in which we operate – up to 60 per cent – and represent a rapidly growing component of the banking revenue pool. Yet, up to now we have failed to make the most of this opportunity: we have fragmented our efforts between Wholesale and Consumer Banking, and generate less than 10 per cent of our total income from these clients. Now we will take a much more integrated approach. Through targeting high-growth and exporting industries and being more efficient in our on-boarding, we will grow our client base. By leveraging our network and full product capability, we will make ourselves more relevant and deepen relationships with our clients. And when these clients get bigger, we will transition them up to our Corporate and Institutional client segment, which is much easier now that we are organised as one global business.

Grouping our Commercial clients with our Private Banking business will facilitate cross-referral. The new Commercial segment will start with around 50,000 clients, mainly entrepreneurial, family-owned groups. These are a perfect target market for Private Banking, yet up to now only a few have become Private Banking clients – an obvious opportunity.

Wealth

The scale of the Private Banking opportunity across our markets is enormous. Today there is some $10 trillion of assets under management (AUM) from high net worth individuals in Asia, Africa and the Middle East. By 2017, this number will more than double.

We start with a very good platform, with $58 billion in AUM, good product capabilities, experienced relationship managers and a network of advisory and booking centres. However, we can scale up and enhance our offer, making more effective use of our client franchise and network. A great example is the Africa to London corridor, which we are superbly positioned to serve, given our extensive African footprint and London advisory and booking centre.

The greater emphasis we are putting on Private Banking is just one element of the way we are stepping up our efforts in the Wealth Management arena. Given the pace of individual wealth accumulation across our markets, and the relatively early stage of market development, there is a huge opportunity to provide our Retail and Private Banking clients with wealth management products and services. Wealth Management is already a substantial business for us, generating income of $1.3 billion in 2013, but this is only the beginning.

Our aspiration is to more than double AUM by 2020 to $300 billion. We are elevating Wealth Management from being a product group within Consumer Banking to sit alongside our well-established Wholesale Banking product groups, such as Corporate Finance, Transaction Banking and Financial Markets, which are all much bigger.

Trade

We are already a top two trade bank by SWIFT data, and our goal is to be number one. We continue to win market share, with trade assets up by 21 per cent in 2013, against market growth of around 6 per cent. Of course, trade income was affected by the sharp fall in margins, but we are well placed to benefit as margins stabilise.

We are taking advantage of the shift towards companies using the renminbi (RMB) for trade and payments. From virtually nothing in 2009, some 16 per cent of China's trade, just over $731 billion, is now settled in RMB. By 2020 this will more than quadruple to over $3 trillion. Highlighting the pace at which the RMB is being internationalised, the Standard Chartered RMB Globalisation Index, which measures the different aspects of offshore activity, went up 84 per cent in 2013, and our own international RMB payment flows were up 122 per cent. In December 2013, we launched RMB clearing in London via a joint venture with Agriculture Bank of China, and in February 2014 we executed the first RMB cross-border sweeping transaction for a company based in the new Shanghai Free Trade Zone.

In order to create the capacity to achieve our strategic aspirations, we need to sharpen our focus. Therefore, we have been systematically subjecting those businesses that are underperforming, or less aligned to our core strategy, to five tests, asking tough questions about their strategic relevance, alignment with Here for good, and sustainable economics. As a result we are exiting or reconfiguring a number of smaller businesses.

It is also important to be more selective about the clients with whom we build relationships. We are exiting or reshaping relationships, both big and small, which offer no prospect of attractive returns, making clear to our clients that to be sustainable, our relationships have to be economically attractive for both sides. This has made for some tough conversations.

Korea

We are continuing to take action on our most underperforming or problematic businesses, above all Korea. Our business in Korea had an extremely challenging 2013, with profits before the goodwill deduction down $530 million to a loss of $12 million. Much of this was due to a sharp fall in Consumer Banking performance, given elevated levels of impairment, up 66 per cent, and income falling by 12 per cent, partly as a result of selective de-risking of the unsecured book and the charge we have taken on the prospective sale of two small subsidiaries. Weak underlying trading performance was exacerbated by a one-off tax related charge of $54 million, and the non-repeat of property sales which contributed $74 million in 2012. Against this, one positive factor was the continued strength of our network income relating to Korean clients, a significant and growing revenue stream of over $200 million.

We were not alone in encountering difficulties in Korea. Six of the seven major banks saw income and profits fall by double-digit rates, and average return on equity was below 3 per cent, the lowest for a decade.

As the 6th largest player, we cannot entirely escape the dynamics of the industry as a whole, but nor can we tolerate underperformance, since it creates a drag on the performance of the Group as a whole. Therefore, we are continuing to take action on multiple fronts. There is no silver bullet, but we are shrinking the businesses, while very selectively investing to support the areas of most opportunity. In 2013 we reduced risk-weighted assets (RWA) in Korea by 7 per cent, and in 2014 we will reduce RWA further. We are simplifying the structure, selling our small consumer finance and savings bank subsidiaries, and will reduce the number of legal entities from nine to three. We are reducing costs as fast as we can, with staff numbers down by nearly 400 year on year. We are consolidating the branch network, down by 24 during 2013, as we increasingly interact digitally with our clients. We are redeploying capital in Wholesale Banking from locally oriented clients towards clients that can benefit from our network. We are also selectively de-risking the unsecured book in Consumer Banking and putting greater emphasis on Wealth Management.

As a result of these actions our business in Korea will be smaller, more profitable and more focused on where we can play to our strengths. However, given the constrained context, we cannot achieve this transformation as swiftly as we would like, and Korea will continue to be very challenging during 2014.

Our financial framework

In November 2013 we set out what we described as our 'flexed' financial framework – the metrics we would aim to deliver over the next couple of years. These are aspirations, and we don't expect that we will always be able to deliver against all of them, but they provide a sense of what we are setting out to achieve.

We do not expect to deliver double-digit income growth over the next couple of years, given various pressures, not least Korea. However, we haven't abandoned double-digit growth as a longer-term aspiration. Given the scale of the opportunities in our markets, and the pace at which the demand for banking services is growing, we still believe this is a stretching, but realistic, aspiration.

Of course, we are not going to compromise our risk appetite or strategic discipline to chase rapid growth. If market circumstances only support somewhat slower growth, that is what we will deliver.

To protect earnings momentum in an environment of slower income growth, we are shifting from a stance of growing costs broadly in line with income, to ensuring that costs grow more slowly than income. In other words, shifting from neutral cost income jaws to positive jaws. This will be challenging, given inflationary and regulatory pressures, the bank levy and the measures we are taking to constrain RWA growth. We must also create the capacity to keep investing for growth. This means we must generate several hundred millions of dollars of productivity benefits every year. We did this in 2013 and intend to keep doing so.

Delivering positive jaws should help us achieve our aspiration of double-digit earnings-per-share growth, even at lower than double-digit rates of income growth. This in turn will help us continue to improve returns on equity. We already deliver returns above our cost of capital, and will continue to look to improve returns, while also paying out a good level of dividends, as we have done consistently up till now.

In November 2013 we also introduced our fifth metric, of growing profits after taxation faster than RWA. We have broadly funded our RWA growth through retained earnings, and we are in a strong position in terms of capital ratios. Yet, given the ongoing uncertainty about regulatory expectations, we think it makes sense to manage for a positive capital trajectory to give us greater flexibility and resilience.

Our 2014 Priorities

Our priorities for 2014 flow naturally from our strategic aspirations and financial framework:

First, to deliver profitable and capital accretive growth. After a disappointing performance in 2013, we are determined to get back to delivering the kind of results our investors expect from us. This won't happen automatically or overnight. Given the weakness of our performance in the fourth quarter of 2013, we anticipate that the first half of 2014 may prove challenging. However, we are confident that the actions we are taking will give us the platform to deliver sustained and profitable growth.

Second, to make tangible progress on our five strategic aspirations. The reorganisation of our business will make a difference, enabling us to put sharper focus on the key strategic priorities, optimising the deployment of capital and investment spend.

Third, to innovate, digitise and simplify in order to improve productivity and effectiveness. To deliver positive jaws and keep investing for growth, simultaneously, we have to be delivering significant productivity improvements every year. That requires constant innovation, a bias towards digitising everything we can, and a relentless focus on simplifying and streamlining the way we work. Again, the reorganisation will help, as we strip out duplication and drive greater standardisation.

Fourth, to raise the bar on conduct, demonstrating that we are Here for good. This is a strategic imperative.

Finally, to accelerate the next generation of leaders. The reorganisation gives us a real opportunity to do this.

Outlook

2013 was not a great year for Standard Chartered, and 2014 will inevitably have its own challenges, but we are very clear on what we have to do. We are making changes to adapt to the new realities. We have a strong balance sheet, great client relationships and superb capabilities.

Our outlook for 2014 is one of modest growth. Market and trading conditions are more volatile and difficult than a year ago. While current performance momentum is ahead of the second half of last year, performance in the first half of 2014 will remain challenged both at an income and profit level.

I would like to take this opportunity to thank our employees for their hard work, commitment and professionalism during 2013. I would particularly like to thank Richard Meddings, for all he has done in his 11 years as a Group Executive Director, including seven by my side as Group Finance Director. I would also like to thank Steve Bertamini for his leadership in transforming our Consumer Banking business over the last five years. Finally, I would like to thank our investors for their support through these turbulent times.

Peter Sands
Group Chief Executive
5 March 2014

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The following Financial Review reflects the restatement of prior period amounts to equity account rather than proportionately consolidate PT Permata Bank Tbk, our joint venture business in Indonesia, following the adoption by the Group of IFRS 11 from 1 January 2013 (see page 137 for further details).

The Group also adopted IFRS 13 from 1 January 2013, a consequence of which was the recognition of $106 million of fair value gains relating to an own credit adjustment (OCA). The commentary throughout this Financial Review excludes the impact of OCA to better reflect the underlying performance of the Group.

Group summary

Against a backdrop of ongoing turbulence in the global economy, the Group continues to support the growth and activities of its clients and customers, and generated a diverse mix of income across businesses, markets and products.

Operating income remained resilient, down 1 per cent compared to 2012 at $18,671 million, with Hong Kong and the Africa region generating growth of 11 per cent and 10 per cent respectively, offsetting income challenges in Korea and the Other Asia Pacific region.

Profit before tax, excluding OCA and the impact of a $1 billion impairment charge relating to our Korea business (see page 131 for further details) for 2013 and the US settlements in 2012, fell 7 per cent to $6,958 million. The fall in profit is primarily due to lower levels of Transaction Banking income in Wholesale Banking and higher levels of impairment in the unsecured book in Consumer Banking.

Profit before taxation on a statutory basis fell 11 per cent to $6,064 million.

Consumer Banking (CB) income increased 2 per cent to $7,179 million although operating profit fell 11 per cent to $1,550 million, impacted by a higher impairment charge.

Wholesale Banking (WB) income fell 2 per cent to $11,492 million and operating profit was 9 per cent higher at $5,643 million. Excluding the impact of the US settlements in 2012, operating profit fell 4 per cent.

The normalised cost to income ratio was higher at 54.4 per cent compared to 53.7 per cent in 2012. Costs remain tightly controlled and, excluding the impact of the US settlements in 2012, rose 1 per cent.

Normalised earnings per share fell 9 per cent to 204.0 cents and normalised return on shareholders' equity reduced to 11.2 per cent from 12.8 per cent at 31 December 2012. Further details of basic and diluted earnings per share are provided in note 11 on page 112.

Asset quality in both businesses remains good and 73 per cent of the CB loan book is fully secured and 64 per cent of WB customer loans have a tenor of less than one year. CB loan impairment increased driven by the seasoning effects of growth in the unsecured book, increased levels of provisioning in Korea relating to the Personal Debt Rehabilitation Scheme (PDRS) and lower levels of debt sales. Impairment in WB also rose due to a smaller number of accounts in India and Africa.

The Group's balance sheet remains very strong and resilient - well diversified, conservative, with limited exposure to problem asset classes.

The Group continues to be highly liquid and our advances-to-deposits ratio remained strong at 75.7 per cent, and up from 73.9 per cent at the end of 2012. Following strong growth in the second half of 2012, the growth in deposit balances moderated slightly during 2013 with good growth in the Americas and Europe regions and Hong Kong being partly offset by lower balances in Korea and in the Other Asia Pacific region. The Group maintains a conservative funding structure with only limited levels of refinancing required over the next few years and we continue to be a significant net lender to the interbank market.

The Group remains well capitalised with a Core Tier 1 ratio of 11.8 per cent at 31 December 2013, slightly up from 11.7 per cent at the end of 2012 primarily due to equity generation.

We continue to be confident in the strong underlying growth potential in the markets in which we operate and we remain committed to our strategy – banking the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East.

Operating income and profit

	2013	OCA/ Goodwill impairment	Excluding OCA/ Goodwill Impairment	2012	US settlements	Excluding US settlements	Better/ Worse
	$million	$million	$million	$million	$million	$million	%
Net interest income	**11,156**		**11,156**	10,781		10,781	3
Fees and commissions income, net	**4,101**		**4,101**	4,079		4,079	1
Net trading income	**2,514**	**(106)**	**2,408**	2,739		2,739	(12)
Other operating income	**1,006**		**1,006**	1,184		1,184	(15)
Non-interest income	**7,621**	**(106)**	**7,515**	8,002	-	8,002	(6)
Operating income	**18,777**	**(106)**	**18,671**	18,783	-	18,783	(1)
Operating expenses	**(10,193)**		**(10,193)**	(10,722)	667	(10,055)	(1)
Operating profit before impairment losses and taxation	**8,584**	**(106)**	**8,478**	8,061	667	8,728	(3)
Impairment losses on loans and advances and other credit risk provisions	**(1,617)**		**(1,617)**	(1,196)		(1,196)	(35)
Goodwill impairment	**(1,000)**	**1,000**	**-**	-		-	-
Other impairment	**(129)**		**(129)**	(196)		(196)	34
Profit from associates and joint ventures	**226**		**226**	182		182	24
Profit before taxation	**6,064**	**894**	**6,958**	6,851	667	7,518	(7)

Group performance

Operating income fell by $112 million, or 1 per cent, to $18,671 million. On a constant currency basis, income rose 1 per cent. The Group's income streams continue to be well diversified and we generated income of over $100 million in 25 markets.

CB income was 2 per cent higher at $7,179 million, with double digit growth in Hong Kong and in the Africa region, partly offset by lower income in Korea. Growth in Cards, Personal Loans and Unsecured Lending (CCPL) income, up 5 per cent, and Mortgages and Auto Finance income, up 10 per cent, offset the impact of lower Deposits income, which fell 7 per cent as margins remained compressed during the year. Wealth Management income rose 2 per cent as good growth in equity-linked products (particularly funds) was partly offset by lower income from foreign exchange related products.

WB income was 2 per cent lower, at $11,492 million although client income remained resilient, rising 4 per cent. Transaction Banking income fell despite good levels of client activity due to margin compression across most of our markets. This was offset by a strong performance from Corporate Finance and Foreign Exchange. Own account income fell 25 per cent and was impacted by a significant deterioration in emerging markets sentiment in the second half of 2013 which primarily impacted our Financial Markets and Principal Finance businesses. Own account income was also impacted by lower income in Asset & Liability Management.

Net interest income increased by $375 million, or 3 per cent to $11,156 million. The Group net interest margin of 2.1 per cent was lower compared to 2012. In CB, net interest income grew $185 million, or 4 per cent, to $4,949 million. Mortgage margins improved and while margins on unsecured products declined, this was offset by good levels of growth in average balances. WB net interest income increased $190 million, or 3 per cent. Growth in loans and advances helped to offset significant margin compression particularly in Trade and Cash products.

Non-interest income, which comprises net fees and commissions, trading and other operating income, fell by $487 million to $7,515 million.

Net fees and commissions income increased by $22 million, or 1 per cent, to $4,101 million. Fee income in CB grew due to increased sales of equity-linked products in Wealth Management. Fees in WB fell primarily due to a lower levels of fee income from Corporate Finance transactions as this business generates increasing levels of annuity income.

Net trading income fell $331 million, or 12 per cent, to $2,408 million, as growth in income from FX products was more than offset by a weaker performance from Rates and lower mark to market gains in Principal Finance.

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, fell $178 million, or 15 per cent, to $1,006 million. Higher operating lease rental income, up $138 million, was offset by lower realisations from the available-for-sale portfolio, down $88 million, and a fair value loss of $49 million relating to entities held for sale in Korea. 2012 also benefitted from a gain of $90 million from the repurchase of subordinated debt.

Operating expenses fell $529 million, or 5 per cent, to $10,193 million. Excluding the impact of the $667 million settlements with the US authorities in 2012, operating expenses increased 1 per cent. While we continue to manage expenses tightly, we have continued to make targeted investments in both businesses although at lower levels than in previous years. Depreciation from our transport leasing business increased by $58 million, reflecting increased levels of investment in prior years. Staff costs increased by 1 per cent compared to 2012, reflecting underlying inflation in many of our markets, lower levels of variable compensation and lower period end staff numbers. Expenses were also impacted by a non-recurring tax charge in Korea of $54 million in 2013. The cost of the UK bank levy rose $92 million to $266 million which was partly offset by a refund of $31 million relating to prior periods ($11 million of which related to 2012) to take the net charge for the year to $235 million.

Pre-provision profit (excluding the impact of the settlements with the US authorities) was lower by $250 million, or 3 per cent, at $8,478 million.

Loan impairment increased by $421 million, or 35 per cent, to $1,617 million. Impairment in CB, which has a largely secured loan book, increased by $360 million, driven primarily by the expected seasoning impact of the growth in the unsecured loan book, the impact of PDRS in Korea and lower levels of loan sales, particularly impacting Other Asia Pacific. WB impairment increased by $61 million and related to a small number of large exposures in India and Africa. Asset quality across both businesses remains good, and we continue to closely monitor our portfolios for stress in line with our proactive approach to risk management.

Other impairment, excluding the $1 billion goodwill impairment charge against our Korean business, fell to $129 million reflecting lower write-downs of Private Equity investments. 2012 was also impacted by a write-down of $70 million relating to associate investments.

Profits from associates and joint ventures grew $44 million to $226 million, reflecting a strong performance from China Bohai Bank.

Profit before taxation, excluding the impact of goodwill impairment in 2013 and of the US settlements in 2012, fell $560 million, or 7 per cent, to $6,958 million. Hong Kong remained our largest profit generator, growing operating profit by 16 per cent, while MESA grew profits 35 per cent. This helped to offset the performance in Korea, which moved from a profit of $514 million in 2012 to a loss of $12 million in 2013

The Group's effective tax rate (ETR) was 30.7 per cent, up from 27.2 per cent in 2012, primarily due to the impact of non deductible goodwill impairment and change in profit mix.

Consumer Banking

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

2013	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	**1,561**	**982**	**1,046**	**1,620**	**466**	**801**	**529**	**174**	**7,179**
Operating expenses	**(795)**	**(546)**	**(835)**	**(1,183)**	**(304)**	**(496)**	**(330)**	**(143)**	**(4,632)**
Loan impairment	**(139)**	**(78)**	**(371)**	**(310)**	**(38)**	**(63)**	**(22)**	**(13)**	**(1,034)**
Other impairment	**-**	**-**	**(2)**	**(1)**	**(4)**	**-**	**-**	**-**	**(7)**
Profit from associates and joint ventures	**-**	**-**	**-**	**43**	**-**	**-**	**-**	**1**	**44**
Operating profit/(loss)	**627**	**358**	**(162)**	**169**	**120**	**242**	**177**	**19**	**1,550**

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	1,596	440	753	482	183	7,021
Operating expenses	(771)	(553)	(795)	(1,209)	(318)	(493)	(306)	(151)	(4,596)
Loan impairment	(95)	(62)	(223)	(186)	(27)	(51)	(20)	(10)	(674)
Other impairment	-	-	(1)	(36)	-	-	-	(8)	(45)
Profit from associates and joint ventures	-	-	-	43	-	-	-	-	43
Operating profit	544	359	164	208	95	209	156	14	1,749

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

Operating Income by product	**2013 $million**	2012 $million	Better/ (worse) %
Cards, Personal Loans and Unsecured Lending (CCPL)	**2,802**	2,668	5
Wealth Management	**1,296**	1,268	2
Deposits	**1,414**	1,526	(7)
Mortgages and Auto Finance	**1,425**	1,298	10
Other	**242**	261	(7)
Total operating income	**7,179**	7,021	2

Operating income in CB increased $158 million, or 2 per cent, to $7,179 million with pre-provision profit rising 5 per cent. However operating profit fell $199 million, or 11 per cent, to $1,550 million due to higher levels of impairment. Excluding Korea, which generated a loss of $162 million for the year, income rose 5 per cent and operating profit increased 8 per cent.

Income in CB remains diverse, with double-digit income growth in Hong Kong and Africa offsetting lower levels of income in Korea and Americas, UK & Europe.

Net interest income increased by $185 million, or 4 per cent, to $4,949 million. Higher average asset and liability volumes helped offset lower margins on unsecured and current and savings accounts (CASA) products. Mortgage volumes remained subdued as a result of cooling measures and regulatory restrictions in several of our markets. Mortgage margins improved, however, reflecting our ability to increase pricing in a select number of markets. CCPL margins were 26 basis points (bps) lower than 2012, although Credit Card margins improved during the second half of 2013 and while average volumes were up strongly against 2012, growth was concentrated in the first half of 2013. Liability margins remained under pressure, with CASA down 21 bps compared to 2012, partially offset by good growth in CASA balances in Hong Kong and Singapore.

Non-interest income fell $27 million, or 1 per cent, to $2,230 million. Excluding the impact of a fair value loss of $49 million on businesses held for sale and a $39 million property gain in 2012, non-interest income rose 3 per cent. The increase was primarily due to higher levels of Wealth Management income reflecting an increase in sales of equity-linked products particularly funds in the first half of the year buoyed by positive investor sentiment although income slowed in the second half of 2013 due to adverse market conditions across our footprint.

Expenses were up $36 million, or 1 per cent, to $4,632 million. While staff costs fell on the back of lower headcount and efficiency initiatives, this was more than offset by non-recurring tax charge of $41 million in Korea and continued investments in the franchise, particularly targeted in the growth markets of Hong Kong, India and Africa.

Loan impairment increased by $360 million, or 53 per cent, to $1,034 million. More than half of the increase related to Korea, due to an acceleration in the amount of filings under PDRS, and lower levels of debt sales, down $53 million compared to 2012, which predominantly impacted the Other Asia Pacific region. The remainder of the increase primarily reflected the maturation of unsecured lending acquired between 2010 and 2012 with impairment levels for the other product segments remaining relatively stable.

Product performance

Income from CCPL grew $134 million, or 5 per cent, to $2,802 million. Although period end CCPL balances fell, particularly in Korea and Taiwan, income grew reflecting the flow through impact of volume growth in the second half of 2012 and increased fee income which offset the impact of margin compression. Margins were affected by a change in product mix and the impact of regulatory reforms.

Wealth Management income rose 2 per cent to $1,296 million and income remained well diversified across equity-linked and non-equity linked products such as bancassurance. Equity-linked products grew strongly in the first half of the year but declined in the second half of the year reflecting market sentiment.

Deposits income fell by $112 million, or 7 per cent, to $1,414 million. CASA balances grew strongly, particularly in Hong Kong and Singapore. This growth was more than offset by margin compression as competition intensified and interest rates remained low across our footprint with declines in some markets such as Korea and Pakistan. The pace of compression moderated in the second half of 2013 partly aided by a gradual exit of higher cost time deposits in Korea, Singapore and Malaysia.

Mortgages and Auto Finance income rose by $127 million, or 10 per cent, to $1,425 million. While margins and balances increased in Hong Kong, a number of markets were affected by regulatory constraints. This included Singapore, which was also impacted by margin compression, and Korea, where balances declined compared to 2012. However, we originated and transferred $3 billion of fixed rate mortgages during the year under the Korea Mortgage Purchase Program.

Other income, which predominantly includes SME related trade and other transactional income, fell 7 per cent. Excluding the $49 million fair value loss on businesses held for sale in 2013 and $39 million of property gains in 2012, income increased reflecting good growth SME revenues across Hong Kong, Malaysia, MESA and India.

Geographic performance

Hong Kong

Income rose $151 million, or 11 per cent, to $1,561 million. There was strong growth in Mortgages on the back of good asset growth coupled with higher margins with a continued focus on originating new business in higher margin Prime rate based products. Wealth Management also delivered good growth as a result of increased unit trust sales and higher transaction volumes in foreign exchange and securities services. Income from SME improved benefiting from higher trade volumes. There was more moderate growth in CCPL as higher volumes from personal loans was partially offset by continued margin compression and the impact of credit card regulatory reforms. Income from Deposits declined as a result of narrower spreads but was partially offset by good volume growth, particularly in CASA. Renminbi (RMB) deposits continued to grow strongly throughout the year.

Operating expenses increased by $24 million, or 3 per cent, to $795 million. Expenses continue to be tightly managed and the increase was primarily due to the flow-through of prior year investments in the branch network and in system infrastructure.

Pre-provision profit was up $127 million, or 20 per cent, to $766 million.

Loan impairment was $44 million higher at $139 million, reflecting the seasoning impact of growth in unsecured lending, as expected, together with lower recoveries.

Operating profit rose $83 million, or 15 per cent, to $627 million.

Singapore

Income rose $8 million, or 1 per cent, to $982 million in tough market conditions. CCPL income was marginally lower as the growth in average balances was offset by lower margins reflecting a change in product mix. Mortgage income was impacted by margin compression and regulatory cooling measures. Deposits income rose largely due to volume growth for CASA, partially offset by lower margins reflecting increased competition for foreign currency deposits. Wealth Management was flat as the benefit from an increase in funds and bancassurance revenue was partially offset by lower equity sales due to less favourable market sentiment.

Operating expenses fell $7 million, or 1 per cent, to $546 million, primarily due to lower staff costs as headcount reduced.

Pre-provision profit was 4 per cent higher at $436 million.

Loan impairment rose by 26 per cent, or $16 million, to $78 million due to the maturing of the unsecured portfolio.

Operating profit fell by $1 million to $358 million.

Korea

Income was down $137 million, or 12 per cent, to $1,046 million. On a constant currency basis, income fell 14 per cent. Excluding the $49 million fair value loss for businesses classified as held for sale in 2013 and a $39 million property gain in 2012, income fell 4 per cent. CCPL income increased although volumes declined as we tightened underwriting standards. Mortgages continued to be affected by a number of headwinds and income fell as balances declined although margins saw improvement. We continued to originate and transfer fixed rate mortgages under the Mortgage Purchase Programme transferring $3 billion in the year until the quota allocated to the Group was exhausted in the first half of 2013. Deposits income was lower, due to margin compression as a result of the falling interest rate environment although this was partly offset by the benefit from exiting lower margin Time Deposits and growth in CASA balances. Wealth Management income declined impacted by poor investor sentiment and a sharp decline in insurance volume industry-wide as new tax law changes took effect. Income from SMEs fell due to margin compression and increased competition from local banks.

Operating expenses rose $40 million, or 5 per cent, to $835 million. On a constant currency basis expenses rose 2 per cent. Excluding a non-recurring tax cost of $41 million, expenses were broadly flat reflecting tight cost management despite inflation-related increases in salary costs.

Pre-provision profit fell by $177 million at $211 million.

Loan impairment was up $148 million, or 66 per cent, to $371 million due to a market-wide acceleration in the amount of filings under the PDRS and in response we have undertaken a number of further de-risking actions during 2013 to tighten underwriting criteria for unsecured products.

As a result of the above factors, Korea moved to a loss of $162 million in the current year, compared to a profit of $164 million in 2012.

Other Asia Pacific

Income in the region rose $24 million, or 2 per cent, to $1,620 million.

Income in China increased by 8 percent to $321 million, reflecting continued growth in Personal Loan and Mortgage income, improved Mortgage margins, and strong Wealth Management income from increased bancassurance. This was partially offset by lower Deposits income as margins were compressed. Income from SMEs also fell as margins were compressed across key deposit products coupled with slower asset growth.

Income in Taiwan fell 2 per cent to $414 million. Deposit income increased, benefiting from a change in mix to higher margin Time Deposits and Wealth Management income was also higher on the back of market sentiment. This was more than offset by lower income from CCPL and Mortgages which were both affected by regulatory cooling measures.

Income in Malaysia rose 5 per cent to $414 million with broad based growth across all product lines. Income from CCPL grew strongly as margins improved, although the pace of growth slowed in the second half of 2013 as regulatory restrictions affected Personal Loan volumes. Wealth Management income rose, although equity-linked products were impacted by market uncertainties in the second half of 2013.

Operating expenses for the region were $26 million, or 2 per cent, lower at $1,183 million. Expenses in China were tightly controlled and broadly flat compared to 2012.

Pre-provision profit was up $50 million, or 13 per cent, to $437 million.

Loan impairment rose $124 million, or 67 per cent, at $310 million. Impairment in Taiwan rose $47 million reflecting lower levels of portfolio sales in the current year which also impacted Malaysia. Impairment in Thailand also increased due to a specific segment to which sales have now been discontinued. Impairment in China increased $9 million to $35 million.

Operating profit was lower by $39 million, or 19 per cent, at $169 million. Operating profit in Taiwan fell $48 million, or 36 per cent, to $85 million. The operating loss in China decreased to $88 million from $103 million in 2012.

India

Income rose $26 million, or 6 per cent, to $466 million. On a constant currency basis, income increased by 16 per cent. Mortgage income was up due to higher margins and benefitted from the portfolio acquisitions in 2012. CCPL also benefitted from higher volumes on the back of portfolio acquisitions and improved margins. This benefit was partly offset by lower Deposits income as margins were impacted by the low interest rate environment. Wealth Management income fell slightly due to weak local market sentiment. Income from SMEs grew strongly on the back of wider margins and increased volumes on a constant currency basis.

Operating expenses were $14 million, or 4 per cent, lower at $304 million. On a constant currency basis, expenses increased by 5 per cent, reflecting increased investment in technology.

Pre-provision profit was up $40 million, or 33 per cent, to $162 million.

Loan impairment was higher by $11 million, or 41 per cent, at $38 million due to volume growth from acquired unsecured portfolios.

Operating profit was higher by $25 million, or 26 per cent, at $120 million. On a constant currency basis, operating profit was 37 per cent higher.

Middle East and Other South Asia (MESA)

Income across the region, over half of which relates to the UAE, was up $48 million, or 6 per cent, to $801 million. The impact of a fall in Deposits income was more than offset by higher income from CCPL, Wealth Management and Mortgages.

Income in the UAE increased by 14 per cent and was broad based. CCPL income grew reflecting good momentum in payroll-linked Personal Loan products. Mortgages income rose strongly as volumes increased on the back of an improving property market while Deposits income was slightly lower as margins narrowed. Wealth Management income also increased, reflecting improved market sentiment.

Operating expenses in MESA rose 1 per cent to $496 million. While UAE expenses were up 5 per cent, reflecting flow through of prior period investments in front line sales capacity, expenses in most other markets were well controlled reflecting tight cost discipline across the region.

Pre-provision profit for MESA was up $45 million, or 17 per cent, to $305 million.

Loan impairment rose $12 million, or 24 per cent, to $63 million as the prior period benefitted from provision releases in the UAE.

MESA operating profit increased 16 per cent, up $33 million to $242 million.

Africa

Income was up $47 million, or 10 per cent, at $529 million. On a constant currency basis, income was up 15 per cent. Income from CCPL grew strongly on the back of good volume growth in payroll-linked personal loans. Mortgages income also grew strongly as margins improved and Wealth Management benefitted from increased sales of bancassurance products. Income from SME clients benefitted from increased trade related revenues.

Kenya continues to be the largest CB income generator in the region and income grew 11 per cent. Strong income growth in CCPL was partly offset by lower Deposit margins. Ghana and Zambia grew income at 21 per cent and 19 per cent respectively. Income growth in Ghana was driven by higher Deposit and SME income, partly offset by lower income from CCPL. Zambia saw good growth in both CCPL and Deposit income. Income in Nigeria was up 7 per cent and benefitted from good growth in CCPL and Wealth Management income, partly offset by lower Deposits income as margins compressed.

Operating expenses were $24 million, or 8 per cent, higher at $330 million. On a constant currency basis, expenses were 13 per cent higher, as we continued to build out the distribution network across the region in line with our strategy.

Pre-provision profit in Africa was higher by $23 million or 13 per cent, at $199 million.

Loan impairment was up $2 million to $22 million.

Operating profit was up $21 million, or 13 per cent, to $177 million. On a constant currency basis, operating profit increased 19 per cent.

Americas, UK & Europe

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 fell $9 million, or 5 per cent to $174 million. Excluding the gain of $13 million relating to the disposal of our Private Banking operations in Miami in 2012, income rose 2 per cent. The benefit from higher revenue from Private Banking mortgages, reflecting improved margins, was partly offset by lower Wealth Management income, where sales of foreign exchange related products declined. Deposits income also fell, impacted by margin compression although margins started to stabilise in the second half of the year.

Operating expenses fell $8 million, or 5 per cent, to $143 million as we continued to tightly manage costs and as a result of business disposals.

Loan impairment was higher by $3 million to $13 million.

Operating profit rose $5 million, up 36 per cent, to $19 million.

Wholesale Banking

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

2013	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]	**2,164**	**1,121**	**517**	**1,837**	**1,230**	**1,408**	**1,222**	**1,993**	**11,492**
Operating expenses	**(871)**	**(583)**	**(285)**	**(935)**	**(395)**	**(588)**	**(532)**	**(1,137)**	**(5,326)**
Loan impairment	**4**	**(10)**	**(56)**	**(105)**	**(157)**	**(4)**	**(248)**	**(7)**	**(583)**
Other impairment	**(4)**	**10**	**(27)**	**(2)**	**(101)**	**-**	**-**	**2**	**(122)**
Profit from associates and joint ventures	**-**	**-**	**-**	**181**	**-**	**-**	**-**	**1**	**182**
Operating profit[1]	**1,293**	**538**	**149**	**976**	**577**	**816**	**442**	**852**	**5,643**

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	2,076	1,145	1,481	1,111	2,023	11,672
Operating expenses	(801)	(616)	(286)	(1,049)	(435)	(607)	(478)	(1,680)	(5,952)
Loan impairment	(14)	(4)	(26)	(35)	(138)	(265)	(18)	(22)	(522)
Other impairment	(7)	(2)	(7)	(121)	9	(32)	-	9	(151)
Profit from associates and joint ventures	-	-	-	138	-	-	-	1	139
Operating profit	1,116	607	350	1,009	581	577	615	331	5,186

1 Operating income and operating profit excludes own credit adjustment of $106 million

Operating income by product	2013 $million	2012 $million	Better/ (worse) %
Lending and Portfolio Management	**818**	837	(2)
Transaction Banking			
Trade	**1,845**	1,915	(4)
Cash Management and Custody	**1,629**	1,721	(5)
	3,474	3,636	(4)
Global Markets[1]			
Financial Markets [2]	**3,650**	3,657	-
Asset and Liability Management (ALM)	**754**	837	(10)
Corporate Finance	**2,519**	2,222	13
Principal Finance	**277**	483	(43)
	7,200	7,199	-
Total operating income	**11,492**	11,672	(2)

Financial Markets operating income by desk	2013 $million	2012 $million	Better/ (worse) %
Foreign Exchange	**1,413**	1,277	11
Rates	**917**	965	(5)
Commodities and Equities	**507**	521	(3)
Capital Markets	**558**	591	(6)
Credit and Other[2]	**255**	303	(16)
Total Financial Markets operating income	**3,650**	3,657	-

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)

2 Excludes $106 million in respect of Own credit adjustment

Income fell $180 million, or 2 per cent, to $11,492 million while operating profit rose $457 million, or 9 per cent, to $5,643 million. Excluding the $667 million cost relating to the US settlements in 2012, operating profit fell 4 per cent.

Income remains well diversified across both products and geographies, with Hong Kong growing income by 12 per cent to exceed $2 billion for the first time. This partly offset lower levels of income across all other regions except India and Africa.

Client income, which constitutes over 80 per cent of WB income, increased by 4 per cent compared to 2012 supported by strong growth in client activity levels and volume increases across Transaction Banking and Financial Markets products. Commercial Banking, which includes Transaction Banking, Lending and flow Foreign Exchange (FX), contributes over half of client income and continues to be the core of the WB business.

Own account income fell 25 per cent compared to 2012, as challenging market conditions during the second half of the year adversely impacted Financial Markets (FM) and Principal Finance. ALM was also impacted by low reinvestment yields across the year due to the low interest rate environment.

Net interest income was up $190 million, or 3 per cent, to $6,207 million as the benefit from higher customer loans offset margin compression across Trade and Cash products.

Non-interest income fell $370 million, or 7 per cent, to $5,285 million.

Income from FM fell by $7 million to $3,650 million, with a strong performance from FX offset by lower income from Rates and Capital Markets. ALM income fell by 10 per cent reflecting lower reinvestment yields. Corporate Finance income grew strongly, up 13 per cent, supported by growth across our financing businesses. Income in Principal Finance fell by 43 per cent, primarily due to lower valuation gains.

Operating expenses fell $626 million, or 11 per cent, to $5,326 million. Excluding the impact of the $667 million settlements with the US authorities in 2012, expenses increased by 1 per cent. We maintained strong expense discipline with staff costs reflecting lower levels of variable compensation. This partly offset increased regulatory and compliance costs, higher depreciation from our leasing business and targeted investments in systems and infrastructure to better support clients.

Loan impairment increased by $61 million to $583 million, driven by a small number of clients in Africa and India. India was also impacted by several smaller-sized exposures as the economic environment deteriorated. The Group's portfolio remains predominantly short tenor with 64 per cent of loans and advances maturing in less than one year. Credit quality continues to be good.

Other impairment was lower by $29 million, or 19 per cent, at $122 million, driven by lower Private Equity charges and higher recoveries on the disposal of previously impaired investments.

Profit from associates and joint ventures increased strongly due to a good performance from Bohai Bank in China.

Product performance

Lending and Portfolio Management income fell by $19 million, or 2 per cent, to $818 million as the impact of higher margins was more than offset by lower average balances and increased portfolio management costs.

Transaction Banking income fell $162 million, or 4 per cent, at $3,474 million. Trade income fell 4 per cent despite 21 per cent growth in average assets as margins compressed, down 27 bps compared to 2012. This was due to surplus liquidity across our markets. Trade margins showed signs of stabilisation at a lower level than the prior period towards the end of the year. Cash Management and Custody income fell 5 per cent and was also impacted by margin compression, down 15 bps, due to the continuing lower interest rate environment. This was partly offset by strong growth in average liabilities and higher custody income.

Global Markets income was broadly flat at $7,200 million. Within Global Markets, the Financial Markets business, which primarily comprises sales and trading of FX and interest rate products, is the largest contributor to income and continues to have diverse income streams.

FM income was $7 million lower at $3,650 million as the second half of 2013 was impacted by a dramatic shift in market conditions driven by the uncertainty over the tapering of quantitative easing (QE) by the US Federal Reserve, negative emerging market sentiment and regulatory changes. This particularly affected own account income, which fell 25 per cent compared to 2012. Within this, Rates income was driven lower as rising bond yields impacted our inventory positions that are held for market making in emerging market bonds.

Despite the challenging market conditions, client income, which represents over 80 per cent of FM income, remained resilient and rose 7 per cent underpinned by strong growth in FX income.

FX income rose 11 per cent, with good growth in FX option volumes driven by client flows in North East Asia and South Asia together with a strong uplift from G10 currency pairs. Cash FX also grew on the back of higher volumes. This was partly offset by lower spreads compared to 2012.

Rates income fell 5 per cent largely reflecting the challenging market conditions in the second half of 2013.

Commodities and Equities income fell 3 per cent. Client hedging activity declined, as markets saw low levels of volatility across most asset classes. Equities derivatives income increased on the back of new product offerings.

Capital Markets income fell 6 per cent, as lower market issuance levels in our footprint impacted Debt Capital Markets volumes. In loan syndications, margin compression was offset by increased origination activity.

Credit and other income fell by 16 per cent, impacted by challenging market conditions.

ALM income was $83 million, or 10 per cent, lower at $754 million reflecting the continued increase in asset allocation to higher quality, lower yielding liquid assets and from lower reinvestment yields.

Corporate Finance income rose $297 million, or 13 per cent, to $2,519 million with a strong performance from all financing businesses benefiting from the focus on deepening relationships with existing clients. We saw particularly strong growth in Structured Finance driven by the continued expansion of our leasing business and in Strategic Finance due to acquisition financing in our footprint. Equity Capital Markets income also increased significantly with record transaction volumes and improved market ranking in Asia.

Principal Finance income fell by $206 million, or 43 per cent, to $277 million impacted by lower mark-to-market gains on equity investments due to adverse market sentiment across our investment footprint.

Geographic performance

Hong Kong

Income was up $226 million, or 12 per cent, to $2,164 million. Client income rose strongly, up 14 per cent, as FM delivered strong broad based growth with higher RMB FX income as a result of the growing opportunities arising from RMB internationalisation. There was also strong growth in Capital Markets income with higher volumes from Syndications. Income from Corporate Finance grew strongly as a result of the continuing expansion of the transport leasing business. Transaction Banking income declined mainly due to continued compression of Trade and Cash margins although margins began to stabilise during the second half of 2013. Own account income decreased on account of weaker Equities trading results. Hong Kong continues to leverage the Group's network as a hub into and out of China and inbound revenues from China continued to grow but at a more moderate pace.

Operating expenses grew $70 million, or 9 per cent, to $871 million, primarily driven by depreciation of assets held by the transport leasing business. We continued to manage other expenses tightly.

Pre-provision profit was higher by $156 million, or 14 per cent, at $1,293 million.

Loan impairment was lower by $18 million. There was a net recovery of $4 million on loan impairments compared to a net charge of $14 million in 2012.

Operating profit was up $177 million, or 16 per cent, at $1,293 million.

Singapore

Income fell $108 million, or 9 per cent, to $1,121 million. An increase in client income of 5 per cent was more than offset by weak second half own account income. Transaction Banking and Lending income fell despite the growth in average balances as increased competition compressed margins. Corporate Finance income increased on the back of asset growth, higher recurring income and robust deal pipeline conversion. FM client income excluding Capital Markets was up driven by growth in FX volume, product diversification in Commodities and increased equity underwriting activities. Capital Markets income was reduced as the local markets contracted on QE tapering expectations. Own account income declined due to reduced risk appetite as markets reacted to QE tapering. ALM performance was also impacted by costs of investing in higher quality liabilities and more liquid assets. Our Singapore business was particularly impacted by the adverse market conditions in the second half due to its position as a regional hub.

Operating expenses fell by $33 million, or 5 per cent, to $583 million, with lower levels of variable compensation and a continued focus on cost discipline.

Pre-provision profit fell $75 million, or 12 per cent, to $538 million.

Loan impairment remained low at $10 million. Other impairment was a net gain $10 million in 2013 due to recoveries of previously written down Private Equity investments.

Operating profit fell by $69 million to $538 million.

Korea

Income fell $152 million, or 23 per cent, to $517 million. On a constant currency basis income fell 24 per cent. Client income fell 9 per cent primarily due to lower income from Lending and Transaction Banking. Transaction Banking was impacted by lower average balances in addition to margin compression as a result of increased competition and a series of interest rate reductions. Lending income fell as we reduced average balances as part of our continuing portfolio optimisation. Corporate Finance income rose driven by strategic finance. Own account income declined due to lower ALM income, which was impacted by the low interest rate environment, and a lower number of Private Equity realisations. Income generated by Korean clients across our network continued to grow and we opened a further two Korea desks across our footprint during the year.

Operating expenses were held flat at $285 million. On a constant currency expenses fell 3 per cent as we continued to tightly manage costs.

Pre-provision profit fell by $151 million, or 39 per cent, to $232 million.

Loan impairment increased by $30 million to $56 million as higher levels of provisions offset a lower levels of recoveries. Other impairment increased $20 million to $27 million reflecting impairment on a small number of Private Equity investments.

Operating profit was lower by $201 million, or 57 per cent, at $149 million.

Other Asia Pacific

Income fell $239 million, or 12 per cent, at $1,837 million. Income fell in most of the major markets in this region, reflecting margin compression and challenging market conditions.

Income in China fell 13 per cent to $613 million primarily due to margin compression offsetting strong client activity. Client income fell 5 per cent as strong growth in Cash, Trade and FM transaction volumes were more than offset by lower margins following interest rate cuts in 2012 and spread compression in FM products Income in Taiwan fell 13 per cent to $125 million although client income rose 8 per cent. Own account declined, particularly impacted by market movements in the second half of the year. Transaction Banking income was adversely impacted by margin compression. This was offset by a good performance from FM, where increased FX income, driven by RMB products, offset a lower Rates performance.

Income in Indonesia fell 24 per cent to $265 million. Client income fell 9 per cent, with Transaction Banking income impacted by margin compression in Trade and Cash and FM income affected by the shift in sentiment on emerging markets. Income in Malaysia fell 19 per cent to $282 million. Client income remained resilient and was flat to 2012 but own account income fell sharply, particularly in ALM.

Operating expenses in the region fell $114 million, or 11 per cent, to $935 million. Expenses in 2012 were impacted by a net charge of $86 million as a result of a legacy commercial legal provision. Excluding this, expenses fell 3 per cent. China operating expenses fell 3 per cent to $364 million as we continue to control costs tightly whilst also investing and developing our franchise footprints.

Pre-provision profit in Other APR was lower by 12 per cent at $902 million.

Loan impairment increased by $70 million to $105 million. Impairment in China increased to $23 million although asset quality remains stable. Impairment in Indonesia increased $46 million in respect of a very small number of exposures.

Profit from associates and joint ventures grew $43 million reflecting a strong performance from Bohai Bank in China. Operating profit was 3 per cent lower at $976 million. China contributed $361 million of operating profit, with Indonesia and Malaysia as the other major profit contributors in this region.

India

Income rose $85 million, or 7 per cent, to $1,230 million. On a constant currency basis, income rose 17 per cent. Despite a deteriorating credit environment and intense pricing pressures, client income increased 2 per cent (up 12 per cent on a constant currency basis) driven by Corporate Finance, FX and Lending. Flow FX continues to grow strongly, leveraging Transaction Banking relationships, and FX Options income also rose with increased levels of client hedging reflecting the volatility in exchange rates seen in the second half of 2013. Transaction Banking income was impacted by lower margins although this was partly offset as average balances increased. Own account income rose benefiting from the de-risking of the portfolio. Cross border activity from our Indian clients remained strong, with income booked across our network growing at a double digit rate.

Operating expenses were lower by $40 million, or 9 per cent, at $395 million. On a constant currency basis, expenses fell 1 per cent, primarily driven by lower staff costs due to lower levels of variable compensation.

Pre-provision profit was up $125 million, or 18 per cent, at $835 million.

Loan impairment increased by $19 million to $157 million. The charge reflects a very small number of large exposures together with a higher number of small provisions across the portfolio as economic pressures drove impairment to elevated levels,

Other impairment increased to a charge of $101 million from a recovery of $9 million, due to a charge relating to a specific bond exposure and a write down of certain Private Equity investments.

Operating profit was down $4 million, or 1 per cent, to $577 million. On a constant currency basis, operating profit rose 6 per cent.

MESA

Income was lower by $73 million, or 5 per cent, to $1,408 million. Client income fell 4 per cent. Growth in Transaction Banking income, where lower income in the UAE and Pakistan was more than offset by higher income from Bangladesh and a number of smaller markets in the region, was more than offset by lower FM income. Own account income also fell, impacted by the run-off of higher yielding assets and lower levels of volatility.

Income in the UAE, which generates over 50 per cent of the income in this region, was down 7 per cent overall. Client income fell due to lower Transaction Banking income as margin compression more than offset growth in average balances. FX flow income was also impacted by tighter spreads despite an increase in volumes. Own account income also fell as an improved performance in Rates was offset by lower FX income. Income in Bangladesh grew 24 per cent primarily driven by Cash. Income fell in Pakistan, down 27 per cent primarily due to lower levels of Rates and Transaction Banking income, and Qatar, down 37 per cent as a result of lower Commodities income.

Operating expenses in MESA fell $19 million, or 3 per cent, to $588 million, as we managed costs tightly across the region.

Pre-provision profit in MESA was down $54 million, or 6 per cent, to $820 million. Loan impairment fell $261 million to $4 million, primarily in the UAE as 2012 was impacted by provisions on a small number of accounts.

Operating profit in MESA rose 41 per cent to $816 million.

Africa

Income rose $111 million, or 10 per cent, to $1,222 million. On a constant currency basis, income was up 16 per cent. This region continues to be diversified across products, client groups and countries and income growth was driven by higher FM income from increased FX and Rates volumes and an increase in Corporate Finance income as we closed a greater number of transactions. This was partly offset by lower income from Transaction Banking which was impacted by lower Cash margins.

Nigeria continues to be the largest WB market in the region with income up by 19 per cent, as income grew across all product lines except Cash and Rates. Income in Ghana rose 20 per cent from an improved FM performance and income in Kenya rose 19 per cent on the back of Transaction Banking and Corporate Finance. This was partly offset by lower income in South Africa, down 37 per cent, primarily due to lower Corporate Finance income and Uganda, down 17 per cent primarily due to lower Transaction Banking and FM income.

Operating expenses were up $54 million, or 11 per cent, to $532 million. On a constant currency basis, expenses were 18 per cent higher, reflecting investments in staff and technology to build capability.

Pre-provision profit was up $57 million, or 9 per cent, to $690 million. Loan impairment increased to $248 million driven by new provisions on a small number of accounts.

Operating profit was $173 million lower at $442 million, down 28 per cent. On a constant currency basis, operating profit fell 25 per cent.

Americas, UK & Europe

This region acts as a two way bridge, linking the Americas, UK & Europe with our markets in Asia, Africa and the Middle East.

Income was down 1 per cent to $1,993 million, although client income remained resilient, growing 4 per cent compared to 2012. Transaction Banking income increased as average balances grew strongly although margins were compressed reflecting increased levels of competition. Corporate Finance income also grew strongly as we re-financed existing deals at higher rates. FM income, however, fell as good growth in FX and FX options was more than offset by lower income from Rates and money market funds. Own account income fell sharply as market conditions impacted FX and Commodities income.

Operating expenses fell by $543 million, or 32 per cent. Excluding the impact of the settlements with the US authorities in 2012, expenses rose 12 per cent, reflecting increased regulatory and compliance costs.

Pre-provision profit rose $513 million, or 150 per cent to $856 million.

Loan impairment decreased by $15 million to a charge of $7 million whilst other impairment increased by $7 million to a net recovery of $2 million.

Operating profit rose $521 million to $852 million. Excluding the impact of the settlements with the US authorities in 2012, operating profit fell 15 per cent.

Group Summary Consolidated Balance Sheet

	2013 $million	2012[1] $million	Increase/ (Decrease) $million	Increase/ (Decrease) %
Assets				
Advances and investments				
Cash and balances at central banks	**54,534**	60,537	(6,003)	(10)
Loans and advances to banks	**83,702**	67,797	15,905	23
Loans and advances to customers	**290,708**	279,638	11,070	4
Investment securities held at amortised cost	**2,828**	3,851	(1,023)	(27)
	431,772	411,823	19,949	5
Assets held at fair value				
Investment securities held available-for-sale	**99,888**	95,374	4,514	5
Financial assets held at fair value through profit or loss	**29,335**	27,076	2,259	8
Derivative financial instruments	**61,802**	49,495	12,307	25
	191,025	171,945	19,080	11
Other assets	**51,583**	47,440	4,143	9
Total assets	**674,380**	631,208	43,172	7
Liabilities				
Deposits and debt securities in issue				
Deposits by banks	**43,517**	36,427	7,090	19
Customer accounts	**381,066**	372,874	8,192	2
Debt securities in issue	**64,589**	55,979	8,610	15
	489,172	465,280	23,892	5
Liabilities held at fair value				
Financial liabilities held at fair value through profit or loss	**23,030**	23,064	(34)	(0)
Derivative financial instruments	**61,236**	47,192	14,044	30
	84,266	70,256	14,010	20
Subordinated liabilities and other borrowed funds	**20,397**	18,588	1,809	10
Other liabilities	**33,704**	31,029	2,675	9
Total liabilities	**627,539**	585,153	42,386	7
Equity	**46,841**	46,055	786	2
Total liabilities and shareholders' funds	**674,380**	631,208	43,172	7

[1] Amounts have been restated as explained in note 31

Balance sheet

The Group remains disciplined in its focus on sustaining a strong balance sheet, which continues to be highly liquid, diversified and conservatively positioned. Growth 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 remains low at 75.7 per cent, up from 73.9 per cent in 2012. We continue to be a net lender into the interbank market, particularly in Hong Kong and in the Other Asia Pacific and, Americas, UK & Europe regions. 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 our Core Tier 1 ratio of 11.8 per cent was slightly higher than 2012, due to equity generation.

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 58 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, Italy, Portugal and Spain and immaterial direct exposure to the remainder of the eurozone. Further details of our eurozone exposures are set out on page 67.

Total assets/liabilities grew by $43.2 billion, or 7 per cent, during the year. On a constant currency basis, growth was 6 per cent as some of the Asian currencies depreciated in the second half of 2013 against the US dollar particularly the Indian rupee and the Korean won. Balance sheet growth was largely driven by an increase in lending to banks and customers. Surplus liquidity was held with central banks, deployed in net interbank funding, or held in liquid investment securities that meet the more stringent regulatory liquidity requirements. Derivative mark to market increased, largely reflecting increased levels of activity but lower levels of market volatility.

Cash and balances at central banks

Cash balances decreased by $6.0 billion, or 10 per cent, compared to 2012. During the year, we have deployed some of our surplus liquidity into the interbank market although we continue to hold substantial balances at central banks.

Loans and advances

Loans and advances to banks and customers, which include those held at fair value, grew by $29 billion, or 8 per cent, to $382 billion.

Consumer Banking portfolios, which represents 44 per cent of the Group's customer advances at 31 December 2013, fell by $0.6 billion to $129.8 billion. The decline was primarily due to lower balances in Korea, down $5.4 billion, where Mortgages fell as the market continues to be impacted by regulatory restriction and CCPL products also reduced as we tightened underwriting criteria and de-risked the portfolio. We did however originate and distribute $3 billion of fixed rate mortgages under the Korea Mortgage Purchase Program. Excluding Korea, lending increased by $4.8 billion, reflecting higher Mortgages in Hong Kong and good growth in Private Banking lending in Singapore and payroll-linked personal lending in the MESA and Africa regions.

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 $12.0 billion, or 8 per cent, to $166.9 billion. Lending increased strongly in Singapore, up 18 per cent, Hong Kong, up 17 per cent, and Americas, UK and Europe, up 7 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 financing sectors which make up 64 per cent of the Wholesale Banking customer lending. Loans to banks increased by 26 per cent mainly as a result of trade-related 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 $3.7 billion to $124.3 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 2012, with around 45 per cent (2012: 49 per cent) of the book having a residual maturity of less than twelve months.

Derivatives

Unrealised mark to market asset positions were $12 billion higher compared to 2012, reflecting higher levels of client activity but lower levels of volatility across interest rate, commodity and foreign exchange contracts. Our risk position continues to be largely balanced, resulting in a corresponding increase in negative mark to market positions of $14 billion. Of the $62 billion asset mark to market positions, $46 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 $13 billion, of which the increase in deposits by banks was $7 billion. Customer deposit growth was primarily driven by Hong Kong, and in the Americas, UK & Europe and Africa regions which more than offset lower deposits in a number of other regions. CASA continues to be the core of the customer deposit base, growing 5 per cent compared to 2012 and constituting over 50 per cent of customer deposits.

Debt securities in issue, subordinated liabilities and other borrowed funds

Debt securities in issue, together with those held at fair value, grew 17 per cent to $71.4 billion as we continued see strong demand for our paper. This included the issue of 30 year subordinated notes in the first half of the year. Subordinated debt increased by $1.8 billion, or 10 per cent, on the back of primarily US dollar denominated issuances during the year.

Equity

Total shareholders' equity increased by $0.8 billion to $46.8 billion due to profit accretion and gains on available-for-sale securities, which were partly offset by foreign exchange translation losses and 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. Our overall risk appetite has not changed. We regularly assess our aggregate risk profile, conduct stress tests and monitor concentrations to ensure that we are operating within our approved risk appetite. Further details on our approach to risk appetite and stress testing are set out on page 30.

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. During the course of 2013, we maintained a cautious stance overall whilst continuing to support our core clients. Credit risk management is covered in more detail on page 30.

Our balance sheet and liquidity have remained strong. Over half of total assets mature within one year and of these approximately 70 per cent mature within three months. The balance sheet is highly diversified across a wide range of products, industries, geographies and customer segments, which serves to mitigate risk:

- Customer loans and advances are 44 per cent of total assets
- The Manufacturing sector in Wholesale Banking, which is 25 per cent of lending, is diversified by industry and geography
- The largest concentration to any globally correlated industry is to energy at 9 per cent of total Wholesale Banking assets. The exposure is well spread across eight subsectors and over 350 client groups and, reflecting the trade bias in the portfolio, 64 per cent of exposures mature within one year
- Our top 20 corporate exposures are stable as a proportion of group capital resources and highly diversified, with each, on average, spread across seven markets and five industries
- Our cross-border asset exposure is also diversified and reflects our strategic focus on our core markets and customer segments. Further details are set out on page 70
- 44 per cent of customer loans and advances are in Consumer Banking; 73 per cent of these are secured and the overall loan to value ratio on our mortgage portfolio is less than 48 per cent
- The unsecured Consumer portfolio is spread across multiple products in over 30 markets

We have low exposure to asset classes and segments outside 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 exposure in these countries is primarily in trade finance and financial markets. Further details of our eurozone exposures are given on page 67. Our exposure to countries impacted by the political developments in the Middle East and North Africa are also low. Exposures in Syria, Lebanon, Egypt, Libya, Algeria and Tunisia represent less than 0.5 per cent of our total assets.

Our exposures to commercial real estate and leveraged loans account for 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 1 per cent of our total assets increased by $2.0 billion in 2013 due to investments in high quality, senior ABS and Residential Mortgage Backed Securities (RMBS) assets in the Group's portfolio of marketable securities. Further details are given on page 66.

We have closely managed our exposures in markets and sectors which have faced downturns during 2013, increasing collateral cover and selectively reducing exposures and limits.

Market risk is tightly monitored using Value at Risk (VaR) methodologies complemented by sensitivity measures, gross nominal limits and loss triggers at a detailed portfolio level. This is supplemented with extensive stress testing which takes account of more extreme price movements. Our overall trading book risk exposure has not changed significantly during the course of 2013. Further details on market risk are given on page 71.

We maintained a strong advances-to-deposits ratio in 2013. Liquidity will continue to be deployed to support growth opportunities in our chosen markets. We manage liquidity in each of our branches and operating subsidiaries in each country, ensuring that we can meet all short-term funding and collateral 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 that can be realised in the event of liquidity stress. Further details on liquidity are provided on pages 75 to 83.

We continue to engage actively with our regulators, including the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA), the Bank of England (BoE) and our 'host' regulators in each of the markets in which we operate

We have a well-established risk governance structure, which is set out on page 29, and an experienced senior team. Members of our most senior executive body (the Court) sit on our principal risk executive committees, which ensures that risk oversight is a strong focus for all our executive 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. During 2013 we refreshed and re-communicated the Group's Code of Conduct, reinforcing our values and our brand promise. We recognise that failures of regulatory compliance have damaged the Group's reputation, and continue to pay close attention to this. The management of operational risk, more broadly, continues to be enhanced as we incrementally roll out our new approach 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 and reputational risk are covered in more detail on pages 84 to 86.

Impairment review

The total impairment charge (excluding goodwill impairment) for 2013 has increased by $354 million compared to 2012. The increase has primarily been in Consumer Banking, partly offset by lower other impairment charges.

In Consumer Banking, total loan impairment provisions have increased year on year, primarily reflecting the growth and seasoning of loans booked between 2010 and 2012, the ongoing impact of Korea Personal Debt Rehabilitation Scheme (PDRS) filings and effects of reduced loan sales compared to previous years. The increase is otherwise in line with our portfolio growth and growth in unsecured products in selected markets in prior years. Portfolio impairment provisions also reduced as a result of reclassification of consumer finance businesses in Korea as held for sale. We remain disciplined in our approach to risk management and proactive in our collection efforts to minimise account delinquencies.

In Wholesale Banking, total loan impairment provisions have increased by $61 million compared to 2012. This was concentrated in a few names in India and Africa and was partially offset by a release of an overlay portfolio impairment provision (PIP) in MESA as economic conditions improved. The credit quality of the portfolio quality remains high in spite of the volatility in commodity prices and currencies.

Further details of credit risk in respect of the Group's loans portfolio is set out on pages 30 to 64.

Other impairment, excluding goodwill impairment, is lower compared to prior periods, as 2012 was impacted by provision against certain investments in associates. Further details are set out in note 8 on page 109.

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 unwinding of the US Federal Reserve's quantitative easing programme could lead to higher interest rates, volatility in financial markets and capital flight from emerging markets which may threaten the growth trajectory of some vulnerable economies. A slowdown in China's growth may depress prices and trade in a number of commodity sectors such as energy, metals and mining sectors, and a prolonged slowdown could have wider economic repercussions.

The sovereign crisis in the eurozone is not fully resolved 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 67).

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.

Inflation and property prices appear to be under control in most of the countries in which we operate. Changes in monetary policy could lead to significant increases in interest rates from their currently low historical levels, with resulting impacts on the wider economy and on property values.

We balance risk and return taking account of changing conditions through the economic cycle, and monitor economic trends in our markets very closely. We conduct stress tests to assess the effects of extreme but plausible trading conditions on our portfolio and also continuously review the suitability of our risk policies and controls. We manage credit exposures following the principle of diversification across products, geographies, client and customer segments. This provides for strong resilience against economic shocks in one or more of our portfolios.

Regulatory changes

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 always 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, (including proposals which could result in (i) deposit-taking entities being ring-fenced from wholesale banking activities and (ii) local branches of international banking groups being subsidiarised), the UK bank levy and the US Foreign Account Tax Compliance Act. In relation to the banking structural reforms, the European Commission has published a legislative proposal for a regulation introducing structural reforms to the EU banking sector, including a prohibition on proprietary trading and separation powers for supervisors relating to banks' other trading activities. Uncertainty remains regarding details of the application of the European Union's Capital Requirements Directive and Regulation (CRD IV), the proposed Bank Recovery and Resolution Directive (BRRD) and Over the Counter (OTC) derivative reforms across our markets which could 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, structure our global operating model 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 under current and currently published future regimes.

It is in the wider interest to have a well run financial system, and we are supportive of a tighter regulatory regime that 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 co-ordinated 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 clients and shareholders and the broader geographies and markets in which we operate. 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.

Regulatory compliance, reviews, requests for information and investigations

Since the global financial crisis, the banking industry has been subject to increased regulatory scrutiny. There has been an unprecedented volume of regulatory changes and requirements, as well as a more intensive approach to supervision and oversight, resulting in an increasing number of regulatory reviews, requests for information and investigations, often with enforcement consequences, involving banks.

While the Group seeks to comply with the letter and spirit of all applicable laws and regulations at all times, it may be subject to regulatory actions and investigations across our markets, the outcomes of which are generally difficult to predict and can be material to the Group. Where laws and regulations across the geographies in which the Group operates contradict each other or create conflicting obligations, the Group aspires to meet both local requirements and appropriate global standards.

From time to time the Group is the subject of various regulatory reviews, requests for information (including subpoenas and requests for documents) and investigations by various governmental and regulatory bodies arising from the Group's business operations.

In 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 (each a 'DPA') and a Settlement Agreement with the Office of Foreign Assets Control. In addition to the civil penalties totalling $667million, the terms of these settlements (together the 'Settlements') include a number of conditions and ongoing obligations with regard to improving sanctions and Anti-Money Laundering (AML) and Banking Secrecy Act (BSA) controls such as remediation programmes, reporting requirements, compliance reviews and programmes, banking transparency requirements, training measures, audit programmes, disclosure obligations and the appointment of an independent monitor. These obligations are managed under a programme of work referred to as the US Supervisory Remediation Program (SRP). The SRP comprises workstreams designed to ensure compliance with the remediation requirements contained in all of the Settlements. Provided the Group fulfils all the requirements imposed by the DPAs, the applicable charges against the Group will be dismissed at the end of the two year term of those agreements.

The Group has established a Financial Crime Risk Mitigation Programme (FCRMP), which is a comprehensive, multi-year, programme designed to review many aspects of the Group's existing approach to anti-money laundering and sanctions compliance and to enhance them as appropriate. One key component of the FCRMP is to oversee and manage the SRP. As part of the FCRMP the Group or its advisors may identify new issues, potential breaches or matters requiring further review or further process improvements that could impact the scope or duration of the FCRMP.

The Group is engaged with all relevant authorities to implement these programmes, meet the obligations under the Settlements and respond to further requests for information and inquiries related to its historic, current and future compliance with the relevant sanctions regimes of all jurisdictions in which it operates.

The Group recognises that its compliance with historic, current and future sanctions, as well as AML and BSA requirements, and customer due diligence practices, not just in the US but throughout its footprint, is and will remain a focus of the relevant authorities.

As part of their remit to oversee market conduct, regulators and other agencies in certain markets are conducting investigations or requesting reviews into a number of areas of market conduct, including sales and trading, involving a range of financial products, and submissions made to set various market interest rates and other financial benchmarks, such as foreign exchange. At relevant times, certain of the Group's branches and/or subsidiaries were (and are) participants in some of those markets, in some cases submitting data to bodies that set such rates and other financial benchmarks.

The Group is contributing to industry proposals to strengthen financial benchmarks processes in certain markets and continues to review its practices and processes in the light of the investigations, reviews and the industry proposals.

The Group is co-operating with all such ongoing reviews, requests for information and investigations. While the Group seeks to comply with the letter and spirit of all applicable laws and regulations, the outcome of these reviews, requests for information and investigations is uncertain and it may not be possible to predict the extent of any liabilities or other consequences that may arise.

For further details on legal and regulatory matters refer to note 33 on page 142.

Financial markets dislocation

There is a risk that a sudden financial market dislocation, perhaps as a result of a tightening of monetary policy in the major economies or a 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. In addition, reduction of monetary intervention by the US Federal Reserve, or other central banks, could disrupt external funding for some economies leading to lower growth and financial markets volatility. 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 stress test our market risk exposures to highlight the potential impact of extreme market events on those exposures and to confirm that they are within authorised stress triggers.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. Where necessary, overall reductions in market risk exposure are enforced. 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 30.

Risk of fraud and other criminal acts

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 and the internet. The incidence of cyber crime is rising, becoming more globally coordinated, and is a challenge for all organisations.

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.

We have a set of techniques, tools and activities to detect and respond to cyber crime, in its many forms. We actively collaborate with our peers, regulators and other expert bodies as part of our response to this risk.

The Group's controls to address money laundering risks are under review as part of the Group's Financial Crime Risk Mitigation Programme, referred to in the section headed "Regulatory compliance, reviews, requests for information and investigations" above.

Fraud and criminal activity may also give rise to litigation impacting the Group. In December 2008 Bernard Madoff confessed to running a Ponzi scheme through Bernard L. Madoff Investment Securities, LLC ('BMIS'). American Express Bank ('AEB'), acquired by the Group in February 2008, had provided clients with access to funds that invested in BMIS. BMIS and the funds are in liquidation. Certain clients have brought actions against the Group in various jurisdictions seeking to recover losses based principally on the assertion that inadequate due diligence was undertaken on the funds. In addition, the BMIS bankruptcy trustee and the funds' liquidator have commenced proceedings against the Group, seeking to recover sums paid to clients when they redeemed their investments prior to BMIS' bankruptcy. There is a range of possible outcomes in the litigation described above, with the result that it is not possible for the Group to estimate reliably the liability that might arise. However, the Group considers that it has good defences to the asserted claims and continues to defend them vigorously.

For further details on legal and regulatory matters refer to note 33 on page 142.

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 year end and average currency exchange rates per US dollar for India, Korea, Indonesia and Taiwan for the year ended 31 December 2013 and 31 December 2012. These are the markets for which currency exchange rate movements have had the greatest translation impact on the Group's results in 2013.

	2013	2012
Indian rupee		
Average	**58.51**	53.43
Period end	**61.77**	54.96
Korean won		
Average	**1,094.52**	1,126.23
Period end	**1,055.08**	1,070.34
Indonesian rupiah		
Average	**10,414.66**	9,394.70
Period end	**12,164.29**	9,799.42
Taiwan dollar		
Average	**29.70**	29.57
Period end	**29.84**	29.07

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 seeks to ensure 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. Further details on the role of the Board and its committees in matters of risk governance are covered in the Corporate Governance section in the Group's Annual Report.

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

The 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, the 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 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 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. The BRC advises the Board on the risk appetite statement and oversees that the Group remains within it.

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
- Adhere 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. Stress tests are also performed at country and business level.

A Stress Testing Committee, led by the Risk function with members drawn from the business, 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 testing is carried out at multiple levels within the Group to analyse the potential impact of possible stress scenarios at country and business line level and on the Group. During the year, Group level stress testing covered a considerable range of macroeconomic scenarios. These included the effects of a major downturn in world trade, severe economic stress in emerging markets, a slump in emerging markets exports sharp appreciation and depreciation in currencies, and the tapering of quantitative easing. Stress testing at business level covered a range of scenarios including the impact of foreign exchange depreciation or appreciation, sustained falls in base metals and energy prices, significant changes in interest rates and drops in counterparty credit quality.

At country level, a number of portfolio reviews were also undertaken, covering the effects of stress on a range of industry sectors, including the shipbuilding, banking, real estate, telecoms, mining and renewable energy sectors.

Market risk and liquidity stress tests are also carried out regularly as described in the sections on market risk on page 71 and liquidity risk on page 75.

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. 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 across our businesses. 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. An analysis by credit grade of those loans that are neither past due nor impaired is set out on page 39.

Our credit grades are not intended to replicate external credit grades (where these are available), 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. An analysis of the loan portfolio by product and counterparty is set out on page 48 for Consumer Banking and 54 for Wholesale Banking.

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, industry and product, as applicable. 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.

Credit governance committees meet regularly to assess the impact of external events and trends on the Group’s credit risk portfolios and to define and implement our response in terms of appropriate changes to portfolio shape, portfolio and underwriting standards, risk policy and procedures.

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

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

For retail exposures, 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 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 corporate credit procedures, and smaller exposures are managed through Programmed Lending, in line with retail credit 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 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 SME and Private Bank 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 there is an intent to settle on a net basis or realise the assets and liabilities simultaneously. As master netting agreements are generally enforced only in the event of default, they cannot be netted on the balance sheet.

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 34.

Securities

The portfolio limits and parameters for the underwriting and purchase of all pre-defined securities assets to be held for sale are approved by the Underwriting Committee. The Underwriting Committee is established under the authority of the GRC. The business 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 a specialist team within the Risk function whose activities include oversight and approval within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, and price risk are controlled by the Risk function.

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.

Restatement of prior year

The tables on pages 33 to 84 and related analysis reflect the restatement of balances at 31 December 2012 for the impact of equity accounting Permata, the Group’s joint venture business in Indonesia (within the Other Asia Pacific geographic region) rather than the previous treatment of proportionate consolidation.

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 2013, before and after 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 and 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 $51.5 billion when compared to 2012. Exposure to loans and advances to banks and customers has increased by $29.0 billion since 2012 due to growth in the secured lending to Banks and broad based growth across several industry sectors in Wholesale Banking. Further details of the loan portfolio are set out on page 35. The Group's credit risk exposure before risk mitigation arising from derivatives has increased by $12.3 billion when compared to 2012 with increase in volumes in several markets.

	2013				2012			
		Credit risk management				Credit risk management		
	Maximum exposure $million	Collateral $million	Master netting agreements $million	Net Exposure $million	Maximum exposure $million	Collateral $million	Master netting agreements $million	Net Exposure $million
On balance sheet								
Total Loans and advances[1]								
As per balance sheet	374,410	-	-	-	347,435	-	-	-
Included within fair value through profit and loss	7,774	-	-	-	5,752	-	-	-
	382,184	152,926	-	229,258	353,187	139,713	-	213,474
Investment securities[2]								
As per balance sheet	102,716	-	-	102,716	99,225	-	-	99,225
Included within fair value through profit and loss	21,561	-	-	21,561	21,324	-	-	21,324
Less: Equity securities	(6,800)	-	-	(6,800)	(6,432)	-	-	(6,432)
	117,477	-	-	117,477	114,117	-	-	114,117
Derivative financial instruments[3]	61,802	5,147	46,242	10,413	49,495	3,245	35,073	11,177
Total balance sheet	561,463	158,073	46,242	357,148	516,799	142,958	35,073	338,768
Off balance sheet								
Contingent liabilities	46,938	-	-	46,938	44,293	-	-	44,293
Undrawn irrevocable standby facilities, credit lines and other commitments to lend[4]	61,277	-	-	61,277	56,647	-	-	56,647
Documentary credits and short term trade-related transactions	7,409	-	-	7,409	7,610	-	-	7,610
Forward asset purchases and forward deposits	459	-	-	459	711	-	-	711
Total off balance sheet	116,083	-	-	116,083	109,261	-	-	109,261
Total	677,546	158,073	46,242	473,231	626,060	142,958	35,073	448,029

1 An analysis of credit quality is set out on page 38. Further details of collateral held by businesses and held for past due and individually impaired loans are set on page 40

2 Equity shares are excluded as they are not subject to credit risk

3 The Group enters into master netting agreements which in the event of default, results 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

4 Excludes unconditionally cancellable facilities

Credit risk mitigation

Loans and advances

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 $779 million (2012: $1,321 million). The Group continues to recognise these assets in addition to the proceeds and related liability of $502 million (2012: $1,093 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 77.

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $21.4 billion (2012: $22.1 billion). These credit default swaps are accounted for as guarantees as they meet the accounting requirements set out in IAS 39. 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.

Derivatives financial instruments

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 $3,068 million (2012: $2,700 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

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Loan portfolio

This section provides qualitative and quantitative information on the Group's exposure to credit risk for loans and advances to banks and customers, including the impact of credit risk mitigation and problem credit management.

Wholesale Banking (WB) exposures are typically managed on an individual basis and consequently credit grade migration is a key component of credit risk management (as discussed on page 42). In Consumer Baking, where loans are typically managed on a portfolio basis, delinquency trends are monitored consistently as part of risk management (as discussed on page 42). In both businesses, credit risk is mitigated to some degree through collateral, further details of which are set out on page 40.

Pages 36-39 set out a high level overview of the Group's loans to banks and customers, segmented by business and by credit quality type (neither past due not impaired; past due; and impaired). The Group manages its loan portfolio between those assets that are performing in line with their contractual terms (whether original or renegotiated) and those that are non-performing.

Review of key credit risk tables

	Group Page reference	Consumer Banking Page reference	Wholesale Banking Page reference
Overview	36	48	54
Geographic analysis	36	48	54
Maturity analysis			
• By business	36	-	-
• By category of borrower	-	49	56
Credit quality analysis	38		
• By business, internal credit grades and days past due	39	-	-
• By product and geography	-	50	57-59
Credit risk mitigation			
• Collateral by business and credit quality	40	-	-
• Analysis of secured / unsecured loans by category of business	-	51	-
• Collateral held by type	-	-	60
• Geographic analysis of mortgage and commercial real estate loan to value ratios	-	51	61
Problem credit management and provisioning			
• Policies on credit management and provisioning	41	41	41
• *Non-performing loans*			
o Definition			
o By business	41	-	-
o By geography	-	53	64
o Movement in non-performing loans and total impaired loans by business	41,43	41,43	41,43
• *Loan impairment*			
o Movement in total impairment provisions	44	-	-
o Movement in individual impairment provision by geography	44	-	-
o Loan impairment charge – by geography	-	52	62
o Loan impairment movement – by category of borrower	-	52	64
Renegotiated and forborne loans			
o Definition	46	-	-
o By business	-	47	47

Group 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 48 to 53 and Wholesale Banking on pages 54 to 64.

Geographic analysis

Loans and advances to customers grew by $11.4 billion since 31 December 2012 to $296.0 billion. The Consumer Banking portfolio in 2013 has reduced by $0.6 billion, or 0.5 per cent since 2012 as strong growth in Hong Kong, Singapore and the Middle East region was offset by lower levels of Mortgages in Korea (down $4 billion). The Wholesale Banking portfolio has continued to grow in 2013, increasing by $12.0 billion, or 8 per cent compared to December 2012. The increase was noted primarily in Singapore and Hong Kong across a number of sectors. Loans and advances to banks have increased by $17.6 billion since 31 December 2012 to $86.1 billion mainly in the Americas, UK and Europe and Other Asia Pacific regions with an increase in reverse repurchase trades and negotiated credit bills.

	2013								
	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
Consumer Banking	34,105	28,762	23,178	25,149	5,085	6,456	2,083	4,984	129,802
Wholesale Banking	25,154	33,451	6,688	24,248	6,768	14,271	6,077	50,252	166,909
Portfolio impairment provision	(86)	(59)	(106)	(156)	(38)	(100)	(67)	(84)	(696)
Total loans and advances to customers[1,2]	59,173	62,154	29,760	49,241	11,815	20,627	8,093	55,152	296,015
Total loans and advances to banks[1,2]	17,658	4,501	4,192	14,891	399	2,273	742	41,513	86,169

	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
Consumer Banking	31,324	27,567	28,587	26,702	5,190	5,418	1,710	3,919	130,417
Wholesale Banking	21,515	28,321	7,710	22,526	6,827	14,672	6,327	47,023	154,921
Portfolio impairment provision	(74)	(47)	(132)	(166)	(39)	(138)	(63)	(63)	(722)
Total loans and advances to customers[1,2]	52,765	55,841	36,165	49,062	11,978	19,952	7,974	50,879	284,616
Total loans and advances to banks[1,2]	19,356	6,205	4,633	8,133	571	3,172	378	26,123	68,571

1 Amounts net of impairment provision and include financial instruments held at fair value through profit or loss (see note 12 on page 113)
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 103 in note 2 to the financial statements present loans based on the location of the customers

Maturity analysis

Approximately half of our loans and advances to customers are short-term having a contractual maturity of one year or less. The Wholesale Banking portfolio remains predominantly short-term, with 64 per cent (2012: 62 per cent) of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 54 per cent (2012: 56 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.

Group overview *continued*

	2013			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Consumer Banking	**42,240**	**22,397**	**65,165**	**129,802**
Wholesale Banking	**106,951**	**48,449**	**11,509**	**166,909**
Portfolio impairment provision				**(696)**
Total loans and advances to customers				**296,015**

	2012			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Consumer Banking	38,475	23,592	68,350	130,417
Wholesale Banking	96,194	46,195	12,532	154,921
Portfolio impairment provision				(722)
Total loans and advances to customers				284,616

Credit quality

The following table illustrates the basis on which the Group's loans and advances to customers are analysed, both in terms of credit quality and in terms of risk management, together with how impairment provisions are determined.

			Impairment provisioning			
Loan status	**Analysis**	**Risk management**	**CB specific**	**CB PIP[3] collective**	**WB Specific**	**CB and WB PIP[3]**
Neither past due nor impaired	Credit grade	Performing	X	X	X	✓
Up to 90 days past due, with no other evidence of impairment	Past due	Performing	X	✓	X	✓
Renegotiated loans where there has been no loss or principal haircut [1]	Business	Performing	X	X	X	✓
Forborne loans where there has been no loss of principal, and which have performed under new terms for more than 180 days [1]	Business	Performing	✓	X	✓	✓
Forborne loans where there has been no loss of principal, but which have performed under new terms for less than 180 days [1]	Business	Non-performing	✓	X	✓	X
Evidence of impairment on a specific loan		Non-performing	✓	X	✓	X
Over 90 days past due [2]	Business/geography within non-performing disclosure	Non-performing	✓	✓	✓	X
Over 150 days past due[2]		Non-performing	✓	X	✓	X

[1]Renegotiated loans are primarily those where extended tenure is granted to a client or customer who is facing some difficulties but who we do not believe is impaired. Forborne loans represents those 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 with the original terms of the loan, resulting in impairment.

[2]For CB, unsecured products are generally written off by 150 days past due. Individual impairment provisions (IIP) for mortgage loans are raised at 150 days past due and secured Wealth Management loans at 90 days past due. For WB, IIP is raised for all loans more than 90 days past due, unless there is sufficient collateral.

[3]For CB, portfolio impairment provisions (PIP) comprises provisions to cover losses inherent in the neither past due/impaired portfolios and also a collective portfolio provision for the past due portfolio based on the number of days past due. WB PIP only represents losses inherent in the neither past due nor impaired portfolio.

Group overview *continued*

Analysis of credit quality

The table on the following page sets out an analysis of the Group's loan portfolio between those loans that are: (i) neither past due nor impaired; (ii) past due but not individually impaired; and (iii) individually impaired. Within each category we have also highlighted those loans that have been renegotiated or are considered forborne.

A loan is considered to be past due when a client or customer has failed to make a payment of principal or interest when contractually due. The amount reported in this category relates to the entire loan amount and not just the amount that is past due.

Further disclosures in respect of forborne and renegotiated loans, including the definitions applied to those categories, are set out on page 46.

Loans to banks

Loans to banks form part of the Wholesale Banking loan portfolio. 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.

Loans and advances to customers

Wholesale Banking

As at 31 December 2013, 96 per cent (2012: 95 per cent) of loans to customers are classified as neither past due nor impaired. Within this, lending to clients within credit grades 9-11 increased by $6.6 billion compared to 2012, approximately half of which relates to lending to a connected group of companies that were reported as past due in 2012 (within the 61-90 days category) and which were renegotiated, without loss, in 2013.

Past due but not individually impaired loans decreased by $1.2 billion compared to 2012. Loans within the 61-90 days past due category decreased by $2.5 billion, primarily reflecting the renegotiated loan exposure within the neither past due nor impaired category referred to above. Loans past due up to 30 days increased by $1.1 billion compared to 2012, largely due to a small number of exposures (part of which are held at fair value) where principal had been renegotiated but where a small amount of interest remained past due. Over 85 per cent of the loans reported in the up to 30 days past due category, including those relating to renegotiated loans, had been cured by the end of January 2014.

Net impaired loans have increased by $743 million, primarily relating to a small number of exposures in Africa and India. Within this, forborne loans remained low at less than 1 per cent of total Wholesale Banking loans. Forborne loans increased by $583 million, over half of which relates to loans held at fair value.

Consumer Banking

At 31 December 2013, 97 per cent (2012: 96 per cent) on CB loans are neither past due nor impaired and the spread across credit grades remains consistent with 2012.

Loans past due but not individually impaired fell by $0.6 billion, primarily in the up to 30 days category, which predominantly relates to loans where there is a temporary timing difference in payments.

Net individually impaired loans fell by $29 million, despite the increase in the impairment charge in the income statement as impaired unsecured loans (such as those impacted by the PDRS in Korea) are written off after 150 days. Forborne loans remained low, at around 0.5 per cent of CB lending.

Group overview *continued*

	2013				2012			
		Loans to customers				Loans to customers		
	Loans to banks	Wholesale Banking	Consumer Banking	Total	Loans to banks	Wholesale Banking	Consumer Banking	Total
	$million	$million	$million	$million	$million	$million	$million	$million
Neither past due nor individually impaired loans								
Grades 1-5	73,862	61,741	58,860	120,601	59,118	63,216	59,280	122,496
Grades 6-8	10,325	68,706	42,458	111,164	7,757	61,739	41,696	103,435
Grades 9-11	1,825	27,964	21,321	49,285	1,457	21,324	21,596	42,920
Grade 12	35	1,738	2,629	4,367	32	1,400	2,689	4,089
	86,047	160,149	125,268	285,417	68,364	147,679	125,261	272,940
Of which:								
Renegotiated loans	-	4,233	389	4,622	-	773	319	1,092
Past due but not individually impaired loans								
Up to 30 days past due	17	2,507	2,968	5,475	3	1,434	3,559	4,993
31 - 60 days past due	-	276	511	787	-	114	493	607
61 - 90 days past due	-	598	220	818	-	3,058	230	3,288
91 - 150 days past due	-	-	198	198	-	-	208	208
	17	3,381	3,897	7,278	3	4,606	4,490	9,096
Of which:								
Renegotiated loans	-	583	-	583	-	-	-	-
Individually impaired loans	207	5,486	1,279	6,765	309	4,400	1,232	5,632
Individual impairment provisions	(100)	(2,107)	(642)	(2,749)	(103)	(1,764)	(566)	(2,330)
Net individually impaired loans	107	3,379	637	4,016	206	2,636	666	3,302
Of which:								
Forborne loans	-	1,317	631	1,948	-	779	673	1,452
Total loans and advances	86,171	166,909	129,802	296,711	68,573	154,921	130,417	285,338
Portfolio impairment provision	(2)	(300)	(396)	(696)	`(2)	(300)	(422)	(722)
Total net loans and advances	86,169	166,609	129,406	296,015	68,571	154,621	129,995	284,616

The following table sets out loans and advances held at fair value through profit and loss which are included within the table above.

Neither past due nor individually impaired								
Grades 1-5	2,271	1,026	-	1,026	555	1,237	-	1,237
Grades 6-8	196	3,321	-	3,321	219	3,048	-	3,048
Grades 9-11	-	211	-	211	-	692	-	692
Grade 12	-	25	-	25	-	1	-	1
	2,467	4,583	-	4,583	774	4,978	-	4,978
Past due but not individually impaired loans								
Up to 30 days past due	-	405	-	405	-	-	-	-
Individually impaired loans (including forborne loans)	-	319	-	319	-	-	-	-

The following table sets out how total loans and advances are analysed by performing and non-performing:

Performing loans:								
Neither past due nor individually impaired	86,047	160,149	125,268	285,417	68,364	147,679	125,261	272,940
Past due less than 90 days	17	3,381	3,699	7,080	3	4,606	4,282	8,888
Performing forborne loans, net of provision	-	474	151	625	-	436	133	569
	86,064	164,004	129,118	293,122	68,367	152,721	129,676	282,397
Non-performing loans:								
Non-performing forborne loans	-	843	480	1,323	-	343	540	883
Other individually impaired loans, net of provisions	107	2,062	204	2,266	206	1,857	201	2,058
	107	2,905	684	3,589	206	2,200	741	2,941
Total loans and advances	86,171	166,909	129,802	296,711	68,573	154,921	130,417	285,338
Portfolio impairment provision	(2)	(300)	(396)	(696)	`(2)	(300)	(422)	(722)
Total net loans and advances	86,169	166,609	129,406	296,015	68,571	154,621	129,995	284,616

Group overview *continued*

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 nor impaired, we have assessed the significance of the collateral held in relation to the type of lending.

For loans and advances to banks and customers (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 31 and for the effect of over-collateralisation.

In Consumer Banking, collateral levels have remained stable compared to 31 December 2012. The proportion of collateral held over impaired loans has declined compared to 2012 as the increase in impaired loan primarily relates to the unsecured portfolio. 73 per cent of the loans to customers are fully secured and around 86 per cent of collateral across the portfolio is property based.

Collateral held against Wholesale Banking loans also covers off-balance sheet exposures including undrawn commitments and trade related instruments. At 31 December 2013, collateral coverage increased from 23 per cent to 25 per cent reflecting shift in mix with higher levels of reverse repurchase collateral as a proportion of total lending in Wholesale Banking compared to 31 December 2012. The unadjusted market value of collateral, which does not take into consideration over-collateralisation or adjustments outlined on page 60, was $197 billion (2012: $186 billion).

Further details on collateral are explained in the Consumer Banking and Wholesale Banking sections on page 51 and 60 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
	$million	$million	$million	$million	$million	$million	$million	$million	$million
As at 31 December 2013									
Collateral	**89,536**	**2,889**	**564**	**63,390**	**642**	**695**	**152,926**	**3,531**	**1,259**
Amount outstanding[1]	**129,802**	**3,897**	**1,279**	**253,080**	**3,398**	**5,693**	**382,882**	**7,295**	**6,972**
Of which:									
Loans to customers	**129,802**	**3,897**	**1,279**	**166,909**	**3,381**	**5,486**	**296,711**	**7,278**	**6,765**
Loans to banks	**-**	**-**	**-**	**86,171**	**17**	**207**	**86,171**	**17**	**207**
As at 31 December 2012									
Collateral	88,119	2,799	563	51,594	1,823	573	139,713	4,622	1,136
Amount outstanding[1]	130,417	4,490	1,232	223,494	4,609	4,709	353,911	9,099	5,941
Of which:									
Loans to customers	130,417	4,490	1,232	154,921	4,606	4,400	285,338	9,096	5,632
Loans to banks	-	-	-	68,573	3	309	68,573	3	309

[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 2013 and 31 December 2012:

	2013			2012		
	Consumer Banking	Wholesale Banking	Total	Consumer Banking	Wholesale Banking	Total
	$million	$million	$million	$million	$million	$million
Property	**44**	**-**	**44**	62	9	71
Other	**-**	**-**	**-**	3	-	3
	44	**-**	**44**	65	9	74

Group overview *continued*

Problem credit management and provisioning

Non-performing loans

A non-performing loan is any loan that is more than 90 days past due or is otherwise individually Impaired. This excludes 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. These loans may have a provision reflecting the time value of money and if so, are reported as part of forborne loans on page 46.

The gross non-performing loans in Consumer Banking have increased by 1 per cent since 31 December 2012 mainly reflecting the impact of the Personal Debt Rehabilitation Scheme (PDRS) in Korea and seasoning of the unsecured loan portfolio. In Wholesale Banking, non-performing loans have increased by $0.9 billion mainly due to a small number of large exposures in India and Africa.

The cover ratio is a common metric used in considering trends in provisioning and non-performing loans. It should be noted, 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 is contained in page 42.

The cover ratio for Consumer Banking remained broadly stable compared to 2012 while the cover ratio for Wholesale Banking was 48 per cent at 31 December 2013, down from 51 per cent at 31 December 2012. The balance of non-performing loans not covered by individual impairment provisions represents the adjusted 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 61 per cent (2012: 64 per cent).

The table below presents a movement of the gross non-performing loans to banks and customers, together with the provisions held, for Consumer Banking and Wholesale Banking and the respective cover ratios.

Further details by geography are set out in pages 53 and 64 for Consumer Banking and Wholesale Banking respectively.

	2013			2012		
	Consumer Banking	**Wholesale Banking**	**Total**	Consumer Banking	Wholesale Banking	Total
	$million	**$million**	**$million**	$million	$million	$million
Gross non-performing loans at 1 January	**1,266**	**4,272**	**5,538**	1,069	3,043	4,112
Exchange translation differences	**(29)**	**(141)**	**(170)**	4	(43)	(39)
Transfer to assets held for sale	**(111)**	**-**	**(111)**			
Classified as non-performing during the year	**1,024**	**1,912**	**2,936**	659	1,533	2,192
Recoveries on loans and advances previously written off	**29**	**-**	**29**	27	148	175
Additions	**1,053**	**1,912**	**2,965**	686	1,681	2,367
Transferred to performing during the year	**(130)**	**(86)**	**(216)**	(88)	(175)	(263)
Net repayments	**(108)**	**(614)**	**(722)**	(86)	(163)	(249)
Amounts written off	**(578)**	**(44)**	**(622)**	(265)	(66)	(331)
Disposals of loans	**(89)**	**(94)**	**(183)**	(54)	(5)	(59)
Reductions	**(905)**	**(838)**	**(1,743)**	(493)	(409)	(902)
Gross non-performing loans at 31 December	**1,274**	**5,205**	**6,479**	1,266	4,272	5,538
Individual impairment provisions[1]	**(590)**	**(2,193)**	**(2,783)**	(525)	(1,866)	(2,391)
Net non-performing loans	**684**	**3,012**	**3,696**	741	2,406	3,147
Portfolio impairment provision	**(396)**	**(302)**	**(698)**	(422)	(302)	(724)
Total	**288**	**2,710**	**2,998**	319	2,104	2,423
Cover ratio	**77%**	**48%**	**54%**	75%	51%	56%

[1] The difference to total individual impairment provision reflects provisions against performing forborne loans that are not included within non-performing loans as they have been performing for more than 180 days. Details on renegotiated and forborne loans are set on page 47.

Group overview *continued*

Loan impairment

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

Consumer Banking

Medium sized entities among SME customers and Private Banking customers are assessed for impairment in the same way as WB loans, based on the individual circumstances of each borrower (see WB below).

All other CB product portfolios consist of a large number of comparatively small exposures, where it is impractical to monitor each loan on an individual basis for impairment. The primary indicator of potential impairment in these portfolios is therefore delinquency. A loan is considered delinquent (or 'past due'), when the customer has failed to make a principal or interest payment in accordance with the loan contract. For delinquency reporting purposes we follow industry standards measuring delinquency as of one, 30, 60, 90, 120 and 150 days past due. Impairment is measured against these buckets in two stages:

- In the first stage we raise 'portfolio impairment provisions' (PIP). These are calculated by applying expected loss rates to delinquency buckets. These are based on past experience of loss supplemented by an assessment of specific factors that affect each portfolio and that in particular aim to adjust historic data for current market conditions. Loss rates are generally calculated separately for each product in each country (either through the use of historical data or using proxies) and separate loss rates are used for renegotiated and forborne loans to reflect their increased risk. PIPs take into account the fact that, while delinquency is an indication of impairment, not all delinquent loans (particularly those in the early stages of delinquency) will in fact be impaired. This will only become apparent with the passage of time and as we investigate the causes of delinquency on a case by case basis. (Accounts that are overdue by more than 30 days are more closely monitored and subject to specific collections processes for this purpose). At the outset of delinquency therefore it is not possible to determine whether a loan is impaired; it is only possible to estimate the likelihood that it is. This is taken account of in the PIP method, which estimates loss by extrapolating past experience over whole portfolios, rather than analysing individual loans on a case by case basis.
- In the second stage we are able to replace PIP with individual impairment provisions (IIP) as we develop more knowledge about each individual account. We apply IIP after the following number of days' delinquency:
    - For mortgages after 150 days
    - For secured wealth management products after 90 days
    - For unsecured consumer finance loans after 90 days
    - For all other unsecured loans and loans secured on automobiles, after 150 days

IIP provisions are based on the estimated present values of future cashflows, in particular those resulting from the realisation of security. The days past due used to trigger IIP are 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 raising security as appropriate) is low. For all products there are certain situations where the IIP process is accelerated, such as in cases involving bankruptcy, customer fraud and death. IIP is also accelerated for all restructured accounts to 90 days past due (unsecured and automobile finance) and 120 days past due (secured loans) respectively.

Loan write off is again broadly driven by past experience of the point at which further recovery is unlikely. Write off occurs at the same time that IIP is established for all products except mortgage loans, which have not been restructured. The latter is fully impaired after 720 days past due.

The fact that it is not possible to be certain that a loan is impaired until several months after it becomes delinquent means that it is also not possible to be certain which delinquent loans are fully non-performing. The Group has determined that it is more likely than not that a loan is non-performing after 90 days and therefore uses 90 days delinquency as the distinguishing feature between performing and non-performing CB loans. This is however, only an approximate measure and it also means that, for CB, impaired loans do not equate to non-performing loans, because impairment cannot be generally determined on an individual basis until a later date.

It is inevitable that at the balance sheet date, the non-delinquent portfolio will include a few impaired loans that have not manifested themselves as delinquent. These are known as 'incurred, but not reported' losses. A PIP is raised against these in the same way as PIP is raised for delinquent loans by applying past experience adjusted for current conditions to non-delinquent loans on a portfolio basis.

Wholesale Banking

Loans are classified as impaired 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.

Impaired loans

In Consumer Banking, individual impaired loans broadly remained stable compared to 2012 at $1.5 billion. Wholesale Banking individually impaired loans increased by $1 billion during the year primarily due to a small number of large exposures in India and Africa.

The following table sets out the movement in individually impaired loans for banks and customers by business.

	2013			2012		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Gross impaired loans at 1 January	1,440	4,709	6,149	1,223	3,450	4,673
Exchange translation differences	(32)	(140)	(172)	12	(40)	(28)
Transferred to assets held for sale	(111)	-	(111)	-	-	-
Classified as impaired during the year	1,104	1,967	3,071	682	1,561	2,243
Transferred to performing during the year	(118)	(87)	(205)	(47)	(175)	(222)
Other movements[1]	(806)	(756)	(1,562)	(430)	(87)	(517)
Gross impaired loans at 31 December	1,477	5,693	7,170	1,440	4,709	6,149

[1] Other movement includes repayments, amounts written off and disposals of loans

Group overview *continued*

Individual and portfolio impairment provisions

Individual impairment provisions increased by $416 million as compared to 31 December 2012. This was primarily in India ($83 million increase) and Africa ($223 million increase) as a result of a small number of Wholesale Banking exposures and within Consumer Banking in Korea ($44 million increase) due to higher levels of filings under the PDRS. Portfolio impairment provision remained at similar levels as 2012 with the reduction due to the transfer of certain businesses in Korea as held for sale. The amounts written off primarily related to Consumer Banking relating to higher levels of write-offs in unsecured lending which are written off after 150 days past due.

The following tables sets out the movements in total individual and portfolio impairment provisions:

	2013			2012		
	Individual Impairment Provisions	Portfolio Impairment Provision	Total	Individual Impairment Provisions	Portfolio Impairment Provision	Total
	$million	$million	$million	$million	$million	$million
Provisions held at 1 January	2,433	724	3,157	1,926	746	2,672
Exchange translation differences	(81)	(16)	(97)	4	13	17
Amounts written off	(1,173)	-	(1,173)	(935)	-	(935)
Releases of acquisition fair values	(3)	-	(3)	(3)	-	(3)
Recoveries of amounts previously written off	211	-	211	288	-	288
Discount unwind	(93)	-	(93)	(77)	-	(77)
Transferred to assets held for sale	(42)	(25)	(67)	-	-	-
New provisions	2,007	170	2,177	1,678	116	1,794
Recoveries/provisions no longer required	(410)	(155)	(565)	(448)	(151)	(599)
Net impairment charge/(release) against profit	1,597	15	1,612	1,230	(35)	1,195
Provisions held at 31 December	2,849	698	3,547	2,433	724	3,157

The table below sets out the movement in individual impairment provisions by geography:

	2013								
	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	74	89	246	437	270	1,173	49	95	2,433
Exchange translation differences	-	-	6	(36)	(37)	(11)	(3)	-	(81)
Amounts written off	(161)	(154)	(339)	(364)	(46)	(59)	(28)	(22)	(1,173)
Releases of acquisition fair values	-	-	-	(1)	-	(2)	-	-	(3)
Recoveries of amounts previously written off	31	21	30	80	7	26	8	8	211
Discount unwind	(3)	(5)	(10)	(21)	(22)	(26)	(3)	(3)	(93)
Transfer to asset held for sale	-	-	(42)	-	-	-	-	-	(42)
New provisions	169	106	522	544	205	173	265	23	2,007
Recoveries/provisions no longer required	(48)	(29)	(92)	(130)	(21)	(68)	(14)	(8)	(410)
Net impairment charge against profit	121	77	430	414	184	105	251	15	1,597
Provisions held at 31 December	62	28	321	509	356	1,206	274	93	2,849

Group overview *continued*

Individual and portfolio impairment provisions

	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
Provisions held at 1 January	78	38	136	425	112	972	61	104	1,926
Exchange translation differences	-	5	17	1	(7)	(9)	(4)	1	4
Amounts written off	(155)	(57)	(175)	(319)	(42)	(123)	(29)	(35)	(935)
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	390	235	387	31	32	1,678
Recoveries/provisions no longer required	(49)	(49)	(81)	(165)	(26)	(53)	(14)	(11)	(448)
Net impairment charge against profit	109	62	253	225	209	334	17	21	1,230
Provisions held at 31 December	74	89	246	437	270	1,173	49	95	2,433

Group overview *continued*

Renegotiated and forborne loans

In certain circumstances, the Group may renegotiate client and customer loans.

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 because they are not indicative of any credit stress.

Loans that are renegotiated primarily to grant extended tenor to a client or customer who is facing some difficulties but who we do not believe is impaired are reported in 'other renegotiated loans' in the disclosures below.

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, which is a subset of impaired loans.

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.

Once a loan is subject to forbearance or is renegotiated, the loan continues to be reported as such, until the loan matures or is otherwise derecognised.

Loans subject to forbearance are initially managed as part of the group's non-performing portfolio. If a forborne loan meets the criteria (past due more than 90 days or otherwise impaired), it is no longer managed as a non-performing loan although it remains impaired.

Consumer Banking

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 2013, $728 million (2012: $769 million) of Consumer Banking loans were subject to forbearance programmes which required impairment provisions to be recognised. This represents 0.5 per cent of total loans and advances to Consumer Banking customers. These loans were largely concentrated in countries that have active government sponsored forbearance programmes and arises from unsecured lending including credit cards and Consumer Finance.

Provision coverage against these loans was 13 per cent (2012: 12 per cent), reflecting collateral held and expected recovery rates.

Wholesale Banking

For Wholesale Banking including 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).

Loans classified as subject to forbearance are managed by GSAM and are kept under constant close review to assess and confirm the client's ability to adhere to the restructured repayment strategy. Accounts are reviewed if there is a significant event that could result in deterioration in their ability to repay.

If the terms of the renegotiation are such that, 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 and shown under Loans subject to Forbearance. These accounts are monitored as described on page 31.

Loans subject to renegotiated and forbearance loans increased by $4,581 million compared to 2012, of which $4,043 million was in other renegotiated loans.

The increase in other renegotiated loans primarily relates to a connected group of companies where the amounts outstanding were subject to renegotiation in 2013. We recognised no impairment at the time of renegotiation and we continue to be comfortable from an impairment perspective. At 31 December 2012, these amounts were reported within the past due 61-90 days category. As these counterparties have complied with the revised terms for more than 180 days, the renegotiated lending is deemed to be performing and is classified within "Neither past due nor impaired".

The remainder of the increase includes loans on which the payment dates for principal payments have been extended pending a more wide-ranging renegotiation of the exposure. A small number of these loans are reported as past due within the up to 30 days category as an amount of interest remained outstanding at the year end which has since been paid.

Forborne loans increased by $538 million compared to 2012. Over half of the increase relates to loans that are held at fair value, which consequently do not have an individual impairment provision.

Group overview *continued*

The table below shows an analysis of renegotiated and forborne loans by business:

	2013			2012		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Managed as performing						
Neither past due nor impaired	389	4,233	4,622	319	773	1,092
Past due but not impaired	-	583	583	-	-	-
Other renegotiated loans	389	4,816	5,205	319	773	1,092
Impaired loans :						
Performing forborne loans (gross)	203	488	691	174	437	611
Individual impairment provisions	(52)	(14)	(66)	(41)	(1)	(42)
Net performing forborne loans	151	474	625	133	436	569
Total performing renegotiated and forborne loans	540	5,290	5,830	452	1,209	1,661
Managed as non-performing						
Impaired:						
Forborne loans (gross)	525	1,228	1,753	595	574	1,169
Individual impairment provisions	(45)	(385)	(430)	(55)	(231)	(286)
Net non-performing forborne loans	480	843	1,323	540	343	883
Total non-performing forborne loans	480	843	1,323	540	343	883
Total renegotiated and forborne loans	1,020	6,133	7,153	992	1,552	2,544
Other renegotiated loans	389	4,816	5,205	319	773	1,092
Loans subject to forbearance	631	1,317	1,948	673	779	1,452
Total renegotiated and forborne loans	1,020	6,133	7,153	992	1,552	2,544

Consumer Banking loan portfolio

The Consumer Banking portfolio in 2013 was marginally down compared to 2012. Loan mortgages declined by $2.8 billion compared to 2012 as regulatory restrictions continued to impact growth in a number of markets, particularly in Korea and Singapore. We did, however, continue to originate and sell $3 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 $1.6 billion since 2012 mainly due to higher level of Private Banking particularly in Singapore and America UK & Europe. Africa also saw strong growth in unsecured products, up 22 per cent compared to 2012. SME lending rose 3 per cent mainly in Hong Kong.

Portfolio impairment provisions fell $26 million, largely due to the transfer of the Consumer Finance business in Korea to held for sale. Excluding this, the portfolio impairment provision was broadly flat compared to 2012.

Geographic analysis

	2013								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Loans to individuals									
Mortgages	23,252	13,983	12,641	14,224	2,176	1,868	290	1,355	69,789
Other	7,468	11,471	5,663	5,590	854	3,397	1,367	3,559	39,369
Small and medium enterprises	3,385	3,308	4,874	5,335	2,055	1,191	426	70	20,644
	34,105	28,762	23,178	25,149	5,085	6,456	2,083	4,984	129,802
Portfolio impairment provision	(57)	(28)	(93)	(124)	(21)	(45)	(25)	(3)	(396)
Total loans and advances to customers	**34,048**	**28,734**	**23,085**	**25,025**	**5,064**	**6,411**	**2,058**	**4,981**	**129,406**

	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 to individuals									
Mortgages	21,441	14,278	16,686	14,832	2,284	1,629	256	1,221	72,627
Other	6,843	10,038	6,936	6,387	806	2,902	1,152	2,696	37,760
Small and medium enterprises	3,040	3,251	4,965	5,483	2,100	887	302	2	20,030
	31,324	27,567	28,587	26,702	5,190	5,418	1,710	3,919	130,417
Portfolio impairment provision	(50)	(26)	(116)	(140)	(20)	(44)	(22)	(4)	(422)
Total loans and advances to customers	31,274	27,541	28,471	26,562	5,170	5,374	1,688	3,915	129,995

Consumer Banking loan portfolio *continued*

Maturity analysis

The proportion of Consumer Banking loans maturing in less than one year increased by $3.8 billion compared to 31 December 2012, reflecting higher levels of 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.

	2013			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	**4,273**	**8,640**	**56,876**	**69,789**
Other	**26,709**	**10,346**	**2,314**	**39,369**
Small and medium enterprises	**11,258**	**3,411**	**5,975**	**20,644**
	42,240	**22,397**	**65,165**	**129,802**
Portfolio impairment provision				**(396)**
Total loans and advances to customers				**129,406**

	2012			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	3,612	9,140	59,875	72,627
Other	24,082	10,923	2,755	37,760
Small and medium enterprises	10,781	3,529	5,720	20,030
	38,475	23,592	68,350	130,417
Portfolio impairment provision				(422)
Total loans and advances to customers				129,995

Consumer Banking loan portfolio *continued*

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 47.7 per cent.

The proportion of the past due but not individually impaired loans decreased to $3.9 billion or 3 per cent of the loan portfolio. Three quarters of the decrease of $0.6 billion arose in the less than 30 days past due category, primarily due to variation in timing differences in payments in Korea, Malaysia and Singapore.

Individually impaired loans increased by $47 million primarily in Singapore and Hong Kong due to the seasoning of the unsecured loan portfolio and the majority of the $76 million increase in individual impairment provision was due to increased levels of PDRS filings in Korea. The portfolio impairment provision was flat with an increase in Hong Kong offset by reduced provisions in the other regions.

The portfolio impairment provision declined marginally due to the impact of exchange rates.

	2013				2012			
	Neither past due nor individually impaired loans $million	**Past due but not individually impaired $million**	**Individually impaired loans $million**	**Total $million**	Neither past due nor individually impaired loans $million	Past due but not individually impaired $million	Individually impaired loans $million	Total $million
Loans to individuals								
Mortgages	**67,844**	**1,766**	**295**	**69,905**	70,313	2,104	347	72,764
Other	**37,742**	**1,366**	**565**	**39,673**	35,810	1,709	469	37,988
Small and medium enterprises	**19,682**	**765**	**419**	**20,866**	19,138	677	416	20,231
	125,268	**3,897**	**1,279**	**130,444**	125,261	4,490	1,232	130,983
Individual impairment provision				**(642)**				(566)
Portfolio impairment provision				**(396)**				(422)
Total loans and advances to customers				**129,406**				129,995

	2013								
	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 loans	**33,622**	**28,245**	**22,263**	**23,636**	**4,587**	**6,025**	**2,006**	**4,884**	**125,268**
Past due but not individually impaired loans	**419**	**454**	**778**	**1,251**	**472**	**386**	**52**	**85**	**3,897**
Individually impaired loans	**88**	**82**	**322**	**416**	**58**	**209**	**39**	**65**	**1,279**
Individual impairment provisions	**(24)**	**(19)**	**(185)**	**(154)**	**(32)**	**(164)**	**(14)**	**(50)**	**(642)**
Portfolio impairment provision	**(57)**	**(28)**	**(93)**	**(124)**	**(21)**	**(45)**	**(25)**	**(3)**	**(396)**
Total loans and advances to customers	**34,048**	**28,734**	**23,085**	**25,025**	**5,064**	**6,411**	**2,058**	**4,981**	**129,406**

	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 loans	30,878	26,956	27,340	25,142	4,825	4,772	1,629	3,719	125,261
Past due but not individually impaired loans	404	569	1,059	1,283	342	587	69	177	4,490
Individually impaired loans	66	57	329	417	52	224	24	63	1,232
Individual impairment provisions	(24)	(15)	(141)	(140)	(29)	(165)	(12)	(40)	(566)
Portfolio impairment provision	(50)	(26)	(116)	(140)	(20)	(44)	(22)	(4)	(422)
Total loans and advances to customers	31,274	27,541	28,471	26,562	5,170	5,374	1,688	3,915	129,995

Consumer Banking loan portfolio *continued*

Credit risk mitigation

A secured loan is one where the borrower pledges an asset as collateral which the Group is able to take possession 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, 73 per cent of lending is fully secured and 9 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.

	2013				2012			
	Fully secured $million	Partially secured $million	Unsecured $million	Total[1] $million	Fully secured $million	Partially secured $million	Unsecured $million	Total[1] $million
Loans to individuals								
Mortgages	**69,789**	**-**	**-**	**69,789**	72,627	-	-	72,627
Other	**17,737**	**-**	**21,632**	**39,369**	15,509	-	22,251	37,760
Small and medium enterprises	**6,540**	**11,756**	**2,348**	**20,644**	5,985	11,634	2,411	20,030
	94,066	**11,756**	**23,980**	**129,802**	94,121	11,634	24,662	130,417
Percentage of total loans	**73%**	**9%**	**18%**		72%	9%	19%	

1 Amounts net of individual impairment provisions

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 portfolio is 47.7 per cent compared to 47.8 per cent in 2012. 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 0.5 per cent to 0.3 per cent, primarily within the MESA region due to improving economic conditions, particularly in the UAE, in the current year. In Hong Kong, average LTV increased reflecting an increased focus on first time buyers in 2013.

	2013								
	Hong Kong %	Singapore %	Korea %	Other Asia Pacific %	India %	Middle East & Other S Asia %	Africa %	Americas UK & Europe %	Total %
Less than 50 per cent	**66.3**	**55.4**	**48.8**	**46.9**	**65.8**	**35.4**	**27.0**	**21.6**	**54.9**
50 per cent to 59 per cent	**13.0**	**17.6**	**22.7**	**18.6**	**12.9**	**16.7**	**13.6**	**38.3**	**17.6**
60 per cent to 69 per cent	**7.5**	**13.5**	**19.1**	**16.9**	**10.5**	**18.4**	**21.3**	**25.6**	**13.7**
70 per cent to 79 per cent	**5.4**	**11.8**	**5.6**	**10.3**	**7.7**	**14.3**	**22.4**	**14.5**	**8.2**
80 per cent to 89 per cent	**4.5**	**1.6**	**2.2**	**5.9**	**2.7**	**6.6**	**15.1**	**-**	**3.7**
90 per cent to 99 per cent	**3.2**	**-**	**1.1**	**1.1**	**0.2**	**3.0**	**0.2**	**-**	**1.6**
100 per cent and greater	**-**	**-**	**0.5**	**0.1**	**0.2**	**5.6**	**0.4**	**-**	**0.3**
Average Portfolio loan to value	**44.8**	**44.5**	**49.3**	**51.3**	**40.6**	**59.8**	**64.3**	**52.3**	**47.7**
Loans to individuals - Mortgages ($million)	**23,252**	**13,983**	**12,641**	**14,224**	**2,176**	**1,868**	**290**	**1,355**	**69,789**

	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	28.2	25.4	54.3
50 per cent to 59 per cent	11.4	18.4	24.6	19.1	15.4	15.9	13.9	32.8	18.2
60 per cent to 69 per cent	6.1	13.8	18.5	21.0	12.7	17.3	20.1	21.1	14.3
70 per cent to 79 per cent	3.2	12.7	5.0	14.5	10.5	13.3	18.8	20.7	8.5
80 per cent to 89 per cent	3.2	2.6	2.0	5.9	4.7	8.0	17.0	-	3.5
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	63.9	50.9	47.8
Loans to individuals - Mortgages ($million)	21,441	14,278	16,686	14,832	2,284	1,629	256	1,221	72,627

Consumer Banking loan portfolio *continued*

Loan impairment

Consumer Banking

The total net impairment charge in Consumer Banking in 2013 increased by $360 million, or 53 per cent, over 2012. The increase is mainly driven by the ongoing impact of PDRS in Korea, the growth and maturity of unsecured business acquired in previous years, lower loan sales compared to prior periods in Taiwan and increased levels of provisioning in Thailand relating to a specific segment for which sales have been discontinued. There was a portfolio impairment increase of $19 million in 2013 (2012: $nil) due to the release in the prior period in the MESA region.

	2013								
	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	**162**	**104**	**457**	**447**	**53**	**115**	**30**	**16**	**1,384**
Recoveries/provisions no longer required	**(30)**	**(27)**	**(87)**	**(127)**	**(18)**	**(54)**	**(12)**	**(4)**	**(359)**
Net individual impairment charge	**132**	**77**	**370**	**320**	**35**	**61**	**18**	**12**	**1,025**
Portfolio impairment provision charge/ (release)	**7**	**1**	**1**	**(10)**	**3**	**2**	**4**	**1**	**9**
Net impairment charge	**139**	**78**	**371**	**310**	**38**	**63**	**22**	**13**	**1,034**

	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	352	43	122	29	13	1,092
Recoveries/provisions no longer required	(44)	(49)	(72)	(157)	(19)	(52)	(12)	(3)	(408)
Net individual impairment charge	91	60	217	195	24	70	17	10	684
Portfolio impairment provision charge/(release)	4	2	6	(9)	3	(19)	3	-	(10)
Net impairment charge	95	62	223	186	27	51	20	10	674

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 2013 $million	Net impairment charge/ (release) 2013 $million	Amounts written off/ other movements 2013 $million	Impairment provision held as at 31 December 2013 $million
Loans to individuals				
Mortgages	**137**	**12**	**(33)**	**116**
Other	**228**	**889**	**(813)**	**304**
Small and medium enterprises	**201**	**124**	**(103)**	**222**
	566	**1,025**	**(949)**	**642**
Portfolio impairment provision	**422**	**9**	**(35)**	**396**
	988	**1,034**	**(984)**	**1,038**

	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	135	10	(8)	137
Other	149	565	(486)	228
Small and medium enterprises	197	109	(105)	201
	481	684	(599)	566
Portfolio impairment provision	424	(10)	8	422
	905	674	(591)	988

Consumer Banking loan portfolio *continued*

Non-performing loans

Gross non-performing loans have marginally increased, up $8 million compared to 2012, largely due to the seasoning of the unsecured portfolio, particularly in Hong Kong and Singapore. This was partly offset by a decline in the UAE where credit quality has improved due to economic recovery.

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

	2013								
	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 loans	84	86	360	333	69	237	39	66	1,274
Individual impairment provision[1]	(24)	(14)	(185)	(107)	(32)	(164)	(14)	(50)	(590)
Non-performing loans net of individual impairment provision	60	72	175	226	37	73	25	16	684
Portfolio impairment provision									(396)
Net non-performing loans and advances									288
Cover ratio									77%

[1] The difference to total individual impairment provision at 31 December 2013 reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days in line with the definition provided on page 41

	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 loans	67	70	376	344	65	253	26	65	1,266
Individual impairment provision[1]	(24)	(14)	(141)	(100)	(29)	(165)	(12)	(40)	(525)
Non-performing loans net of individual impairment provision	43	56	235	244	36	88	14	25	741
Portfolio impairment provision									(422)
Net non-performing loans and advances									319
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 in line with the definition provided on page 41

Wholesale Banking loan portfolio

The Wholesale Banking loan portfolio has increased by $12 billion, or 8 per cent, compared to December 2012. 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.

Growth in the loan portfolio has been broadly spread, with growth in Hong Kong, Singapore and Americas, UK & Europe regions partly offset by a decline in Korea. Growth in Hong Kong and Singapore is mainly in trade loans and is concentrated in the Commerce and Manufacturing industry segments. Korea loans fell in the Manufacturing segment as we continue to optimise the portfolio. The growth in the Americas, 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.

The Wholesale Banking loan 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.

The industry classification below only represents loans and advances to customers. As such, the transport, storage and communication sector does not include the Group's transport leasing business. This business leases aircraft and ships to clients under operating leases. These assets are held on the Group's balance sheet as part of 'Property, plant and equipment' and comprises of gross assets of $5.4 billion (2012: $4.8 billion) and net assets of $4.9 billion (2012: $4.4 billion). Income generated is recognised with other income.

Exposure to bank counterparties at $86.1 billion increased by $17.6 billion compared to 31 December 2012 mainly due to higher reverse repurchase activities in Americas, UK & Europe. The Group continues to be a net lender in the interbank money markets.

Geographic analysis

	2013								
	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	23	755	-	362	31	221	559	783	2,734
Construction	271	171	408	403	627	1,520	133	434	3,967
Commerce	5,948	16,693	475	3,978	881	4,776	779	9,679	43,209
Electricity, gas and water	503	711	41	897	31	438	308	2,481	5,410
Financing, insurance and business services	3,778	854	567	4,355	392	1,744	331	9,918	21,939
Governments	-	339	-	776	22	313	-	249	1,699
Mining and quarrying	1,217	2,605	-	1,018	13	562	870	9,819	16,104
Manufacturing	6,891	4,136	3,700	9,399	2,939	2,604	2,086	10,311	42,066
Commercial real estate	4,023	2,959	1,181	1,813	1,311	1,006	10	1,327	13,630
Transport, storage and communication	2,312	3,260	230	1,181	502	995	721	4,952	14,153
Other	188	968	86	66	19	92	280	299	1,998
	25,154	33,451	6,688	24,248	6,768	14,271	6,077	50,252	166,909
Portfolio impairment provision	(29)	(31)	(13)	(32)	(17)	(55)	(42)	(81)	(300)
Total loans and advances to customers	25,125	33,420	6,675	24,216	6,751	14,216	6,035	50,171	166,609
Total loans and advances to banks	17,658	4,501	4,192	14,891	399	2,273	742	41,513	86,169

Wholesale Banking loan portfolio *continued*

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	392	13	261	785	2,079	4,394
Construction	374	484	487	508	629	1,183	259	659	4,583
Commerce	4,983	11,773	665	3,937	815	4,428	768	6,229	33,598
Electricity, gas and water	510	407	-	552	7	366	251	2,723	4,816
Financing, insurance and business services	2,702	2,184	52	4,272	378	2,295	455	10,149	22,487
Governments	50	790	651	765	2	319	47	630	3,254
Mining and quarrying	700	1,938	-	928	394	778	602	9,495	14,835
Manufacturing	6,018	3,845	4,182	8,690	2,864	2,893	2,208	8,941	39,641
Commercial real estate	3,524	2,296	1,354	1,413	1,270	1,082	64	540	11,543
Transport, storage and communication	2,400	3,330	194	920	447	965	809	5,411	14,476
Other	200	468	121	149	8	102	79	167	1,294
	21,515	28,321	7,710	22,526	6,827	14,672	6,327	47,023	154,921
Portfolio impairment provision	(24)	(21)	(16)	(26)	(19)	(94)	(41)	(59)	(300)
Total loans and advances to customers	21,491	28,300	7,694	22,500	6,808	14,578	6,286	46,964	154,621
Total loans and advances to banks	19,356	6,205	4,633	8,133	571	3,172	378	26,123	68,571

Wholesale Banking loan portfolio *continued*

Maturity analysis

The Wholesale Banking portfolio remains predominantly short-term, with 64 per cent (2012: 62 per cent) of loans and advances having a remaining contractual maturity of one year or less driven by short-dated loans and trade finance transactions primarily within commerce, manufacturing and Mining and quarrying.

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

	2013			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Agriculture, forestry and fishing	1,788	839	107	2,734
Construction	2,883	938	146	3,967
Commerce	38,348	4,359	502	43,209
Electricity, gas and water	1,587	1,690	2,133	5,410
Financing, insurance and business services	13,343	8,128	468	21,939
Governments	1,342	272	85	1,699
Mining and quarrying	8,210	5,993	1,901	16,104
Manufacturing	29,343	10,761	1,962	42,066
Commercial real estate	4,062	8,943	625	13,630
Transport, storage and communication	5,077	5,599	3,477	14,153
Other	968	927	103	1,998
	106,951	48,449	11,509	166,909
Portfolio impairment provision				(300)
Total loans and advances to customers				166,609

	2012			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Agriculture, forestry and fishing	3,274	965	155	4,394
Construction	3,159	1,256	168	4,583
Commerce	28,941	4,239	418	33,598
Electricity, gas and water	1,863	1,043	1,910	4,816
Financing, insurance and business services	13,839	7,581	1,067	22,487
Governments	2,873	303	78	3,254
Mining and quarrying	6,873	5,275	2,687	14,835
Manufacturing	26,629	11,187	1,825	39,641
Commercial real estate	4,180	6,842	521	11,543
Transport, storage and communication	3,852	6,951	3,673	14,476
Other	711	553	30	1,294
	96,194	46,195	12,532	154,921
Portfolio impairment provision				(300)
Total loans and advances to customers				154,621

Wholesale Banking loan portfolio *continued*

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 95 per cent of the portfolio is neither past due nor individually impaired.

Neither past due nor impaired loans have increased by $12.5 billion in line with portfolio growth, and the growth is primarily concentrated within the Commerce and Manufacturing sectors and within credit grades 1-5.

Loans past due but not individually impaired decreased by $1.2 billion compared to 2012. This was primarily due to the renegotiation in 2013 of a small number of exposures which were reported with the 60-90 days past due category in 2012 within Financing, insurance and business services sectors in Hong Kong, Americas, UK & Europe. No impairment was recognised following these negotiations. Past due exposure in the mining and quarrying sector increased $0.5 billion compared to 2012, the majority of which was in Singapore and concentrated in the 0-30 days past due category. Over 85 per cent of the loans reported in the up to 30 days past due category, including those relating to renegotiated loans, had been cured by the end of January 2014.

Individually impaired loans increased by $1.1 billion, mainly due to an increase in a small number of exposures in India and Africa and this flowed into higher individual impairment provisions of $0.3 billion. Portfolio impairment provision remained flat as a release in MESA of provisions created in 2009 in respect of market uncertainties was offset by increases in Africa, Singapore and Other Asia Pacific regions.

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

	2013				2012			
	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	2,410	87	420	2,917	4,286	54	83	4,423
Construction	3,502	238	295	4,035	4,121	301	233	4,655
Commerce	42,413	544	940	43,897	33,027	306	933	34,266
Electricity, gas and water	5,272	113	35	5,420	4,735	4	85	4,824
Financing, insurance and business services	20,670	256	1,259	22,185	18,897	2,616	1,139	22,652
Governments	1,645	54	-	1,699	3,254	-	-	3,254
Mining and quarrying	14,918	1,074	158	16,150	14,253	574	17	14,844
Manufacturing	40,249	686	1,731	42,666	38,342	684	1,176	40,202
Commercial real estate	13,580	14	67	13,661	11,379	30	158	11,567
Transport, storage and communication	13,534	297	518	14,349	14,105	25	543	14,673
Other	1,956	18	63	2,037	1,280	12	33	1,325
	160,149	3,381	5,486	169,016	147,679	4,606	4,400	156,685
Individual impairment provision				(2,107)				(1,764)
Portfolio impairment provision				(300)				(300)
Total loans and advances to customers				166,609				154,621
Loans and advances to banks	86,047	17	207	86,271	68,364	3	309	68,676
Individual impairment provision				(100)				(103)
Portfolio impairment provision				(2)				(2)
Total loans and advances to banks				86,169				68,571

Wholesale Banking loan portfolio *continued*

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.

Loans to customers

	2013								
	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	**24,982**	**32,586**	**6,606**	**23,798**	**5,923**	**12,607**	**5,614**	**48,033**	**160,149**
Past due but not individually impaired loans	**37**	**826**	**5**	**68**	**239**	**442**	**167**	**1,597**	**3,381**
Individually impaired loans	**173**	**48**	**213**	**659**	**930**	**2,264**	**556**	**643**	**5,486**
Individual impairment provisions	**(38)**	**(9)**	**(136)**	**(277)**	**(324)**	**(1,042)**	**(260)**	**(21)**	**(2,107)**
Portfolio impairment provision	**(29)**	**(31)**	**(13)**	**(32)**	**(17)**	**(55)**	**(42)**	**(81)**	**(300)**
Total loans and advances to customers	**25,125**	**33,420**	**6,675**	**24,216**	**6,751**	**14,216**	**6,035**	**50,171**	**166,609**

	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	20,674	28,036	7,554	22,171	6,186	12,697	6,212	44,149	147,679
Past due but not individually impaired loans	769	160	-	87	134	657	20	2,779	4,606
Individually impaired loans	122	199	261	487	748	2,326	132	125	4,400
Individual impairment provisions	(50)	(74)	(105)	(219)	(241)	(1,008)	(37)	(30)	(1,764)
Portfolio impairment provision	(24)	(21)	(16)	(26)	(19)	(94)	(41)	(59)	(300)
Total loans and advances to customers	21,491	28,300	7,694	22,500	6,808	14,578	6,286	46,964	154,621

Wholesale Banking loan portfolio *continued*

Loans to banks

	2013								
	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 loans	17,648	4,488	4,192	14,805	399	2,274	742	41,499	86,047
Past due but not individually impaired loans	4	13	-	-	-	-	-	-	17
Individually impaired loans	6	-	-	165	-	-	-	36	207
Individual impairment provisions	-	-	-	(78)	-	-	-	(22)	(100)
Portfolio impairment provision	-	-	-	(1)	-	(1)	-	-	(2)
Total loans and advances to banks	17,658	4,501	4,192	14,891	399	2,273	742	41,513	86,169

	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 loans	19,349	6,205	4,633	8,048	570	3,076	378	26,105	68,364
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	8,133	571	3,172	378	26,123	68,571

Wholesale Banking loan portfolio *continued*

Credit risk mitigation

Collateral held against Wholesale Banking exposures amounted to $63.4 billion (December 2012: $51.6 billion). This represents the fair value of collateral adjusted in accordance with our risk mitigation policy (page 32) and for the effects of over collateralisation. The unadjusted current market value of collateral without over collateralisation is $197 billion at 31 December 2013 (2012: $186 billion).

Our underwriting standards encourage taking specific charges on assets and we consistently seek high quality, investment grade secured collateral. 49 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.

The increase in collateral compared to 2012 is broadly in line with growth in the loan portfolio. The proportion of highly rated debt securities of 15.3 per cent on collateral increased compared to 2012 due to higher levels of reverse repo transactions.

The following table provides an analysis of the types of collateral held against wholesale Banking loan exposures.

	2013 $million	2012 $million
Cash	**12,278**	9,039
Property	**15,125**	13,141
Debt securities		
AAA	**45**	4
AA- to AA+	**9,652**	3,390
BBB- to BBB+	**2,785**	713
Lower than BBB-	**865**	1,313
Unrated	**5,004**	6,151
	18,351	11,571
Other (asset based)	**17,636**	17,843
Total value of collateral	**63,390**	51,594

Wholesale Banking loan portfolio *continued*

Commercial real estate (CRE)

The Group has lending to CRE counterparties of $13,630 million (31 December 2012: $11,543 million). Of this exposure, $6,758 million is to counterparties where the source of repayment is substantially derived from rental or sale of real estate and is secured by real estate collateral. The remaining CRE exposure comprises working capital loans to real estate corporates, exposure with non-property collateral, unsecured exposure and exposure to real estate entity of diversified conglomerate.

The following table presents a geographical analysis of the loan to value ratios for such loans. The average loan to value of the exposure remains low.

	2013								
	Hong Kong %	Singapore %	Korea %	Other Asia Pacific %	India %	Middle East & Other S Asia %	Africa %	Americas UK & Europe %	Total %
Less than 50 per cent	94.2	45.9	97.8	82.7	57.5	40.4	59.6	93.0	71.3
50 per cent to 59 per cent	5.8	48.0	2.2	13.3	22.2	51.0	-	-	20.8
60 per cent to 69 per cent	-	6.1	-	3.9	20.3	4.8	40.4	7.0	7.5
70 per cent to 79 per cent	-	-	-	-	-	-	-	-	-
80 per cent to 89 per cent	-	-	-	-	-	-	-	-	-
90 per cent to 99 per cent	-	-	-	-	-	-	-	-	-
100 per cent and greater	-	-	-	-	-	3.8	-	-	0.4
Average Portfolio loan to value	38.2	45.8	27.6	38.6	40.9	59.0	46.8	35.1	41.1
Loans ($million)	1,165	1,154	440	1,072	1,338	728	10	851	6,758

	2012								
	Hong Kong %	Singapore %	Korea %	Other Asia Pacific %	India %	Middle East & Other S Asia %	Africa %	Americas UK & Europe %	Total %
Less than 50 per cent	77.5	62.5	37.7	69.9	48.6	59.5	68.8	97.3	62.7
50 per cent to 59 per cent	18.8	24.1	34.4	15.1	25.5	34.2	0.7	2.7	23.3
60 per cent to 69 per cent	3.8	13.5	9.1	14.9	25.9	4.2	30.5	-	12.5
70 per cent to 79 per cent	-	-	18.7	-	-	-	-	-	1.1
80 per cent to 89 per cent	-	-	-	-	-	-	-	-	-
90 per cent to 99 per cent	-	-	-	-	-	-	-	-	-
100 per cent and greater	-	-	-	-	-	2.1	-	-	0.4
Average Portfolio loan to value	40.8	44.3	53.0	43.4	48.9	48.5	48.0	40.1	45.7
Loans ($million)	779	1,560	384	927	1,263	1,267	40	364	6,584

Wholesale Banking loan portfolio *continued*

Loan impairment

The individual impairment charge increased by $26 million, or 5 per cent, compared with 31 December 2012, primarily due to higher provisions in India and Africa, relating to a small number of exposures. Increase in portfolio impairment provision was offset by release in MESA, due to an improvement in the credit environment.

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

	2013								
	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	**7**	**2**	**65**	**97**	**152**	**58**	**235**	**7**	**623**
Recoveries/provisions no longer required	**(18)**	**(2)**	**(5)**	**(3)**	**(3)**	**(14)**	**(2)**	**(4)**	**(51)**
Net individual impairment charge	**(11)**	**-**	**60**	**94**	**149**	**44**	**233**	**3**	**572**
Portfolio impairment provision charge/ (release)	**6**	**10**	**(4)**	**10**	**7**	**(40)**	**15**	**2**	**6**
Net loan impairment charge	**(5)**	**10**	**56**	**104**	**156**	**4**	**248**	**5**	**578**
Other credit risk provisions	**1**	**-**	**-**	**1**	**1**	**-**	**-**	**2**	**5**
Net impairment charge	**(4)**	**10**	**56**	**105**	**157**	**4**	**248**	**7**	**583**

	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	38	192	265	2	19	586
Recoveries/provisions no longer required	(5)	-	(9)	(8)	(7)	(1)	(2)	(8)	(40)
Net individual impairment charge/(credit)	18	2	36	30	185	264	-	11	546
Portfolio impairment provision charge/(release)	(3)	2	(10)	5	(45)	(3)	18	11	(25)
Net loan impairment charge	15	4	26	35	140	261	18	22	521
Other credit risk provisions	(1)	-	-	-	(2)	4	-	-	1
Net impairment charge	14	4	26	35	138	265	18	22	522

Wholesale Banking loan portfolio *continued*

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 2013 $million	Net impairment charge 2013 $million	Amounts written off/ other movements 2013 $million	Impairment provision held as at 31 December 2013 $million
Agriculture, forestry and fishing	29	178	(24)	183
Construction	72	13	(17)	68
Commerce	668	20	-	688
Electricity, gas and water	8	8	(6)	10
Financing, insurance and business services	165	25	56	246
Mining and quarrying	9	35	2	46
Manufacturing	561	248	(209)	600
Commercial real estate	24	9	(2)	31
Transport, storage and communication	197	24	(25)	196
Other	31	13	(5)	39
Individual impairment provision against loans and advances to customers	1,764	573	(230)	2,107
Portfolio impairment provision against loans and advances to customers	300	6	(6)	300
Total impairment provisions on loans and advances to customers	2,064	579	(236)	2,407
Individual impairment provision against loans and advances to banks	103	(1)	(2)	100
Portfolio impairment provision against loans and advances to banks	2	-	-	2
Total impairment provisions on loans and advances to banks	105	(1)	(2)	102

	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	24	-	5	29
Construction	65	19	(12)	72
Commerce	464	136	68	668
Electricity, gas and water	6	-	2	8
Financing, insurance and business services	167	118	(120)	165
Mining and quarrying	1	-	8	9
Manufacturing	542	101	(82)	561
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	1,362	540	(138)	1,764
Portfolio impairment provision against loans and advances to customers	321	(23)	2	300
Total impairment provisions on loans and advances to customers	1,683	517	(136)	2,064
Individual impairment provision against loans and advances to banks	82	6	15	103
Portfolio impairment provision against loans and advances to banks	2	(2)	2	2
Total impairment provisions on loans and advances to banks	84	4	17	105

Wholesale Banking loan portfolio *continued*

Non-performing loans

Gross non-performing loans in Wholesale Banking, the definition of which is set out on page 41, increased by $933 million, or 22 per cent, since December 2012. These increases were primarily driven by a small number of large exposures in India and in Africa and Americas UK & Europe regions.

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:

	2013								
	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	**179**	**20**	**213**	**824**	**928**	**1,793**	**570**	**678**	**5,205**
Individual impairment provision[1]	**(38)**	**(9)**	**(136)**	**(355)**	**(324)**	**(1,028)**	**(260)**	**(43)**	**(2,193)**
Non-performing loans net of individual impairment provision	**141**	**11**	**77**	**469**	**604**	**765**	**310**	**635**	**3,012**
Portfolio impairment provision									**(302)**
Net non-performing loans and advances									**2,710**
Cover ratio									**48%**

[1] The difference to total individual impairment provision at 31 December 2013 reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days in line with the definition provided on page 41

	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	128	21	261	707	754	2,089	147	165	4,272
Individual impairment provision[1]	(50)	(14)	(105)	(304)	(240)	(1,061)	(37)	(55)	(1,866)
Non-performing loans net of individual impairment provision	78	7	156	403	514	1,028	110	110	2,406
Portfolio impairment provision									(302)
Net non-performing loans and advances									2,104
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 in line with the definition provided on page 41

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

	2013			2012		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
Net impaired securities:						
Impaired securities	389	-	389	404	-	404
Impairment	(204)	-	(204)	(159)	-	(159)
	185	-	185	245	-	245
Securities neither past due nor impaired:						
AAA	23,772	4,455	28,227	20,755	6,516	27,271
AA- to AA+	23,274	19,226	42,500	20,232	6,594	26,826
A- to A+	21,392	1,087	22,479	23,570	10,694	34,264
BBB- to BBB+	5,913	4,238	10,151	10,122	3,818	13,940
Lower than BBB-	3,293	898	4,191	3,027	502	3,529
Unrated	8,244	1,500	9,744	6,471	1,571	8,042
	85,888	31,404	117,292	84,177	29,695	113,872
	86,073	31,404	117,477	84,422	29,695	114,117
Of which:						
Assets at fair value[1]						
Trading	12,407	5,161	17,568	14,882	2,955	17,837
Designated at fair value	292	-	292	333	-	333
Available-for-sale	70,546	26,243	96,789	65,356	26,740	92,096
	83,245	31,404	114,649	80,571	29,695	110,266
Assets at amortised cost[1]						
Loans and receivables	2,828	-	2,828	3,851	-	3,851
	86,073	31,404	117,477	84,422	29,695	114,117

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

Net impaired securities reduced by $60 million compared to 2012 primarily due to increased provisions against a bond exposure in India arising from credit concerns around the issuer.

The above table 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 31.

Debt securities in the AAA rating category increased by $3.0 billion to $23.8 billion in 2013 mainly due to an increase higher quality corporate bonds in Hong Kong and Singapore. This was offset by low level of AAA trading business as funds were deployed into higher quality assets in Singapore and as part of the restructuring of the balance sheet in Korea.

Unrated securities primarily relate to corporate issuers. Using internal credit ratings $9,275 million (2012: $7,208 million) of these securities are considered to be equivalent to investment grade.

Asset backed securities

Total exposures to asset backed securities

	2013				2012			
	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%**	**3,059**	**3,052**	**3,045**	46%	2,160	2,114	2,120
Collateralised Debt Obligations (CDOs)	**3%**	**223**	**181**	**190**	5%	260	203	219
Commercial Mortgage Backed Securities (CMBS)	**5%**	**321**	**242**	**235**	10%	478	355	351
Other asset backed securities (Other ABS)	**46%**	**3,126**	**3,081**	**3,124**	39%	1,869	1,847	1,861
	100%	**6,729**	**6,556**	**6,594**	100%	4,767	4,519	4,551
Of which included within:								
Financial assets held at fair value through profit or loss	**2%**	**158**	**158**	**158**	4%	190	191	191
Investment securities - available-for-sale	**79%**	**5,295**	**5,202**	**5,202**	61%	2,905	2,786	2,786
Investment securities - loans and receivables	**19%**	**1,276**	**1,196**	**1,234**	35%	1,672	1,542	1,574
	100%	**6,729**	**6,556**	**6,594**	100%	4,767	4,519	4,551

[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 1 per cent (2012: 0.7 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 $614 million and $647 million respectively as at the end of 2013. Note 12 to the financial statements provide 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 $4.8 billion of ABS during 2013 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 95 per cent of the overall portfolio is rated A- or better, and 80 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 decline in the bank's legacy portfolios and significant increase in asset purchases for liquidity reasons in the available-for-sale book makes the fair value of the entire portfolio similar to the carrying value.

Financial statement impact of asset backed securities

	Available-for-sale $million	Loans and receivables $million	Total $million
31 December 2013			
Credit to available-for-sale reserves	**26**	**-**	**26**
Credit to the profit and loss account	**(1)**	**-**	**(1)**
31 December 2012			
Charge to available-for-sale reserves	(3)	-	(3)
Charge to the profit and loss account	5	-	5

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 2013.

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 $0.5 billion direct sovereign exposure to other eurozone countries. The Group's non-sovereign exposure to GIIPS is $2.4 billion ($2.0 billion after collateral and netting) and $37.7 billion ($22 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 32 per cent having a tenor of less than one year. The Group has no direct sovereign exposure and $260 million (2012: $263 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.

Country At 31 December 2013	Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	-	719	-	402	1,121
Other financial institutions	-	951	5	-	-	956
Other corporate	15	207	93	-	52	367
Total gross exposure	15	1,158	817	-	454	2,444
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	-	(70)	-	(167)	(237)
Other financial institutions	-	(192)	(5)	-	-	(197)
Other corporate	(1)	(16)	(1)	-	(3)	(21)
Total collateral/netting	(1)	(208)	(76)	-	(170)	(455)
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	-	649	-	235	884
Other financial institutions	-	759[1]	-	-	-	759
Other corporate	14	191	92	-	49	346
Total net exposure at 31 December 2013	14	950	741	-	284	1,989
Total net exposure at 31 December 2012	29	1,391	610	21	221	2,272

1 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 2013 is analysed by financial asset as follows:

At 31 December 2013	Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
Loans and advances						
Loans and receivables	9	143	265	-	11	428
Held at fair value through profit or loss	-	-	11	-	-	11
Total gross loans and advances	9	143	276	-	11	439
Collateral held against loans and advances	(1)	(4)	(53)	-	(2)	(60)
Total net loans and advances	8	139	223	-	9	379
Debt securities						
Trading						
Designated at fair value	-	-	-	-	36	36
Available-for-sale	-	51	-	-	-	51
Loans and receivables	-	-	-	-	6	6
Total gross debt securities	-	51	-	-	42	93
Collateral held against debt securities	-	-	-	-	-	-
Total net debt securities	-	51	-	-	42	93
Derivatives						
Gross exposure	-	212	24	-	168	404
Collateral/netting[1]	-	(204)	(23)	-	(168)	(395)
Total derivatives	-	8	1	-	-	9
Contingent liabilities and commitments	6	752	517	-	233	1,508
Total net exposure (on and off balance sheet)[1]	14	950	741	-	284	1,989
Total balance sheet exposure	9	406	300	-	221	936
At 31 December 2012						
Net loans and advances	18	53	294	20	22	407
Net debt securities	-	51	-	-	119	170
Net 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

[1] Based on ISDA (International Swaps and Derivatives Association) netting

Selected European country exposures *continued*

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	-	305	-	-	305
Banks	2,911	4,303	1,695	1,122	10,031
Other financial institutions	79	72	105	148	404
Other corporate	1,526	710	5,935	646	8,817
Total net exposure at 31 December 2013	**4,516**	**5,390**	**7,735**	**1,916**	**19,557**
Total net exposure at 31 December 2012	3,738	12,809	12,114	2,594	31,255

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 57 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 $3 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.

The profile of our country cross-border exposures greater than one per cent of total assets as at 31 December 2013 remained consistent with our strategic focus on core franchise countries, and with the scale of the larger markets that we operate in. Changes in the pace of economic activity had an impact on growth of cross-border exposure for certain territories.

Steady progress in the internationalisation of the renminbi continues to present opportunities, and contributed to the growth in cross-border exposure to China. Increased country cross-border exposure to China and Hong Kong also reflected an expansion of our corporate client base, increased trade finance activity and transactions with local and foreign banks in these markets. India remains a core territory for the Group where our competitive advantage positions us to offer US dollar facilities in the domestic market, and to facilitate overseas investment and trade flows supported by parent companies in India.

Reported cross-border exposure to Korea and Singapore reflects an emphasis on trade finance and short-term lending.

Cross-border exposure to the United Arab Emirates decreased slightly during 2013, due to a decrease in trade financing transactions and longer term exposures arising from financial markets activity.

Malaysia benefited from an increase in trade finance activities amidst rising intra-region trade flows with ASEAN member countries, China, India and Africa. Higher exposures in this market are also representative of an expanded corporate customer base and interbank money market positions booked in the United Kingdom and Singapore. Growth in underlying cross-border business activity in Indonesia was attributable to an expansion of the corporate client base in Indonesia and continued growth in corporate finance assets. Since 30 June 2013, in line with a change in accounting treatment, the country cross-border exposure to Indonesia arising from Permata, a joint venture in which the Group holds 44.56 per cent, is now counted at the value of the Group's equity in the joint venture.

The increase in exposure to Brazil is attributable to trade and investment flows with our core markets. Cross-border exposure to countries in which we do not have a major presence predominantly relates to short-dated money market treasury activities, which can change significantly from period to period. Exposure also represents global corporate business for customers with interests in our footprint. This explains our significant exposure in the US, Switzerland and Australia.

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.

	2013			2012		
	Less than one year	**More than one year**	**Total**	Less than One year	More than one year	Total
	$million	**$million**	**$million**	$million	$million	$million
China	**32,220**	**14,449**	**46,669**	23,809	11,783	35,592
India	**12,566**	**18,295**	**30,861**	12,230	18,200	30,430
US	**19,001**	**7,287**	**26,288**	22,485	6,730	29,215
Hong Kong	**21,164**	**8,210**	**29,374**	18,096	8,458	26,554
Singapore	**19,328**	**5,749**	**25,077**	16,561	5,508	22,069
United Arab Emirates	**6,281**	**10,997**	**17,278**	6,580	11,293	17,873
Korea	**9,093**	**7,415**	**16,508**	9,696	6,693	16,389
Switzerland	**5,770**	**3,006**	**8,776**	5,050	4,983	10,033
Indonesia[1]	**3,959**	**4,958**	**8,917**	4,094	4,410	8,504
Australia	**1,943**	**5,919**	**7,862**	1,456	4,189	5,645
Brazil	**6,175**	**2,002**	**8,177**	4,157	1,613	5,770
Malaysia	**3,878**	**3,396**	**7,274**	2,255	2,111	4,366

[1] Prior year has been restated to reflect the change in accounting treatment of cross-border exposure to Indonesia arising from Permata

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.

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 UK time. Intra-day risk levels may vary from those reported at the end of the day.

A small proportion of market risk generated by trading positions is not included in VaR or cannot be appropriately captured by VaR. This is recognised through a Risks-not-in-VaR framework which conservatively estimates and then capitalises these risks where material.

Back testing

To assess their predictive power, VaR models are back tested against actual results. In 2013 there was one exception in the regulatory back testing (none in 2012). This is within the 'green zone' applied internationally to internal models by bank supervisors. The daily loss associated with the single 2013 back testing exception was 3 per cent in excess of the corresponding VaR, and came from a combination of unexceptional losses across interest rates, FX and commodities.

Stress testing

Losses beyond the 97.5 per cent 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

The average levels of total VaR and non-trading VaR were higher in 2013 than 2012 by 14 per cent and 8 percent respectively. This was primarily due to increased market volatility following comments by the US Federal Reserve chairman on 22 May 2013 that the US Federal Reserve was considering tapering its quantitative easing programme.

The average level of trading VaR in 2013 was 23 per cent lower than 2012, with reduction in both interest rate and foreign exchange risk.

As of 31 December, 2013, the Total VaR, non-trading VaR and trading VaR were up 31 per cent, 37 per cent and 14 per cent respectively as compared to at end of 2012. This again was primarily due to the increase in market volatility observed after 22 May 2013 rather than increases in positions.

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

By risk type

	2013				2012			
	Average	High[4]	Low[4]	Actual[5]	Average	High[4]	Low[4]	Actual[5]
Trading and Non-trading	$million	$million	$million	$million	$million	$million	$million	$million
Interest rate risk[2]	**25.0**	**37.4**	**18.2**	**23.3**	25.8	31.1	20.7	24.4
Foreign exchange risk	**4.2**	**7.6**	**2.3**	**7.0**	4.8	7.7	2.3	4.2
Commodity risk	**1.5**	**2.6**	**0.9**	**1.5**	1.7	3.0	1.0	1.0
Equity risk	**15.4**	**18.4**	**13.0**	**18.3**	15.9	18.5	13.9	16.4
Total[3]	**32.8**	**44.8**	**22.1**	**38.5**	28.8	38.5	22.6	29.5
Trading								
Interest rate risk[2]	**9.1**	**15.0**	**6.5**	**8.1**	10.4	15.7	6.1	8.2
Foreign exchange risk	**4.2**	**7.6**	**2.3**	**7.0**	4.8	7.7	2.3	4.2
Commodity risk	**1.5**	**2.6**	**0.9**	**1.5**	1.7	3.0	1.0	1.0
Equity risk	**1.5**	**2.1**	**1.1**	**1.8**	1.5	2.8	0.6	1.9
Total[3]	**9.8**	**14.9**	**7.3**	**9.1**	12.8	20.8	6.8	8.0
Non-trading								
Interest rate risk[2]	**22.6**	**34.3**	**16.9**	**22.1**	22.2	26.7	17.8	21.4
Equity risk	**14.9**	**17.6**	**12.4**	**17.4**	16.7	18.0	14.4	16.9
Total[3]	**29.2**	**34.9**	**19.6**	**32.7**	27.1	33.5	21.9	23.9

The following table sets out how trading and non-trading VaR is distributed across the Group's products:

	2013				2012			
	Average	High[4]	Low[4]	Actual[5]	Average	High[3]	Low[4]	Actual[5]
	$million	$million	$million	$million	$million	$million	$million	$million
Trading and Non-trading	**32.8**	**44.8**	**22.1**	**38.5**	28.8	38.5	22.6	29.5
Trading[1]								
Rates	**6.4**	**12.2**	**3.5**	**5.5**	7.9	12.0	4.6	7.1
Global Foreign Exchange	**4.2**	**7.6**	**2.3**	**7.0**	4.8	7.7	2.3	4.2
Credit & Capital Markets	**3.1**	**4.3**	**2.2**	**3.4**	4.2	7.0	2.7	3.7
Commodities	**1.5**	**2.6**	**0.9**	**1.5**	1.7	3.0	1.0	1.0
Equities	**1.5**	**2.1**	**1.1**	**1.8**	1.5	2.8	0.6	1.9
Total[3]	**9.8**	**14.9**	**7.3**	**9.1**	12.8	20.8	6.8	8.0
Non-trading								
Asset & Liability Management	**22.2**	**33.9**	**17.1**	**21.2**	20.9	25.8	16.3	20.2
Other Financial Markets	**1.6**	**2.4**	**1.0**	**1.3**	1.9	4.9	0.4	2.0
Listed Private Equity	**14.9**	**17.6**	**12.4**	**17.4**	16.7	18.0	14.4	16.9
Total[3]	**29.2**	**34.9**	**19.6**	**32.7**	27.1	33.5	21.9	23.9

1 Trading book for market risk is defined in accordance with the relevant section of the PRA Handbook's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). On 1 January 2014 this regulation will be superseded by the EU Capital Requirements Regulation (CRDIV/CRR). The PRA permits only certain types of financial instruments or arrangements to be included within the trading book, so this regulatory definition is narrower than the accounting definition of the trading book within IAS39 'Financial Instruments: Recognition and Measurement'

2 Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale

3 The total VaR shown in the tables above is not a sum of the component risks due to offsets between them

4 Highest and lowest VaR for each risk factor are independent and usually occur on different days

5 Actual one day VaR at year end date

Average daily income earned from market risk related activities[1]

Trading	2013 $million	2012[2] $million
Interest rate risk[2]	**4.7**	5.2
Foreign exchange risk	**5.5**	5.1
Commodity risk	**1.5**	1.6
Equity risk	**0.5**	0.4
Total	**12.2**	12.3

Non-Trading		
Interest rate risk	**2.8**	3.8
Equity risk	**0.5**	0.1
Total	**3.3**	3.9

[1]Reflects total product income which is the sum of Client Income and Own Account Income. Includes elements of Trading Income, Interest Income and Other Income which are generated from market risk related activities.
[2]Comparatives have been restated to exclude certain items of fee income.

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, so market price movements have limited 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. Otherwise, the non-trading book does not run open foreign exchange positions.

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

	2013 $million	2012 $million
+25 basis points	**33.9**	33.1
–25 basis points	**(33.9)**	(33.1)

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 2013, the Group had taken net investment hedges (using a combination of derivative and non-derivative financial investments) of $1,280 million (2012: $971 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:

	2013 $million	2012 $million
Hong Kong dollar	**7,079**	6,619
Korean won	**5,194**	6,301
Indian rupee	**3,793**	4,025
Taiwanese dollar	**2,853**	2,946
Chinese renminbi	**3,084**	2,245
Singapore dollar	**2,925**	1,195
Thai baht	**1,640**	1,662
UAE dirham	**1,766**	1,598
Malaysian ringgit	**1,650**	1,360
Indonesian rupiah	**993**	1,164
Pakistani rupee	**530**	586
Other	**4,010**	3,648
	35,517	33,349

An analysis has been performed on these exposures to assess the impact of a one per cent change 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 or decrease in value of $247 million (2012: $255 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 billion at 31 December 2013 compared to 31 December 2012. Fair value hedges largely hedge the interest-rate risk on our sub-debt and debt securities in the UK which form part of the Group's liquidity buffers and are used to manage fixed rate securities and loan portfolios in our key markets. Currency and interest rate swaps used for cash flow hedging have increased by $2 billion at 31 December 2013 compared to 31 December 2012. The increase of cash flow hedges is attributable to floating rate loans, bonds and deposits mainly in Korea and Singapore.

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 structural 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 that the balance sheet remains structurally sound and is aligned to our strategy.

The Group Asset and Liability Committee (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 pre-defined liquidity limits and in compliance with Group liquidity policies and practices, as well as 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 could impact us adversely, thereby potentially 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 funding base is diverse and largely customer-driven, while customer assets are of short tenor (50 per cent of assets have a contractual maturity of less than 1 year). 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 liquidity risk management framework requires limits to be set and monitored. 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 and contingents to ensure that sufficient funds are available in the event of drawdown

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
- The amount of medium term assets that have to be funded by medium term funding

In addition, we prescribe a liquidity stress scenario that includes accelerated withdrawal of deposits over a period of time. Each country has to ensure on a daily basis that cash inflows would 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 reported to the ALCO. Excesses are also reported monthly to the LMC which provide further oversight.

We have significant levels of marketable securities, including government securities that can be monetised or pledged as collateral in the event of a liquidity stress. In addition, a Funding Crisis Response and Recovery Plan (FCRRP), reviewed and approved annually, is maintained by Group Treasury. The FCRRP strengthens existing governance processes by providing a broad set of Early Warning Indicators (EWIs), an escalation framework and a set of management actions that could be effectively implemented by the appropriate level of senior management in the event of a liquidity stress. A similar plan is maintained within each country.

Primary sources of funding

A substantial portion of our assets are funded by customer deposits, largely made up of current and savings accounts. Of total customer deposits, 42.5 per cent are retail deposits and 57.5 per cent wholesale customer deposits (31 December 2012: retail 43.1 per cent, wholesale customer deposits 56.9 per cent). Wholesale customer deposits are widely diversified by type and maturity and represent a stable source of funds for the Group. In addition, the short term nature of our wholesale assets results in a balance sheet that is funded conservatively (64 per cent of wholesale banking loans and advances have a contractual maturity of less than one year).

The ALCO in each country monitors trends in the balance sheet and ensures that any concerns that might impact the stability of these customer deposits are addressed effectively. The ALCO also reviews balance sheet plans to ensure that projected asset growth is matched by growth in customer deposits.

Customer assets are as far as possible funded in the same currency. Where mismatches arise, they are controlled by limits in each country on the amount of foreign currency that can be swapped to local currency and vice versa. Such limits are therefore a means of controlling reliance on foreign exchange markets, which minimises the risk that obligations could not be met in the required currency in the event that access to foreign exchange markets becomes restricted. In sizing the limits we consider a range of factors including:

- The size and depth of local FX markets; and
- The local regulatory environment, particularly the presence or risk of imposition of foreign exchange controls.

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

Debt refinancing levels are low. In the next 12 months approximately $6.7 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 to the financial statements on page 104.

The table below shows the diversity of funding by type and by geography. Customer deposits make up 58 per cent of total liabilities as at 31 December 2013, the majority of which are current accounts, savings accounts and time deposits. Our largest customer deposit base by geography is Hong Kong, which holds 27.1 per cent of Group customer accounts

Group's composition of Liabilities	31.12.13 %
Customer accounts	**58.0**
Deposits by banks	**6.6**
Derivative financial instruments	**9.1**
Other liabilities	**5.8**
Debt securities in issue	**10.6**
Subordinated liabilities and other borrowed funds	**3.0**
Total equity	**6.9**
Total	**100.0**

Geographic distribution of customer accounts	31.12.13 %
Hong Kong	**27.1**
Singapore	**19.0**
Korea	**7.8**
Other Asia Pacific	**16.5**
India	**3.3**
MESA	**6.7**
Africa	**2.9**
Americas, UK & Europe	**16.7**
Total	**100.0**

Encumbered assets
Encumbered assets represent those on balance sheet assets pledged or used as collateral in respect of certain Group 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 classified as encumbered and included within other assets. Taken together these encumbered assets represent 3.1 per cent (2012: 2.2 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.

	2013				2012			
	Unencumbered assets				Unencumbered assets			
	Not readily available to secure funding	Readily available to secure funding	Encumbered assets	Total assets	Not readily available to secure funding	Readily available to secure funding	Encumbered assets	Total assets
	$million	$million	$million	$million	$million	$million	$million	$million
Cash and balances at central banks	**9,946**	**44,588**	**-**	**54,534**	9,336	51,201	-	60,537
Derivative financial instruments	**61,802**	**-**	**-**	**61,802**	49,495	-	-	49,495
Loans and advances to banks	**46,917**	**36,890**	**2,362**	**86,169**	37,456	30,392	723	68,571
Loans and advances to customers	**294,884**	**-**	**1,131**	**296,015**	282,238	-	2,378	284,616
Investment securities	**48,699**	**72,062**	**3,516**	**124,277**	48,910	70,041	1,598	120,549
Other assets	**19,870**	**-**	**13,700**	**33,570**	19,289	-	9,259	28,548
Current tax assets	**234**	**-**	**-**	**234**	215	-	-	215
Prepayments and accrued income	**2,510**	**-**	**-**	**2,510**	2,552	-	-	2,552
Interests in associates	**1,767**	**-**	**-**	**1,767**	1,684	-	-	1,684
Goodwill and intangible assets	**6,070**	**-**	**-**	**6,070**	7,145	-	-	7,145
Property, plant and equipment	**6,903**	**-**	**-**	**6,903**	6,620	-	-	6,620
Deferred tax assets	**529**	**-**	**-**	**529**	676	-	-	676
Total	**500,131**	**153,540**	**20,709**	**674,380**	465,616	151,634	13,958	631,208

In addition to the above the Group received $17,835 million (2012: $10,949 million) as collateral under reverse repurchase agreements that was eligible for repledging. Of this the Group repledged $1,804 million (2012: $1,378 million) under repurchase agreements.

Readily available to secure funding
Readily available to secure funding includes unencumbered assets that can be sold outright or under repo within a few days, in line with regulatory definitions. The Group's readily available assets comprises cash and balances at central banks, loans and advances to banks and investment securities.

Assets classified as not readily available to secure funding include:

- Assets which have no restrictions for funding and collateral purposes, such as loans and advances to customers, which are not acquired or originated with the intent of generating liquidity value; and
- Assets that cannot be encumbered, such as derivatives, goodwill and intangible and deferred tax assets.

Liquidity metrics
Key liquidity metrics are monitored on a regular basis, both on a country basis and in aggregate across the Group. These include:

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.

	2013 $million	2012 $million
Loans and advances to customers[1]	**296,015**	284,616
Customer accounts[2]	**390,971**	385,117
	%	%
Advances to deposits ratio	**75.7**	73.9

[1] see note 16 to the financial statements on page 127
[2] see note 22 to the financial statements on page 132

Liquid asset ratio (LAR)

The Liquid Asset Ratio ("LAR") ensures that a proportion of the Group's total assets are held in liquid assets, on a consolidated currency basis.

Liquid assets are the total cash (less restricted balances), treasury bills, loans and advances to banks (including net unsecured interbank and trade finance) and debt securities (less illiquid securities). Illiquid securities are debt securities that cannot be sold or exchanged easily for cash without substantial loss in value.

The Group LAR remained at similar levels as in the previous year, reflecting an increase in liquid assets holdings to match balance sheet growth.

The following table sets an analysis of the Group's liquid assets by geographic region:

	2013								
	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	Group $million
Cash and balances at central banks	2,099	2,074	887	12,716	700	2,439	1,621	31,998	54,534
Restricted balances	(6)	(2,028)	(542)	(4,361)	(478)	(1,591)	(644)	(296)	(9,946)
Loans and advances to banks - net of non-performing loans	17,652	4,501	4,192	14,804	399	2,273	742	41,499	86,062
Deposits by banks	(2,091)	(4,792)	(1,479)	(6,926)	(459)	(1,574)	(566)	(26,639)	(44,526)
Treasury bills	10,244	3,627	6,794	1,618	2,167	1,620	2,777	2,557	31,404
Debt securities	20,273	11,391	5,271	15,179	2,495	4,387	2,803	24,274	86,073
of which :									
Issued by governments	4,257	2,989	3,664	12,591	1,760	3,784	1,307	3,525	33,874
Issued by banks	11,206	3,749	935	1,559	327	265	267	13,860	32,171
Issued by corporate and other entities	4,810	4,653	672	1,029	408	338	1,229	6,889	20,028
Illiquid securities and other assets	(170)	(348)	-	-	(769)	(43)	-	(1,051)	(2,381)
Liquid assets	48,001	14,425	15,123	33,030	4,055	7,511	6,733	72,342	201,220
Total assets	141,261	117,296	62,018	110,753	22,747	41,914	19,346	159,045	674,380
Liquid assets to total asset ratio (%)	34.0	12.3	24.4	29.8	17.8	17.9	34.8	45.5	29.8

Liquid asset ratio (LAR) *continued*

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Group
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Cash and balances at central banks	1,880	1,932	494	11,783	845	2,138	1,463	40,002	60,537
Restricted balances	(4)	(1,759)	(182)	(4,477)	(571)	(1,483)	(508)	(352)	(9,336)
Loans and advances to banks - net of non-performing loans	19,351	6,205	4,633	8,047	571	3,075	378	26,105	68,365
Deposits by banks	(1,585)	(2,005)	(1,769)	(5,628)	(441)	(1,934)	(540)	(23,493)	(37,395)
Treasury bills	5,454	4,102	9,119	2,737	1,996	1,928	2,260	2,099	29,695
Debt securities	21,207	11,352	4,299	14,303	3,617	4,472	2,810	22,362	84,422
of which :									
Issued by governments	4,916	3,152	2,194	11,961	2,651	3,721	1,134	3,959	33,688
Issued by banks	12,537	4,453	1,083	1,499	366	561	319	11,441	32,258
Issued by corporate and other entities	3,754	3,747	1,023	845	600	190	1,357	6,962	18,476
Illiquid securities and other assets	(357)	(655)	-	(320)	(828)	(27)	-	(1,353)	(3,540)
Liquid assets	45,946	19,172	16,594	26,445	5,189	8,169	5,863	65,370	192,748
Total assets	129,821	111,997	69,173	106,406	23,812	40,779	17,495	131,725	631,208
Liquid assets to total asset ratio (%)	35.4	17.1	24.0	24.9	21.8	20.0	33.5	49.6	30.5

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

The Group monitors the LCR and NFSR in line with the Bank of International Settlements' BCBS238 guidelines. The Group already meets the Basel III requirements for both the NSFR and LCR, well ahead of the required implementation date. As at 31 December 2013 both the Group LCR and NSFR were between 110 and 120 per cent.

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. Liquidity and funding risks are also considered as part of the Group's wider periodic scenario analysis, including reverse stress testing. In addition, the Group runs a range of stress tests to meet regulatory requirements, as defined by the PRA and local regulators.

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 a stand-alone basis, with no presumption of Group support. As at 31 December 2013 all countries passed the stress test.

The Group's resilience to market-wide disruption, such as loss of interbank money or foreign exchange markets, is tested using the 30-day market wide stress scenario, and is monitored by country ALCOs .

Finally, the 90-day stress test considers more prolonged stresses that 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. This stress is managed at a Group rather than individual country level. It tests the adequacy of contingency funding arrangements beyond the marketable securities held to cover the 8-day stress, including the ability to support countries from elsewhere in the Group.

Our country stress testing considers potential currency mismatches between outflows and inflows. Particular focus is paid to mismatches in less liquid currencies and those which are not freely convertible. Mismatches are controlled by management action triggers set by GMR. Group-wide stress tests also consider the portability of liquidity surpluses between Group entities, taking account of regulatory restrictions on large and intra-group exposures.

Standard Chartered Bank's credit ratings as at end of December 2013 were AA- (Fitch), A+ (S&P) and A1 (Moody's). A downgrade in credit rating would increase derivative collateral requirements and outflows due to conditional liabilities. The impact of a 2-notch downgrade results in an estimated outflow of $1.2 billion.

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities

The tables below analyses assets and liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date. The Group seeks to manage its liabilities both on a contractual and behavioural basis primarily by matching the maturity profile of assets and liabilities.

The tables indicate the relatively short-term nature of our asset book; over half of total assets mature within one year, and of these approximately 70 per cent mature within three months. The net funding surplus evident in the one month or less bucket is largely reflective of on demand customer liabilities. The net mismatch between assets and liabilities (or net gap) with a contractual maturity greater than one month is managed conservatively with internal limits.

	2013								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	44,309	264	-	-	-	-	-	9,961	54,534
Derivative financial instruments	6,820	7,376	8,403	4,514	3,612	9,085	13,453	8,539	61,802
Loans and advances to banks[1]	36,890	21,705	13,349	5,543	5,153	1,647	1,798	84	86,169
Loans and advances to customers[1]	73,036	29,469	23,541	10,772	11,677	22,549	48,297	76,674	296,015
Investment securities	11,496	13,948	12,567	7,252	11,241	21,052	30,844	15,877	124,277
Other assets	14,677	10,964	2,316	44	318	35	201	23,028	51,583
Total assets	187,228	83,726	60,176	28,125	32,001	54,368	94,593	134,163	674,380

	2013								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Liabilities									
Deposits by banks[1]	36,084	4,873	1,489	394	276	173	521	716	44,526
Customer accounts[1]	279,638	48,630	26,473	12,864	10,793	2,574	6,310	3,689	390,971
Derivative financial instruments	6,922	7,306	9,405	4,195	3,418	8,480	12,802	8,708	61,236
Senior debt	478	291	3,485	430	19	7,020	10,121	3,334	25,178
Other debt securities in issue[1]	10,114	13,252	11,516	1,422	1,938	1,141	1,992	4,859	46,234
Other liabilities	12,759	8,665	3,260	962	432	544	1,117	11,258	38,997
Subordinated liabilities and other borrowed funds	-	-	-	-	-	6	4,785	15,606	20,397
Total liabilities	345,995	83,017	55,628	20,267	16,876	19,938	37,648	48,170	627,539
Net liquidity gap	(158,767)	709	4,548	7,858	15,125	34,430	56,945	85,993	46,841

[1] Amounts include financial instruments held at fair value through profit or loss (see note 12 on page 113)

Liquidity risk *continued*

Liquidity analysis of the Group's balance sheet *continued*

Contractual maturity of assets and liabilities *continued*

	2012								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	51,201	-	-	-	-	-	-	9,336	60,537
Derivative financial instruments	4,787	5,705	4,365	3,079	2,079	6,762	12,272	10,446	49,495
Loans and advances to banks[1]	30,392	16,313	6,275	3,514	9,127	1,635	1,125	190	68,571
Loans and advances to customers[1]	61,261	28,393	21,819	12,678	9,796	20,566	49,221	80,882	284,616
Investment securities[1]	8,205	16,578	13,609	7,520	12,912	15,695	31,575	14,455	120,549
Other assets	9,663	12,529	1,901	602	277	82	207	22,179	47,440
Total assets	165,509	79,518	47,969	27,393	34,191	44,740	94,400	137,488	631,208

	2012								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Liabilities									
Deposits by banks[1]	32,869	2,541	1,023	114	157	159	438	94	37,395
Customer accounts[1]	264,949	49,271	29,693	10,605	12,674	6,045	4,828	7,052	385,117
Derivative financial instruments	4,887	5,190	4,685	3,355	2,110	6,149	11,418	9,398	47,192
Senior debt[1]	279	1,339	1,732	768	213	5,173	10,366	1,786	21,656
Other debt securities in issue[1]	7,961	15,862	4,889	2,278	2,723	1,693	1,454	2,724	39,584
Other liabilities	9,671	7,273	3,500	1,360	528	715	889	11,685	35,621
Subordinated liabilities and other borrowed funds	488	129	-	-	944	-	3,496	13,531	18,588
Total liabilities	321,104	81,605	45,522	18,480	19,349	19,934	32,889	46,270	585,153
Net liquidity gap	(155,595)	(2,087)	2,447	8,913	14,842	24,806	61,511	91,218	46,055

[1] Amounts include financial instruments held at fair value through profit or loss (see note 12 on page 113)

Liquidity risk *continued*

Behavioural maturity of financial assets and liabilities

The cash flows presented on page 98 reflect the cash flows which will be contractually payable over the residual maturity of the instruments. However, contractual maturities do not necessarily reflect the timing of actual repayments or cash flow. In practice, certain asset and liability instruments behave differently from their contractual terms and, especially for short term customer accounts, extend to a longer period than their contractual maturity. Such behavioural adjustments are identified in each country through analysis of the historic behaviour of balances. The Group's expectation of when assets and liabilities are likely to become due is provided in the table below:

2013	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Loans and advances to banks[1]	**36,990**	**21,856**	**13,342**	**5,532**	**5,072**	**1,554**	**1,665**	**158**	**86,169**
Loans and advances to customers[1]	**55,193**	**27,724**	**18,204**	**8,491**	**17,991**	**21,239**	**88,092**	**59,081**	**296,015**
Total loans and advances	**92,183**	**49,580**	**31,546**	**14,023**	**23,063**	**22,793**	**89,757**	**59,239**	**382,184**
Liabilities									
Deposits by banks[1]	**35,804**	**5,063**	**1,472**	**427**	**318**	**138**	**597**	**707**	**44,526**
Customer accounts[1]	**131,684**	**28,574**	**16,700**	**11,055**	**23,572**	**115,686**	**58,868**	**4,832**	**390,971**
Total deposits	**167,488**	**33,637**	**18,172**	**11,482**	**23,890**	**115,824**	**59,465**	**5,539**	**435,497**
Net gap	**(75,305)**	**15,943**	**13,374**	**2,541**	**(827)**	**(93,031)**	**30,292**	**53,700**	**(53,313)**

2012	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Loans and advances to banks[1]	36,152	13,239	9,299	3,245	3,359	1,196	1,910	171	68,571
Loans and advances to customers[1]	56,217	25,101	21,296	16,201	12,409	2,093	86,169	65,130	284,616
Total loans and advances	92,369	38,340	30,595	19,446	15,768	3,289	88,079	65,301	353,187
Liabilities									
Deposits by banks[1]	32,543	2,722	1,139	125	187	304	303	72	37,395
Customer accounts[1]	123,574	37,998	26,839	11,732	26,521	106,071	43,885	8,497	385,117
Total deposits	156,117	40,720	27,978	11,857	26,708	106,375	44,188	8,569	422,512
Net gap	(63,748)	(2,380)	2,617	7,589	(10,940)	(103,086)	43,891	56,732	(69,325)

[1] Amounts include financial instruments held at fair value through profit or loss (see note 12 on page 113)

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 and 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 that is intended to defraud, misappropriate property or to circumvent the law or company policy
External crime	Potential for loss due to criminal acts by external parties such as fraud, theft and other criminal activity including internet crime
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, as described further in the table below.

Operational risk control area	
People Management	Recruiting, developing, compensating and managing employees
Technology Management	Developing, maintaining and using information technology, and information security
Vendor Management	Procurement, licensing, outsourcing and supplier management
Property Management	Managing property assets, projects and facilities.
Security Management	Protecting the security of staff and customers
Regulatory Compliance	Maintaining relationships with regulators, evidencing compliance with banking and securities regulations and managing regulatory change
Legal processes	Effective documentation of material transactions and other material contractual agreements, controlling the rights pertaining to material assets of the Group, and managing material claims and legal disputes
Accounting & Financial Control	Financial and management accounting, associated reporting and financial control
Tax management	Maintaining relationships with tax authorities and managing the Group's tax affairs to ensure compliance with our obligations
Corporate authorities & structure	Maintaining effective corporate legal entity structure and corporate decision making authorities

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.

At the Group level, the Group Financial Crime Risk Committee provides direct oversight of operational risk relating to compliance with financial crime laws and regulations. The Committee takes its authority directly from the GRC, providing additional oversight of these risks. Close alignment is maintained with the Group Operational Risk Committee through overlap in membership and reporting.

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 of 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 assessments.

Reputational risk 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 which we apply in the provision of financial services to clients who operate in sectors with specific risks, and for key issues. We have mechanisms in our origination and credit processes to identify and assess environmental and social risks, and dedicated Sustainable Finance teams who review proposed transactions with identified risks.

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 BVC and BRC provide additional oversight of reputational risk on behalf of the Board

At the business level, Responsibility and Reputational Risk Committees have responsibility for managing reputational risk.

At country level, the Country Head of Corporate Affairs is the risk control owner of reputational risk. It is his or her 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. 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 quarterly.

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

Standard Chartered PLC – Capital

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
- 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 Group uses a capital model to assess the capital demand for material risks, and supports this with our internal capital adequacy assessment. Other internal 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, for example, by identifying potential concentrations and assessing the impact of portfolio management actions. Stress testing and scenario analysis are an integral part of capital planning, and are used to ensure that the Group's internal capital adequacy 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 through appropriate management actions. The capital modelling process is a key part of our management discipline.

A strong governance and process framework is embedded in our capital planning and assessment methodology. The key capital management committees are the Group Asset and Liability Committee (GALCO) and the Capital Management Committee (CMC). The members of the GALCO include all the Group Executive Directors, the Group Chief Risk Officer and senior attendees from Group Treasury, Finance, Risk and the business. The GALCO regularly reviews the capital plan and approves capital management policies and guidelines. The CMC oversees the tactical management of the Group's capital position and provides a bridge to GALCO's strategic management of the Group's capital position. The GALCO delegates certain authorities to CMC in relation to capital management.

The Group's capital position, including its relationship to the Group's risk appetite statement, is regularly considered by the Board Risk Committee (BRC). Further details of the BRC's activities in relation to capital are available in the Corporate Governance section on page 143. At a country level, capital is monitored by the Country Asset and Liability Committee (ALCO). Appropriate policies are in place governing the transfer of capital within the Group.

Current compliance with Capital Adequacy Regulations

In light of the uncertain economic environment and continuing uncertainty as to the end state for banks' regulatory capital structures, the Group continues to believe it is appropriate to remain both strongly capitalised and well above regulatory requirements.

On 1 April 2013, the UK FSA ceased to exist and from that date, Standard Chartered Bank was authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

The capital that we are required to hold by the PRA 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 33 to 34.

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 89 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 PRA'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 our relevant regulators. 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 our relevant regulators. Where our market risk exposures are not approved for inclusion in VaR models, the capital requirements are determined using standard rules provided by the relevant regulator. We apply the Standardised Approach for determining the capital requirements for operational risk.

The Group uses IRB models to calculate certain regulatory capital requirements. The Group's models are subject to initial approval, and ongoing supervision by its regulators. The Group believes that the overall performance of its models has been, and continues to be, very conservative. Recently, the PRA has revised its philosophy and approach towards the use and calibration of IRB models. Consequently, the Group is currently in discussions with the PRA regarding changes to some of its IRB models. Whilst the outcome of these discussions and the timetable for implementing any such changes is not fully finalised, the Group currently expects the PRA to require changes in 2014. These include changes to the calculation of Exposure At Default (EAD) and the introduction of Loss Given Default (LGD) floors based on the Foundation Approach for certain exposures where the country-specific default experience is not deemed sufficient for modelling purposes, resulting in an increase in the risk-weighted requirements calculated by such models. The Group expects these PRA requirements will, in part, be offset by model efficiencies, regulatory approvals of new IRB models and other management mitigating actions. The

Group's Pillar 3 Disclosures illustrate both the conservative nature of the Group's models and their robust performance over recent years. The Group currently estimates that the net impact of such model changes in 2014 will be a reduction in the Group's Common Equity Tier 1 (CET1) ratio on a pro forma basis of between 30 and 50bps.

CRD IV

The Financial Policy Committee (FPC) announced in March 2013 that the PRA should take action to ensure that the level of CET1 capital held by UK banks was above 7 per cent following any required adjustments to reflect a "proper valuation of their assets", "a realistic assessment of future conduct costs" and "a prudent calculation of risk weights." The PRA published the results of this exercise on 20 June 2013, confirming that the Group exceeded the 7 per cent CET1 target set by the FPC for the purposes of the exercise and, therefore, did not have a capital shortfall and had no action to take on its capital position.

The final text of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) which together comprise CRD IV were published in the EU Official Journal on 27 June 2013. In Policy Statement PS7/13, the PRA finalised its approach to implementation of the CRD IV rules in December 2013 to come into effect on 1 January 2014. The PRA's approach accelerates a number of aspects of CRD IV where there is national discretion to do so, particularly in relation to the definition of CET1.

Notwithstanding the development of the CRD IV rules during 2013, the final CRD IV outcome remains uncertain. A number of areas of CRD IV are subject to further consultation or await promulgation of the relevant European Banking Authority (EBA) Technical Standards and UK implementing rules. Further, the CRD leaves considerable scope for national discretion to be applied.

G-SIB

On 11 November 2013, the FSB published an updated list of global systemically important banks (G-SIBs), using December 2012 data and an updated assessment methodology published by the BCBS in July 2013. The Group retained its classification as a G-SIB with a 1 per cent additional CET1 requirement. We understand that the PRA have applied a "supervisory judgement" overlay resulting in the Group's classification as a G-SIB. G-SIBs will be required to hold an additional CET1 buffer. If the Group remains a G-SIB in November 2014, its related CET1 requirement will be phased in from 1 January 2016 to 1 January 2019. The EBA is currently consulting on technical standards relating to the identification of, and disclosure requirements for, G-SIBs.

Capital buffers

CRD IV contains provisions for a number of additional capital buffers and the following comments are based on the Group's current understanding of the rules.

A capital conservation buffer (CCB) of 2.5 per cent CET1 will be phased in from 1 January 2016 to 1 January 2019. The CCB is intended to provide an additional level of capital available to absorb unexpected losses during a period of stress.

A potential countercyclical buffer (CCyB) requirement of up to 2.5 per cent will be phased in from 1 January 2016 to 1 January 2019. The CCyB is intended to be used by authorities to restrain the pace of credit growth and leverage by increasing the levels of CET1 a bank is required to hold during periods of strong economic activity.

A systemic risk buffer (SRB) may be imposed by national authorities to mitigate perceived systemic risk posed by one or more financial institutions in the relevant jurisdictions. If required, the SRB will be set in CET1 at a minimum level of 1 per cent of the exposures giving rise to the SRB. The rules relating to the SRB and its calibration are not yet finalised.

Final capital requirements will not be uniform across the sector. Each institution is expected to have a specific minimum requirement based on its particular business and risk profile as implemented through a variety of tools including: Pillar 2A requirements, PRA buffers, buffers for global or domestic systemically important banks, countercyclical buffers, systemic risk buffers and, potentially, other macro prudential tools. Consequently, it is not possible to determine precisely what the Group's final capital requirements may be or the ultimate impact of the various regulatory initiatives on the Group's capital position.

Pillar 2

In December 2013, the PRA published amendments to the current Pillar 2 regime. In addition to Pillar 1 capital requirements, the Group, like other UK banks, currently holds capital in respect of its Pillar 2 risks. Pillar 2 comprises:

- An Individual Capital Guidance (ICG or Pillar 2A buffer) for risks not covered or adequately addressed by Pillar 1 capital requirements (including for example: pension risk, interest rate risk, concentration risk and operational risk).
- A Capital Planning Buffer (CPB or Pillar 2B buffer) to ensure the Group remains well capitalised in a stressed environment.

Going forward, the Group will expect to hold capital under Pillar 2 in addition to Pillar 1 requirements as follows:

- From 1 January 2015, the Group must hold at least 56 per cent of its Pillar 2A buffer in CET1.
- From 1 January 2016, the PRA Buffer Assessment will take into account the CCB, and any G-SIB and SRB. A further CET1 component could be added to the extent that the PRA do not consider that these buffers are sufficient to cover the Group's risks. The PRA have announced they intend to consult in 2014 on the transition to the new regime.

Based on the Group's 2013 ICG and its current understanding of the rules, the Group's total Pillar 2A guidance on a pro forma basis is 0.7 per cent of required total capital. Assuming that the Group meets its Pillar 2A guidance to the extent possible with Tier 1 and Tier 2 capital, the Group's Pillar 2A CET1 requirement is approximately 40bps. The Group's Pillar 2A guidance is usually considered with the PRA annually and so would be expected to vary over time.

Primary loss absorbing capacity (PLAC)

Based on its current understanding of the draft rules, the Group estimates that as at 31 December 2013 its PLAC level is around 23 per cent of risk-weighted assets (RWA). This figure includes senior liabilities with at least one year to maturity and that part of subordinated debt that is amortised for regulatory capital purposes over the last five years of the relevant instrument's duration (with at least one year remaining to maturity) and therefore outside the scope of regulatory capital recognition.

Capital base

	2013 $million	2012 $million
Shareholders' equity		
Parent company shareholders' equity per balance sheet	46,246	45,362
Preference share classified as equity included in Tier 1 capital	(1,494)	(1,495)
	44,752	43,867
Non-controlling interests		
Non-controlling interests per balance sheet	595	693
Non-controlling Tier 1 capital included in other Tier 1 capital	(320)	(320)
	275	373
Regulatory adjustments		
Unrealised (gains)/losses on available-for-sale debt securities	75	(97)
Unrealised gains on available-for-sale equity securities included in Tier 2	(744)	(490)
Cash flow hedge reserve	(15)	(81)
Other adjustments[1]	351	(35)
	(333)	(703)
Deductions		
Goodwill and other intangible assets	(6,070)	(7,312)
50 per cent of excess of expected losses [2]	(869)	(966)
50 per cent of tax on excess of expected losses[2]	259	240
50 per cent of securitisation positions	(92)	(118)
Other regulatory adjustments	1	(42)
	(6,771)	(8,198)
Core Tier 1 capital	37,923	35,339
Other Tier 1 capital		
Preference shares included within shareholder's equity	1,494	1,495
Preference shares included within 'Subordinated debt and other borrowings'	299	1,205
Innovative Tier 1 securities (excluding non-controlling Tier 1 capital)	2,577	2,553
Non-controlling Tier 1 capital	320	320
	4,690	5,573
Deductions		
50 per cent of tax on excess of expected losses[2]	259	240
50 per cent of material holdings	(537)	(552)
	(278)	(312)
Total Tier 1 capital	42,335	40,600
Tier 2 capital:		
Qualifying subordinated liabilities:[3]		
Subordinated liabilities and other borrowed funds as per balance sheet[4]	20,397	18,799
Preference shares eligible for Tier 1 capital	(299)	(1,205)
Innovative Tier 1 securities eligible for Tier 1 capital	(2,577)	(2,553)
Adjustments relating to fair value hedging and non-eligible securities	(1,314)	(2,052)
	16,207	12,989
Regulatory adjustments		
Reserves arising on revaluation of available-for-sale equities	744	490
Portfolio impairment provision	237	248
	981	738
Deductions		
50 per cent of excess of expected losses[2]	(869)	(966)
50 per cent of material holdings	(537)	(552)
50 per cent of securitisation positions	(92)	(118)
	(1,498)	(1,636)
Total Tier 2 capital	15,690	12,091
Deductions from Tier 1 and Tier 2 capital	(6)	(3)
Total capital base	58,019	52,688

1 Other adjustments include the effect of regulatory consolidation and own credit adjustment

2 Excess of expected losses in respect of advanced IRB portfolios are shown gross of tax benefits

3 Consists of perpetual subordinated debt $1,336 million (2012: $1,314 million) and other eligible subordinated debt $14,871 million (2012: $11,675 million). Lower Tier 2 instruments that will mature within 5 years include amortisation

4 The amount for 2012 does not agree to Note 25 as the prior period was re-stated due to the use of equity accounting for associates and joint ventures.

Standard Chartered PLC – Capital continued

Movement in total capital

	2013 $million	2012 $million
Opening Core Tier 1 capital:	35,339	31,833
Ordinary shares issued in the year and share premium	22	59
Profit attributable to parent company shareholders' for the year	4,090	4,887
Dividends, net of scrip	(2,068)	(1,407)
Decrease/Increase in goodwill and other intangible assets	1,242	(251)
Foreign currency translation differences	(1,223)	513
Increase in unrealised gains on available for sale assets	(82)	(379)
Net effect of regulatory consolidation and change in non-controlling interests	322	-
Movement in eligible other comprehensive income	224	306
(Increase)/decrease in excess expected loss, net of tax	116	(210)
(Increase)/decrease in securitisation positions	26	(12)
Own credit adjustment, net of tax	(85)	-
Closing Core Tier 1 capital	37,923	35,339
Opening Other Tier 1 capital	5,261	5,179
Increase in tax benefit of excess expected losses	19	54
(Increase)/decrease in material holdings deducted from capital	15	(31)
Redeemed capital	(925)	-
Other	42	59
Closing Other Tier 1 capital	4,412	5,261
Opening Tier 2 capital	12,091	10,499
Issuance of subordinated loan capital, net of redemptions and foreign currency translation differences	3,218	1,641
Increase in revaluation reserve	254	249
Increase/(decrease) in portfolio impairment provision	(11)	9
(Increase)/decrease in excess expected losses	97	(264)
(Increase)/decrease in material holdings deducted from capital	15	(31)
(Increase)/decrease in securitisation positions	26	(12)
Closing Tier 2 capital	15,690	12,091
Deductions from total capital	(6)	(3)
Closing total capital	58,019	52,688

Risk weighted assets and capital ratios

	2013 $million	2012 $million
Credit risk	265,834	246,650
Operational risk	33,289	30,761
Market risk	23,128	24,450
Total risk weighted assets	322,251	301,861
Capital ratios		
Core Tier 1 capital	11.8%	11.7%
Tier 1 capital	13.1%	13.4%
Total capital ratio	18.0%	17.4%

Risk-weighted assets by business and geography

	2013 $million	2012 $million
Consumer Banking	**81,148**	80,889
Credit risk	**70,736**	71,481
Operational risk	**10,412**	9,408
Wholesale Banking	**241,103**	220,972
Credit risk	**195,098**	175,169
Operational risk	**22,877**	21,353
Market risk	**23,128**	24,450
Total risk-weighted assets	**322,251**	301,861
Hong Kong	**39,610**	36,534
Singapore	**44,120**	45,064
Korea	**24,883**	26,667
Other Asia Pacific	**59,898**	52,313
India	**22,556**	23,145
Middle East & Other S Asia	**32,815**	33,119
Africa	**19,357**	19,856
Americas, UK & Europe	**89,818**	73,527
	333,057	310,225
Less : Netting balances[1]	**(10,806)**	(8,364)
Total risk-weighted assets	**322,251**	301,861

1 Risk-weighted assets by geography are reported gross of any netting benefits

Risk-weighted contingent liabilities and commitments[2]

	2013 $million	2012 $million
Contingent liabilities	**15,519**	14,725
Commitments	**11,814**	12,640

2 These amounts are included in total risk-weighted assets.

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 2013	**175,169**	**71,481**	**246,650**	**24,450**
Asset growth	**15,950**	**1,738**	**17,688**	**(1,322)**
Credit migration	**9,214**	**(260)**	**8,954**	**-**
RWA efficiencies	**(2,084)**	**(1,832)**	**(3,916)**	**-**
Model, methodology and policy changes	**1,012**	**1,183**	**2,195**	**-**
Acquisitions and disposals	**-**	**301**	**301**	**-**
Foreign currency translation differences	**(4,163)**	**(1,875)**	**(6,038)**	**-**
Closing risk weighted assets at 31 December 2013	**195,098**	**70,736**	**265,834**	**23,128**

	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
Asset 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

RWA grew by $20.4 billion, or 7 per cent, compared to 31 December 2012, with an increase in Wholesale Banking (WB) of $20.1 billion and $0.3 billion in Consumer Banking (CB). WB RWA growth was mainly in Americas, UK & Europe, Singapore and Other Asia Pacific region. CB growth in Hong Kong, Africa, and Middle East and Other South Asia was partly offset by an RWA decline in Singapore. Growth in Other Asia Pacific region was due to the Group now fully consolidating its Permata joint venture for regulatory purposes and this change in methodology increased RWA by $6.9 billion, of which $4.6 billion was in WB (credit risk $4.4 billion, operational risk $0.2 billion) and $2.3 billion in CB (credit risk $2 billion, operational risk $0.3 billion).

WB credit risk RWA increased by $19.9 billion. Excluding the impact of fully consolidating Permata as highlighted above, the increase was $15.5 billion. This was driven by asset growth of $16 billion across Transaction Banking, Financial Markets and Corporate Finance. Additionally, due to downgrades especially in the Americas, UK & Europe region, the impact of negative credit migration was $9.2 billion. These increases were partially offset by RWA efficiencies ($2.1 billion), methodology changes ($3.4 billion) and the foreign currency translation impact ($4.2 billion) due to the appreciation of the US dollar relative to local currencies in some of our footprint markets.

CB credit risk RWA fell by $0.7 billion. Excluding the impact of fully consolidating Permata, the underlying drop in RWA was $2.7 billion. Asset growth across SME, Wealth Management, Credit Cards and Personal Loans of $1.7 billion was more than offset through RWA efficiencies, in particular through better collateral management. The drop was, therefore, primarily driven by the foreign currency translation impact due to the appreciation of the US dollar relative to local currencies in some of our footprint markets.

As at 31 December 2013 market risk RWA was $23.1 billion compared to $24.5 billion at 31 December 2012. The decrease in market risk RWA is primarily due to a reduction in CAD2 internal model positions, covering foreign exchange and structured products. Positions outside the CAD2 permission continue to be assessed according to standard PRA rules. Of the total market risk RWA, 29 per cent is subject to CAD2 internal models and 71 per cent is under standard rules.

Operational risk RWA increased by $2.5 billion, or 8 per cent. 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 and the methodology change for the Group's Permata joint venture in the Other Asia Pacific region.

CRD IV estimate

The CRD IV position presented here, derived in accordance with the Group's current understanding of the final CRD IV rules, does not constitute either a capital or RWA forecast and may be subject to change.

The Group's current view of its CRD IV CET1 ratio on a pro forma transitional basis (as at 1 January 2014) is 10.9 per cent. The CRD IV impact is due to both increased regulatory deductions from CET1 capital (particularly the full and unsheltered deduction for excess expected losses relative to provisions and the deduction of certain deferred tax assets) and additional RWA (particularly in relation to credit valuation adjustments (CVA)).

The Group's current view of its CRD IV CET1 ratio on a pro forma end point basis is 11.2 per cent which reflects (a) the impact of estimated mitigation of the CVA RWA increase through use of internal models (subject to regulatory approval) and increased central clearing of certain derivatives and (b) the inclusion of unrealised gains on available for sale equity securities in the end point calculation which are expected to be recognised from 2015 onwards.

The CRR and the proposed EBA final technical standards on own funds refer to the deduction of foreseeable dividends when calculating CET1 in certain circumstances. The impact of the deduction of the final proposed dividend for 2013 of $1,385 million from the Group's CET1 calculation would be around 40bps which reduces to around 30bps assuming a 25 per cent scrip dividend take up.

In November 2013, the PRA set out its target for large UK institutions of 7 per cent CET1 and a 3 per cent leverage ratio from 1 January 2014, the latter excluding non CRR compliant hybrid capital and both measures taking into account adjustments to RWA and capital deemed necessary by the PRA (in line with those communicated by the PRA as part of the 20 June 2013 capital exercise). The Group exceeds both of these requirements.

Reconciliation of Core Tier 1 and Common Equity Tier 1

	2013 $million
Core Tier 1 capital	**37,923**
Full deduction of excess expected losses	**(1,128)**
Recognition of AFS gains and losses	**669**
Deduction of deferred tax assets	**(273)**
Prudent Valuation Adjustment (PVA)	**(180)**
Embedded goodwill net of tax	**(102)**
Ineligible non-controlling interests	**(299)**
Securitisation positions, free deliveries and other	**(102)**
Common Equity Tier 1 capital (end point)	**36,508**

Reconciliation of Basel II risk-weighted assets to CRD IV

	2013 $million
Basel II risk-weighted assets	**322,251**
Credit Valuation Adjustment	**7,900**
Asset Value Correlation	**5,200**
Introduction of threshold deduction approach	**2,482**
Application of CRR standardised rules	**(6,377)**
Estimated mitigation	**(6,100)**
Other	**(160)**
CRD IV risk-weighted assets (end point)	**325,196**

Future Capital Requirements

As the relevant legislation and rules are not yet fully implemented it is not possible to predict the Group's final capital requirements. The actual outcome also depends in part on the future shape of the Group, future management actions and the future view taken by its regulators as to the Group's business and risk profile. Based on the Group's current understanding of the rules, a minimum CET1 capital requirement can be identified as follows:

- a minimum CET1 requirement of 4.5 per cent by 1 January 2015
- a CCB of 2.5 per cent by 1 January 2019
- a G-SIB buffer of 1 per cent by 1 January 2019

Following PS 7/13, the PRA requires at least 56 per cent of the Group's Pillar 2A guidance to be held in CET1. Based on its current ICG, the Group currently estimates a Pillar 2A CET1 addition of around 0.4 per cent which is subject to annual review by the PRA. This results in a minimum CET1 requirement of around 8.4 per cent. The Group's current CET1 position significantly and materially exceeds this requirement. The Group would also expect to continue to operate at all times with a prudent management buffer above minimum capital requirements. The UK authorities have yet to finalise the rules relating to, and calibration of, the CCyB, SRB, PRA Buffer and additional sectoral capital requirements.

The Group starts in a notably strong position: diverse, well capitalised, highly liquid and with a conservative approach to balance sheet management. The Group currently operates at capital levels materially above the current minimum requirements and, additionally, has a number of levers at its disposal to manage future regulatory requirements (e.g. IRB model adjustments, CRD IV buffers, Pillar 2 guidance, PRA buffers or sectoral capital requirements) as they finalise or emerge over the next few years. In this context, the Group introduced at its Investor Day in November 2013, a new financial metric of managing RWA growth to a level below that of earnings growth, which provides additional conservatism. This is intended to ensure that the Group achieves, and maintains, an accretive capital trajectory over the medium-term, which places it strongly to accommodate both future growth and potentially higher, if they emerge, regulatory capital requirements.

Consolidated income statement

For the year ended 31 December 2013

	Notes	2013 $million	2012[1] $million
Interest income		**17,593**	17,827
Interest expense		**(6,437)**	(7,046)
Net interest income		**11,156**	10,781
Fees and commission income		**4,581**	4,575
Fees and commission expense		**(480)**	(496)
Net trading income	3	**2,514**	2,739
Other operating income	4	**1,006**	1,184
Non-interest income		**7,621**	8,002
Operating income		**18,777**	18,783
Staff costs	5	**(6,570)**	(6,492)
Premises costs	5	**(877)**	(863)
General administrative expenses	5	**(2,032)**	(2,707)
Depreciation and amortisation	6	**(714)**	(660)
Operating expenses		**(10,193)**	(10,722)
Operating profit before impairment losses and taxation		**8,584**	8,061
Impairment losses on loans and advances and other credit risk provisions	7	**(1,617)**	(1,196)
Other impairment			
Goodwill	8	**(1,000)**	-
Other	8	**(129)**	(196)
Profit from associates and joint ventures		**226**	182
Profit before taxation		**6,064**	6,851
Taxation	9	**(1,864)**	(1,866)
Profit for the year		**4,200**	4,985

Profit attributable to:			
Non-controlling interests	28	**110**	98
Parent company shareholders		**4,090**	4,887
Profit for the year		**4,200**	4,985

		Cents	Cents
Earnings per share:			
Basic earnings per ordinary share	11	**164.4**	199.7
Diluted earnings per ordinary share	11	**163.0**	197.7
Dividends per ordinary share :			
Interim dividends paid	10	**28.80**	27.23
Final proposed dividend[2]	10	**57.20**	56.77

		$million	$million
Total dividend:			
Interim dividend paid		**696**	650
Final proposed dividend[2]		**1,385**	1,366

[1] Amounts have been restated as explained in note 31

[2] The final proposed dividend in respect of 2013 will be accounted for in 2014 as explained in note 10

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Notes	2013 $million	2012[1] $million
Profit for the year		**4,200**	4,985
Other comprehensive income:			
Items that will not be reclassified to Income statement:			
Actuarial gain/(losses) on retirement benefit obligations	26	**79**	(76)
Items that may be reclassified subsequently to Income statement:			
Exchange differences on translation of foreign operations:			
Net (losses)/gains taken to equity		**(1,206)**	568
Net losses on net investment hedges		**(35)**	(73)
Share of other comprehensive income from associates and joint ventures		**(15)**	4
Available-for-sale investments:			
Net valuation gains taken to equity		**171**	1,054
Reclassified to income statement		**(248)**	(336)
Cash flow hedges:			
Net (losses)/gains taken to equity		**(83)**	133
Reclassified to income statement		**6**	(20)
Taxation relating to components of other comprehensive income		**34**	(132)
Other comprehensive income for the year, net of taxation		**(1,297)**	1,122
Total comprehensive income for the year		**2,903**	6,107
Total comprehensive income attributable to:			
Non-controlling interests	28	**79**	84
Parent company shareholders		**2,824**	6,023
		2,903	6,107

[1] Amounts have been restated as explained in note 31

Consolidated balance sheet

As at 31 December 2013

	Notes	2013 $million	2012[1] $million
Assets			
Cash and balances at central banks	12, 30	**54,534**	60,537
Financial assets held at fair value through profit or loss	12, 13	**29,335**	27,076
Derivative financial instruments	12, 14	**61,802**	49,495
Loans and advances to banks	12, 15	**83,702**	67,797
Loans and advances to customers	12, 16	**290,708**	279,638
Investment securities	12, 17	**102,716**	99,225
Other assets	12, 18	**33,570**	28,548
Current tax assets		**234**	215
Prepayments and accrued income		**2,510**	2,552
Interests in associates and joint ventures		**1,767**	1,684
Goodwill and intangible assets	20	**6,070**	7,145
Property, plant and equipment		**6,903**	6,620
Deferred tax assets		**529**	676
Total assets		**674,380**	631,208
Liabilities			
Deposits by banks	12, 21	**43,517**	36,427
Customer accounts	12, 22	**381,066**	372,874
Financial liabilities held at fair value through profit or loss	12, 13	**23,030**	23,064
Derivative financial instruments	12, 14	**61,236**	47,192
Debt securities in issue	12, 23	**64,589**	55,979
Other liabilities	12, 24	**27,338**	24,285
Current tax liabilities		**1,050**	1,066
Accruals and deferred income		**4,668**	4,811
Subordinated liabilities and other borrowed funds	12, 25	**20,397**	18,588
Deferred tax liabilities		**176**	161
Provisions for liabilities and charges		**107**	215
Retirement benefit obligations	26	**365**	491
Total liabilities		**627,539**	585,153
Equity			
Share capital	27	**1,214**	1,207
Reserves		**45,032**	44,155
Total parent company shareholders' equity		**46,246**	45,362
Non-controlling interests	28	**595**	693
Total equity		**46,841**	46,055
Total equity and liabilities		**674,380**	631,208

[1] Amounts have been restated as explained in note 31

Consolidated statement of changes in equity

For the year ended 31 December 2013

	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 2012	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	-	-	-	-	587	94	509	(54)[2]	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**	**478**	**81**	**(885)**	**26,566**	**45,362**	**693**	**46,055**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,090**	**4,090**	**110**	**4,200**
Other comprehensive income	**-**	**-**	**-**	**-**	**(32)**	**(66)**	**(1,221)**	**53**[3]	**(1,266)**	**(31)**	**(1,297)**
Distributions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(77)**	**(77)**
Shares issued, net of expenses	**5**	**19**	**-**	**-**	**-**	**-**	**-**	**-**	**24**	**-**	**24**
Net own shares adjustment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(124)**	**(124)**	**-**	**(124)**
Share option expense, net of taxation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**240**	**240**	**-**	**240**
Capitalised on scrip dividend	**2**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends, net of scrip	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,068)**	**(2,068)**	**-**	**(2,068)**
Other decreases[4]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**(12)**	**(100)**	**(112)**
At 31 December 2013	**1,214**	**5,493**	**18**	**12,421**	**446**	**15**	**(2,106)**	**28,745**	**46,246**	**595**	**46,841**

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 $58 million and share of comprehensive income from associates and joint ventures of $4 million

3 Comprises actuarial gains, net of taxation and non-controlling interests, of $58 million and share of comprehensive income from associates and joint ventures of $(5) million

4 Other decreases in Non-controlling interests mainly relate to the impact of losing controlling interest in a subsidiary after divesting from the company

Consolidated Cash flow statement

For the year ended 31 December 2013

	Notes	2013 $million	2012[1] $million
Cash flows from operating activities			
Profit before taxation		**6,064**	6,851
Adjustments for:			
Non-cash items included within income statement	29	**4,121**	2,421
Change in operating assets	29	**(44,144)**	(8,409)
Change in operating liabilities	29	**45,148**	18,970
Contributions to defined benefit schemes		**(168)**	(203)
UK and overseas taxes paid		**(1,716)**	(1,767)
Net cash from operating activities		**9,305**	17,863
Net cash flows from investing activities			
Purchase of property, plant and equipment		**(205)**	(162)
Disposal of property, plant and equipment		**156**	195
Acquisition of investment in subsidiaries, associates, and joint ventures, net of cash acquired		**(46)**	(63)
Purchase of investment securities	17	**(142,888)**	(156,883)
Disposal and maturity of investment securities		**137,163**	145,327
Dividends received from investment in subsidiaries, associates and joint ventures		**5**	14
Net cash used in investing activities		**(5,815)**	(11,572)
Net cash flows from financing activities			
Issue of ordinary and preference share capital, net of expenses		**24**	59
Purchase of own shares		**(154)**	(425)
Exercise of share options through ESOP		**30**	39
Interest paid on subordinated liabilities		**(813)**	(989)
Gross proceeds from issue of subordinated liabilities		**5,448**	3,390
Repayment of subordinated liabilities		**(2,616)**	(1,701)
Interest paid on senior debts		**(563)**	(867)
Gross proceeds from issue of senior debts		**6,816**	11,453
Repayment of senior debts		**(3,730)**	(5,938)
Dividends paid to non-controlling interests and preference shareholders, net of scrip		**(178)**	(161)
Dividends paid to ordinary shareholders, net of scrip		**(1,967)**	(1,306)
Net cash from financing activities		**2,297**	3,554
Net increase in cash and cash equivalents		**5,787**	9,845
Cash and cash equivalents at beginning of year		**79,518**	69,566
Effect of exchange rate movements on cash and cash equivalents		**(1,149)**	107
Cash and cash equivalents at end of year	30	**84,156**	79,518

[1] Amounts have been restated as explained in note 31

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) and equity account the Group's interest in associates and jointly controlled entities.

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

Except as noted below, the accounting policies applied by the Group as at, and for, 31 December 2013 are the same as those applied by the Group in its consolidated financial statements as at, and for, the year ended 31 December 2012. The following accounting standards and amendments have been endorsed by the EU.

Accounting standards adopted for reporting periods beginning 1 January 2013

On 1 January 2013, the Group adopted IFRS 13 *Fair Value Measurement*, which consolidates the guidance on how to measure fair value, which was spread across various IFRS, into one comprehensive standard. It introduces the use of an exit price, as well as extensive disclosure requirements, particularly the inclusion of non-financial instruments into the fair value hierarchy. IFRS 13 is required to be applied prospectively. The most significant impact of applying IFRS 13 is the mandatory requirement for the fair value of derivative liabilities and other liabilities held at fair value through profit or loss to take into account an adjustment for an entity's own credit risk and enhanced disclosure of valuation techniques and details on significant unobservable inputs for level 3 financial instruments. The adjustment for own credit risk is recognised as part of Net trading income (see note 3), and the approach for determining these fair values, along with the enhanced disclosures, are set out in note 12.

On 1 January 2013, the group adopted IAS 19 *Employee Benefits* (Revised), which introduces significant changes in the measurement, presentation and disclosure of defined benefit plans. The most significant impact on the Group as a result of these revisions comes in the form of the rate used to discount the plan assets. Where this rate has historically (until 31 December 2012) been based on the expected return on each class of pension assets, from 1 January 2013, IAS 19 requires assets to be measured based on an AA rated corporate bond yield, which aligns to the rate at which the liability is discounted. IAS 19 also makes changes to termination benefits as well as enhancing disclosure requirements and is required to be applied retrospectively. The effect of these changes on total operating expenses and pre-tax profit is not material.

On 1 January 2013 the Group early adopted IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements*, IAS 28 Investments in Associates and Joint Ventures. Though the EU has endorsed these standards for application from 1 January 2014, which is one year later than the mandatory adoption date required by the IASB of 1 January 2013, the EU has permitted early adoption from 1 January 2013.

IFRS 10 and 11, IAS 27 and 28 require retrospective application while IFRS 12 is applied prospectively. IFRS 10 replaces the current guidance on consolidation in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Special Purpose Entities*. It introduces a single model of assessing control whereby an investor controls an investee when it has the power, exposure to variable returns and the ability to use its power to influence the returns of the investee. IFRS 10 also includes specific guidance on de facto control, protective rights and the determination of whether a decision maker is acting as principal or agent, all of which influence the assessment of control. The application of IFRS 10 has not had a material impact on the Group.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. It requires all joint ventures to be equity accounted thereby removing the option in IAS 31 for proportionate consolidation. It also removes the IAS 31 concept of jointly controlled assets. As a result, the Group's joint venture investment in PT Bank Permata Tbk (Permata) which was proportionately consolidated until 31 December 2012, is from 1 January 2013 being accounted for using the equity method as mandated under IFRS 11. The impact of this change is provided in note 31.

IFRS 12 prescribes additional disclosures around significant judgements and assumptions made in determining whether an entity controls another entity and has joint control or significant influence over another entity. The standard also requires disclosures on the nature and risks associated with interests in unconsolidated structured entities. The Group will present these disclosures, where appropriate, in the 2013 Annual Report and Accounts.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those applied to the consolidated financial statements as at, and for, the year ended 31 December 2013.

A summary of the Group's significant accounting policies will be included in the 2013 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 includes 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.

As disclosed in note 34, the Group will adopt a new segmental disclosure in 2014 following a reorganisation of its business.

By class of business

	2013					2012 [4]				
	Consumer Banking $million	Wholesale Banking[1] $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	9	(9)	-	-	-	(16)	16	-	-	-
Net interest income	4,940	6,216	11,156	-	11,156	4,780	6,001	10,781	-	10,781
Non interest income	2,230	5,391	7,621	-	7,621	2,257	5,655	7,912	90	8,002
Operating income	7,179	11,598	18,777	-	18,777	7,021	11,672	18,693	90	18,783
Operating expenses	(4,632)	(5,326)	(9,958)	(235)	(10,193)	(4,596)	(5,952)	(10,548)	(174)	(10,722)
Operating profit before impairment losses and taxation	2,547	6,272	8,819	(235)	8,584	2,425	5,720	8,145	(84)	8,061
Impairment losses on loans and advances and other credit risk provisions	(1,034)	(583)	(1,617)	-	(1,617)	(674)	(522)	(1,196)	-	(1,196)
Other impairment										
Goodwill impairment	-	-	-	(1,000)	(1,000)	-	-	-	-	-
Other impairment	(7)	(122)	(129)	-	(129)	(45)	(151)	(196)	-	(196)
Profit from associates and joint ventures	44	182	226	-	226	43	139	182	-	182
Profit before taxation	1,550	5,749	7,299	(1,235)	6,064	1,749	5,186	6,935	(84)	6,851
Total assets employed	138,764	528,783	667,547	6,833	674,380	138,699	484,473	623,172	8,036	631,208
Total liabilities employed	191,275	435,038	626,313	1,226	627,539	186,327	397,599	583,926	1,227	585,153
Other segment items:										
Capital expenditure[5]	235	1,216	1,451	-	1,451	204	2,042	2,246	-	2,246
Depreciation	133	300	433	-	433	147	259	406	-	406
Investment in associates and joint ventures	537	1,230	1,767	-	1,767	559	1,125	1,684	-	1,684
Amortisation of intangible assets	87	194	281	-	281	81	173	254	-	254

1 Wholesale Banking non-interest income includes Own credit adjustment (OCA) of $106 million
2 Relates to UK bank levy and goodwill impairment charge on Korea business
3 Relates to profits realised from repurchase of subordinated liabilities and UK bank levy
4 Amounts have been restated as explained in note 31
5 Includes capital expenditure in Wholesale Banking of $874 million in respect of operating lease assets (2012: $1,788 million)

2. Segmental Information continued

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

	2013 $million	2012 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	2,802	2,668
Wealth Management	1,296	1,268
Deposits	1,414	1,526
Mortgage and Auto Finance	1,425	1,298
Other	242	261
	7,179	7,021
Wholesale Banking		
Lending and Portfolio Management	818	837
Transaction Banking		
Trade	1,845	1,915
Cash Management and Custody	1,629	1,721
Global Markets		
Financial Markets[1]	3,756	3,657
Asset and Liability Management (ALM)	754	837
Corporate Finance	2,519	2,222
Principal Finance	277	483
	7,306	7,199
	11,598	11,672

1 Includes $106 million (2012: $nil) benefits relating to Own credit adjustment (OCA)

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.

	2013								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe[1] $million	Total $million
Internal income	119	(78)	(69)	123	84	69	129	(377)	-
Net interest income	1,681	1,148	1,267	2,253	1,030	1,185	992	1,600	11,156
Fees and commissions income, net	910	581	237	632	269	476	417	579	4,101
Net trading income	722	311	73	373	165	397	184	289	2,514
Underlying	722	282	72	357	165	397	184	229	2,408
Own credit adjustment	-	29	1	16	-	-	-	60	106
Other operating income	293	170	56	92	148	82	29	136	1,006
Operating income	3,725	2,132	1,564	3,473	1,696	2,209	1,751	2,227	18,777
Operating expenses	(1,666)	(1,129)	(1,120)	(2,118)	(699)	(1,084)	(862)	(1,515)	(10,193)
Operating profit before impairment losses and taxation	2,059	1,003	444	1,355	997	1,125	889	712	8,584
Impairment losses on loans and advances and other credit risk provisions	(135)	(88)	(427)	(415)	(195)	(67)	(270)	(20)	(1,617)
Other impairment	(4)	10	(1,029)	(3)	(105)	-	-	2	(1,129)
Profit from associates and joint ventures	-	-	-	224	-	-	-	2	226
Profit/(loss) before taxation	1,920	925	(1,012)	1,161	697	1,058	619	696	6,064
Capital expenditure[2]	905	320	27	27	26	53	45	48	1,451

1 Americas UK & Europe includes operating income of $1,110 million in respect of the UK, the Company's country of domicile

2 Includes capital expenditure of $874 million in Hong Kong 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

2. Segmental Information continued

	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	Total $million
Internal income	111	(107)	(85)	93	129	84	60	(285)	-
Net interest income	1,564	1,251	1,421	2,168	920	1,143	917	1,397	10,781
Fees and commissions income, net	830	551	210	677	304	471	416	620	4,079
Net trading income	653	377	147	575	157	448	157	225	2,739
Other operating income	190	131	159	159	75	88	43	339	1,184
Operating income	3,348	2,203	1,852	3,672	1,585	2,234	1,593	2,296	18,783
Operating expenses	(1,572)	(1,169)	(1,081)	(2,258)	(753)	(1,100)	(784)	(2,005)	(10,722)
Operating profit before impairment losses and taxation	1,776	1,034	771	1,414	832	1,134	809	291	8,061
Impairment losses on loans and advances and other credit risk provisions	(109)	(66)	(249)	(221)	(165)	(316)	(38)	(32)	(1,196)
Other impairment	(7)	(2)	(8)	(157)	9	(32)	-	1	(196)
Profit from associates and joint ventures	-	-	-	181	-	-	-	1	182
Profit before taxation	1,660	966	514	1,217	676	786	771	261	6,851
Capital expenditure [2]	1,825	232	22	18	22	55	31	41	2,246

[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

2. Segmental Information continued

Net interest margin and yield

	2013 $million	2012 $million
Net interest margin (%)	**2.1**	2.2
Net interest yield (%)	**2.1**	2.1
Average interest earning assets	**521,287**	483,491
Average interest bearing liabilities	**488,593**	456,998

Net interest margin by geography

2013	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	**149,327**	**115,561**	**55,921**	**118,337**	**34,962**	**47,166**	**24,892**	**193,499**	**(65,285)**	**674,380**
Of which : Loans to customers[2]	**61,173**	**57,540**	**29,760**	**54,843**	**23,019**	**26,124**	**13,122**	**30,434**	**-**	**296,015**
Average interest-earning assets	**114,713**	**86,070**	**49,219**	**101,459**	**30,111**	**39,193**	**20,061**	**131,686**	**(51,225)**	**521,287**
Net interest income	**1,835**	**1,072**	**1,199**	**2,351**	**1,116**	**1,256**	**1,123**	**1,204**	**-**	**11,156**
Net interest margin (%)	**1.6**	**1.2**	**2.4**	**2.3**	**3.7**	**3.2**	**5.6**	**0.9**	**-**	**2.1**

[1] Americas UK & Europe includes total assets employed of $122,182 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

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	112,476	36,935	46,219	20,890	179,516	(66,305)	631,208
Of which : Loans to customers[2]	53,330	51,318	36,165	54,730	23,994	25,200	11,304	28,575	-	284,616
Average interest-earning assets	107,434	76,689	54,064	98,695	29,796	36,806	18,177	114,768	(52,938)	483,491
Net interest income	1,716	1,144	1,335	2,232	1,050	1,230	976	1,098	-	10,781
Net interest margin (%)	1.6	1.5	2.5	2.3	3.5	3.3	5.4	1.0	-	2.2

[1] Americas UK & Europe includes total assets employed of $108,775 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

2. **Segmental Information** continued

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

2013	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	9,166	8,654	50	3,376	2,169	10,309	5,465	6,293	45,482
Interest bearing current accounts and savings deposits	59,348	30,851	19,157	28,230	1,826	4,573	2,429	34,745	181,159
Time deposits	39,476	38,020	12,096	38,175	7,633	12,683	3,985	48,074	200,142
Other deposits	214	1,482	541	1,563	1,557	299	207	2,851	8,714
Total	108,204	79,007	31,844	71,344	13,185	27,864	12,086	91,963	435,497
Deposits by banks	2,091	4,792	1,479	6,926	459	1,574	566	26,639	44,526
Customer accounts	106,113	74,215	30,365	64,418	12,726	26,290	11,520	65,324	390,971
Of which:									
Protected under government insurance schemes	17,875	6,319	25,080	28,655	11,465	2,283	697	-	92,223
Other accounts	88,238	67,896	5,285	35,763	1,261	24,007	10,823	65,324	298,748
	108,204	79,007	31,844	71,344	13,185	27,864	12,086	91,963	435,497
Debt securities in issue:									
Senior debt	144	-	4,094	2,043	-	53	6	18,839	25,179
Other debt securities	2,167	2,621	3,215	3,875	46	-	214	34,095	46,233
Subordinated liabilities and other borrowed funds	1,359	-	635	337	-	24	51	17,991	20,397
Total	111,874	81,628	39,788	77,599	13,231	27,941	12,357	162,888	527,306

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

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	30,481	2,224	4,159	2,392	27,240	173,103
Time deposits	35,224	37,968	16,989	38,596	7,380	12,367	3,318	49,281	201,123
Other deposits	199	242	595	915	1,636	455	163	1,851	6,056
Total	99,862	76,448	39,001	73,521	13,931	26,204	10,253	83,292	422,512
Deposits by banks	1,585	2,005	1,769	5,628	441	1,934	540	23,493	37,395
Customer accounts	98,277	74,443	37,232	67,893	13,490	24,270	9,713	59,799	385,117
Of which:									
Protected under government insurance schemes	16,194	6,279	24,692	30,586	11,248	1,383	1,543	-	91,925
Other accounts	82,083	68,164	12,540	37,307	2,242	22,887	8,170	59,799	293,192
	99,862	76,448	39,001	73,521	13,931	26,204	10,253	83,292	422,512
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	349	-	29	62	15,823	18,588
Total	102,612	78,351	45,909	78,972	13,978	26,302	10,615	145,601	502,340

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

2. Segmental Information continued

	2013 China $million	Malaysia $million	Indonesia $million	Taiwan $million	Thailand $million	Others $million	Other Asia Pacific $million
Operating income[1]	933	700	429	539	394	478	3,473
Operating expenses	(753)	(344)	(242)	(353)	(187)	(239)	(2,118)
Impairment losses on loans and advances and other credit risk provisions	(58)	(104)	(103)	(49)	(82)	(19)	(415)
Other impairment	4	-	-	1	-	(8)	(3)
Profit from associates and joint ventures	146	-	72	-	-	6	224
Profit before taxation	272	252	156	138	125	218	1,161
Total assets employed	35,117	19,479	7,868	25,498	9,538	20,837	118,337
Loans to customers[2]	15,489	12,178	4,564	13,184	4,126	5,302	54,843
Deposits by banks	1,888	815	152	673	966	2,432	6,926
Customer accounts	20,071	11,923	2,446	19,089	3,691	7,198	64,418
Debt securities in issue	818	274	-	1,906	66	2,854	5,918

[1] Operating income includes OCA of ($1) million in China, $4 million in Malaysia, $12 million in Thailand and $1 million in Others

[2] The analysis is based on the location of the customers rather than booking location of the loan

	2012 China $million	Malaysia $million	Indonesia $million	Taiwan $million	Thailand $million	Others $million	Other Asia Pacific $million
Operating income	999	743	525	567	391	447	3,672
Operating expenses	(758)	(338)	(223)	(366)	(192)	(381)	(2,258)
Impairment losses on loans and advances and other credit risk provisions	(38)	(68)	(55)	(4)	(37)	(19)	(221)
Other impairment	(44)	-	-	(1)	-	(112)	(157)
Profit from associates and joint ventures	96	-	66	-	-	19	181
Profit/(loss) before taxation	255	337	313	196	162	(46)	1,217
Total assets employed	29,710	18,665	8,761	25,831	9,417	20,092	112,476
Loans to customers[1]	14,353	12,110	5,163	13,609	4,691	4,804	54,730
Deposits by banks	1,690	948	192	251	849	1,698	5,628
Customer accounts	20,536	11,753	2,691	20,014	4,390	8,509	67,893
Debt securities in issue	-	944	-	1,971	177	2,010	5,102

[1] The analysis is based on the location of the customers rather than booking location of the loan

2. Segmental Information continued

	2013				
	UAE $million	Pakistan $million	Bangladesh $million	Others $million	Middle East & Other S Asia $million
Operating income	1,222	237	275	475	2,209
Operating expenses	(573)	(157)	(91)	(263)	(1,084)
Impairment losses on loans and advances and other credit risk provisions	(52)	(26)	(20)	31	(67)
Other impairment	-	-	-	-	-
Profit before taxation	597	54	164	243	1,058
Total assets employed	27,892	4,032	3,823	11,419	47,166
Loans to customers[1]	15,734	1,623	2,113	6,654	26,124
Deposits by banks	1,180	162	81	151	1,574
Customer accounts	16,765	2,859	2,196	4,470	26,290
Debt securities in issue	-	53	-	-	53

[1] The analysis is based on the location of the customers rather than booking location of the loan

	2012				
	UAE $million	Pakistan $million	Bangladesh $million	Others $million	Middle East & Other S Asia $million
Operating income	1,230	291	225	488	2,234
Operating expenses	(569)	(174)	(87)	(270)	(1,100)
Impairment losses on loans and advances and other credit risk provisions	(230)	(46)	(7)	(33)	(316)
Other impairment	-	(4)	-	(28)	(32)
Profit before taxation	431	67	131	157	786
Total assets employed	26,306	4,284	3,105	12,524	46,219
Loans to customers[1]	14,366	1,758	1,802	7,274	25,200
Deposits by banks	1,527	247	10	150	1,934
Customer accounts	15,453	2,797	1,935	4,085	24,270
Debt securities in issue	-	69	-	-	69

[1] The analysis is based on the location of the customers rather than booking location of the loan

3. Net trading income

	2013 $million	2012[2] $million
Gains less losses on instruments held for trading:		
Foreign currency [1]	1,118	1,498
Trading securities	(203)	648
Interest rate derivatives	889	428
Credit and other derivatives	633	28
	2,437	2,602
Gains less losses from fair value hedging:		
Gains less losses from fair value hedged items	1,307	10
Gains less losses from fair value hedging instruments	(1,322)	(13)
	(15)	(3)
Gains less losses on instruments designated at fair value:		
Financial assets designated at fair value through profit or loss	97	229
Financial liabilities designated at fair value through profit or loss	172	(256)
Own credit adjustment (OCA)	106	-
Derivatives managed with financial instruments designated at fair value through profit or loss	(283)	167
	92	140
	2,514	2,739

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

2 Amounts reclassified to present on a consistent basis

Gains less losses on instruments held for trading is presented by product type. Gains or losses on certain trading securities are offset by gains or losses within interest rate derivatives and credit and other derivatives.

4. Other operating income

	2013 $million	2012 $million
Other operating income includes:		
Gains less losses on disposal of financial instruments:		
Available-for-sale	248	336
Loans and receivables	5	37
Dividend income	104	92
Gains arising on repurchase of subordinated liabilities	-	90
Rental income from operating lease assets	485	347
Gains on disposal of property, plant and equipment	102	100
Gain arising on sale of business	-	15
Fair value loss on businesses classified as held for sale	(49)	-

5. Operating expenses

	2013 $million	2012 $million
Staff costs:		
Wages and salaries	4,982	4,877
Social security costs	160	148
Other pension costs (note 26)	336	299
Share based payment costs	264	374
Other staff costs	828	794
	6,570	6,492

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 :

	2013			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	**51,248**	**20,384**	**15,008**	**86,640**
Average for the year	**53,628**	**20,101**	**14,528**	**88,257**

	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

Premises and equipment expenses:

	2013 $million	2012 $million
Rental of premises	**440**	432
Other premises and equipment costs	**415**	406
Rental of computers and equipment	**22**	25
	877	863

General administrative expenses:

	2013 $million	2012 $million
UK bank levy [1]	**235**	174
Settlement with the US authorities [2]	**-**	667
Other general administrative expenses	**1,797**	1,866
	2,032	2,707

[1] 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 2013 is 0.13 per cent for chargeable short term liabilities, with a lower rate of 0.065 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 2014 has been increased to 0.156 per cent for qualifying liabilities, with a long term rate of 0.078 per cent. The charge for 2013 has been reduced by a refund of $31 million relating to prior years, $11 million of which related to 2012.

[2] 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

	2013 $million	2012 $million
Premises	**108**	126
Equipment:		
Operating lease assets	**206**	148
Others	**119**	132
Intangibles:		
Software	**226**	189
Acquired on business combinations	**55**	65
	714	660

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 :

	2013 $million	2012 $million
Net charge against profit on loans and advances:		
Individual impairment charge	**1,597**	1,230
Portfolio impairment charge/(release)	**15**	(35)
	1,612	1,195
Provisions related to credit commitments	**-**	5
Impairment charge/(release) relating to debt securities classified as loans and receivables	**5**	(4)
Total impairment losses and other credit risk provisions	**1,617**	1,196

An analysis of impairment provisions on loans and advances by geography and business is set out within the Risk review on pages 44 to 63.

8. Other impairment

	2013 $million	2012 $million
Impairment losses on available-for-sale financial assets:		
- Asset backed securities	**(2)**	(3)
- Other debt securities	**56**	(16)
- Equity shares	**90**	134
	144	115
Impairment of investment in associates	**-**	70
Impairment of goodwill	**1,000**	-
Others	**14**	36
	1,158	221
Recovery of impairment on disposal of equity instruments[1]	**(29)**	(25)
	1,129	196

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

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:

	2013 $million	2012 $million
The charge for taxation based upon the profits for the year comprises:		
Current tax:		
United Kingdom corporation tax at 23.25 per cent (2012: 24.5 per cent):		
Current tax on income for the year	139	110
Adjustments in respect of prior periods (including double taxation relief)	(3)	10
Double taxation relief	(9)	(9)
Foreign tax:		
Current tax on income for the year	1,594	1,687
Adjustments in respect of prior periods	(37)	(4)
	1,684	1,794
Deferred tax:		
Origination/reversal of temporary differences	165	64
Adjustments in respect of prior periods	15	8
	180	72
Tax on profits on ordinary activities	1,864	1,866
Effective tax rate	30.7%	27.2%

The UK corporation tax rate was reduced from 24 per cent to 23 per cent with an effective date of 1 April 2013, giving a blended rate of 23.25 per cent for the year.

Foreign taxation includes taxation on Hong Kong profits of $242 million (2012: $189 million) provided at a rate of 16.5 per cent (2012: 16.5 per cent) on the profits assessable in Hong Kong. Deferred taxation includes origination/reversal of temporary differences in Hong Kong profits of $1 million (2012: $3 million) provided at a rate of 16.5 per cent (2012: 16.5 per cent) on the profits assessable in Hong Kong.

10. Dividends

Ordinary equity shares	2013		2012	
	Cents per share	**$million**	Cents per share	$million
2012/2011 final dividend declared and paid during the year[1]	**56.77**	**1,366**	51.25	1,216
2013/2012 interim dividend declared and paid during the year[1]	**28.80**	**696**	27.23	650
		2,062		1,866

[1] The amounts are gross of scrip adjustments

The amounts in the table above reflect the actual dividend per share declared and paid to shareholders in 2013 and 2012. 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 2012 final dividend of 56.77 cents per ordinary share ($1,366 million) was paid to eligible shareholders on 14 May 2013 and the 2013 interim dividend of 28.80 cents per ordinary share ($696 million) was paid to eligible shareholders on 17 October 2013.

2013 recommended final ordinary equity share dividend

The 2013 final ordinary equity share dividend recommended by the Board is 57.20 cents per share ($1,385 million), which makes the total dividend for 2013 86.00 cents per share (2012: 84.00 cents per share). The final dividend will be paid in either pounds sterling, Hong Kong dollars or US dollars on 14 May 2014 to shareholders on the UK register of members at the close of business in the UK (10:00 pm London time) on 14 March 2014, 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 14 March 2014. The 2013 final ordinary equity share dividend will be paid in Indian rupees on 15 May 2014 to Indian Depository Receipt holders on the Indian register at the close of business in India on 14 March 2014.

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 2014. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

Preference shares		2013 $million	2012 $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[1,3]	**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

[3] On 27 November 2013 these preference shares were redeemed (see note 27)

11. Earnings per ordinary share

	2013			2012		
	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	**3,989**	**2,426,238**	**164.4**	4,786	2,396,737	199.7
Effect of dilutive potential ordinary shares:						
Options[2]	**–**	**20,671**	**–**	–	24,534	–
Diluted earnings per ordinary share	**3,989**	**2,446,909**	**163.0**	4,786	2,421,271	197.7

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.

The Group measures earnings per share on a normalised basis. This differs from earnings defined in IAS 33 *Earnings per share*. The table below provides a reconciliation.

	2013	2012[3]
	$million	$million
Operating income as reported	**18,777**	18,783
Items normalised:		
Fair value gains on own credit adjustment	**(106)**	-
Gain on disposal of property	**(77)**	(91)
Gains on repurchase of subordinated liabilities	**-**	(90)
Gain arising on sale of business	**-**	(15)
Fair value loss on business classified as held for sale	**49**	-
	(134)	(196)
Normalised operating income	**18,643**	18,587
Operating expenses as reported	**(10,193)**	(10,722)
Items normalised:		
Amortisation of intangible assets arising on business combinations	**55**	65
Settlements with US authorities	**-**	667
	55	732
Normalised operating expenses	**(10,138)**	(9,990)
Other impairment as reported	**(1,129)**	(196)
Items normalised:		
Impairment of associates	**-**	70
Impairment of property	**9**	4
Impairment of goodwill	**1,000**	-
	1,009	74
Normalised other impairment	**(120)**	(122)
Taxation as reported	**(1,864)**	(1,866)
Tax on normalised items[4]	**31**	2
Normalised taxation	**(1,833)**	(1,864)
Profit as reported[1]	**3,989**	4,786
Items normalised as above:		
Operating income	**(134)**	(196)
Operating expenses	**55**	732
Other impairment	**1,009**	74
Taxation	**31**	2
	961	612
Normalised profit	**4,950**	5,398
Normalised basic earnings per ordinary share (cents)	**204.0**	225.2
Normalised diluted earnings per ordinary share (cents)	**202.3**	222.9

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 (note 10)

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

3 Amounts have been restated as explained in note 31

4 No tax is included in respect of the impairment of goodwill as no tax relief is available

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	Non-financial assets $million	Total $million
Cash and balances at central banks		**-**	**-**	**-**	**-**	**54,534**	**-**	**54,534**
Financial assets held at fair value through profit or loss								
Loans and advances to banks[1]		**2,221**	**-**	**246**	**-**	**-**	**-**	**2,467**
Loans and advances to customers[1]		**4,411**	**-**	**896**	**-**	**-**	**-**	**5,307**
Treasury bills and other eligible bills	13	**5,161**	**-**	**-**	**-**	**-**	**-**	**5,161**
Debt securities	13	**12,407**	**-**	**292**	**-**	**-**	**-**	**12,699**
Equity shares	13	**2,932**	**-**	**769**	**-**	**-**	**-**	**3,701**
		27,132	**-**	**2,203**	**-**	**-**	**-**	**29,335**
Derivative financial instruments	14	**59,765**	**2,037**	**-**	**-**	**-**	**-**	**61,802**
Loans and advances to banks[1]	15	**-**	**-**	**-**	**-**	**83,702**	**-**	**83,702**
Loans and advances to customers[1]	16	**-**	**-**	**-**	**-**	**290,708**	**-**	**290,708**
Investment securities								
Treasury bills and other eligible bills	17	**-**	**-**	**-**	**26,243**	**-**	**-**	**26,243**
Debt securities	17	**-**	**-**	**-**	**70,546**	**2,828**	**-**	**73,374**
Equity shares	17	**-**	**-**	**-**	**3,099**	**-**	**-**	**3,099**
		-	**-**	**-**	**99,888**	**2,828**	**-**	**102,716**
Other assets	18	**-**	**-**	**-**	**-**	**26,351**	**7,219**	**33,570**
Total at 31 December 2013		**86,897**	**2,037**	**2,203**	**99,888**	**458,123**	**7,219**	**656,367**
Cash and balances at central banks		-	-	-	-	60,537	-	60,537
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	14,882	-	333	-	-	-	15,215
Equity shares	13	2,140	-	1,014	-	-	-	3,154
		25,447	-	1,629	-	-	-	27,076
Derivative financial instruments	14	47,133	2,362	-	-	-	-	49,495
Loans and advances to banks[1]	15	-	-	-	-	67,797	-	67,797
Loans and advances to customers[1]	16	-	-	-	-	279,638	-	279,638
Investment securities								
Treasury bills and other eligible bills	17	-	-	-	26,740	-	-	26,740
Debt securities	17	-	-	-	65,356	3,851	-	69,207
Equity shares	17	-	-	-	3,278	-	-	3,278
		-	-	-	95,374	3,851	-	99,225
Other assets	18	-	-	-	-	21,406	7,142	28,548
Total at 31 December 2012		72,580	2,362	1,629	95,374	433,229	7,142	612,316

1 Further analysed in Risk review on pages 25 to 86

12. Financial instruments continued

Classification continued

Liabilities	Notes	Liabilities at fair value: Trading $million	Liabilities at fair value: Derivatives held for hedging $million	Liabilities at fair value: Designated at fair value through profit or loss $million	Amortised cost $million	Non-financial liabilities $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		-	-	1,009	-	-	1,009
Customer accounts		-	-	9,905	-	-	9,905
Debt securities in issue		-	-	6,823	-	-	6,823
Short positions		5,293	-	-	-	-	5,293
		5,293	-	17,737	-	-	23,030
Derivative financial instruments	14	60,322	914	-	-	-	61,236
Deposits by banks	21	-	-	-	43,517	-	43,517
Customer accounts	22	-	-	-	381,066	-	381,066
Debt securities in issue	23	-	-	-	64,589	-	64,589
Other liabilities	24	-	-	-	21,894	5,444	27,338
Subordinated liabilities and other borrowed funds	25	-	-	-	20,397	-	20,397
Total at 31 December 2013		65,615	914	17,737	531,463	5,444	621,173
Financial liabilities held at fair value through profit or loss[1]							
Deposits by banks		-	-	968	-	-	968
Customer accounts		-	-	12,243	-	-	12,243
Debt securities in issue		-	-	5,261	-	-	5,261
Short positions		4,592	-	-	-	-	4,592
		4,592	-	18,472	-	-	23,064
Derivative financial instruments	14	46,459	733	-	-	-	47,192
Deposits by banks	21	-	-	-	36,427	-	36,427
Customer accounts	22	-	-	-	372,874	-	372,874
Debt securities in issue	23	-	-	-	55,979	-	55,979
Other liabilities	24	-	-	-	19,547	4,738	24,285
Subordinated liabilities and other borrowed funds	25	-	-	-	18,588	-	18,588
Total at 31 December 2012		51,051	733	18,472	503,415	4,738	578,409

[1] Amounts have been restated as explained in note 31

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 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 parameters 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 parameters Illiquid highly structured debt securities in issue with unobservable inputs

12. Financial instruments continued

Valuation of 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 2013.

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	244	2,223	-	2,467
Loans and advances to customers	-	4,587	720	5,307
Treasury bills and other eligible bills	4,904	257	-	5,161
Debt securities	6,596	5,944	159	12,699
Of which:				
Government bonds	6,396	1,220	-	7,616
Issued by corporates other than financial institutions	79	3,211	159	3,449
Issued by financial institutions	121	1,513	-	1,634
Equity shares	2,797	-	904	3,701
Derivative financial instruments	323	60,881	598	61,802
Of which:				
Foreign exchange	56	41,942	366	42,364
Interest rate	-	16,013	53	16,066
Commodity	267	2,104	-	2,371
Credit	-	573	13	586
Equity and stock index	-	249	166	415
Investment securities				
Treasury bills and other eligible bills	22,701	3,523	19	26,243
Debt securities	24,445	45,493	608	70,546
Of which:				
Government bonds	14,513	5,451	64	20,028
Issued by corporates other than financial institutions	6,480	7,314	493	14,287
Issued by financial institutions	3,452	32,728	51	36,231
Equity shares	1,635	8	1,456	3,099
At 31 December 2013	63,645	122,916	4,464	191,025

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	-	1,009	-	1,009
Customer accounts	-	9,897	8	9,905
Debt securities in issue	7	6,777	39	6,823
Short positions	4,917	376	-	5,293
Derivative financial instruments	420	60,375	441	61,236
Of which:				
Foreign exchange	84	41,738	315	42,137
Interest rate	-	15,863	24	15,887
Commodity	336	1,500	-	1,836
Credit	-	874	-	874
Equity and stock index	-	400	102	502
At 31 December 2013	5,344	78,434	488	84,266

There are no significant transfers of financial assets and liabilities measured at fair value between level 1 and level 2 in 2013

12. Financial instruments continued

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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.

Valuation of financial instruments continued

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	8,523	6,516	176	15,215
Of which:				
Government bonds	8,286	1,482	4	9,772
Issued by corporates other than financial institutions	132	2,683	172	2,987
Issued by financial institutions	105	2,351	-	2,456
Equity shares	2,029	-	1,125	3,154
Derivative financial instruments	260	48,749	486	49,495
Of which:				
Foreign exchange	41	25,125	401	25,567
Interest rate	-	20,364	9	20,373
Commodity	219	2,151	-	2,370
Credit	-	824	6	830
Equity and stock index	-	285	70	355
Investment securities				
Treasury bills and other eligible bills	22,781	3,901	58	26,740
Debt securities	20,771	44,189	396	65,356
Of which:				
Government bonds	11,809	3,419	87	15,315
Issued by corporates other than financial institutions	4,516	7,853	266	12,635
Issued by financial institutions	4,446	32,917	43	37,406
Equity shares	1,307	13	1,958	3,278
At 31 December 2012	58,580	108,256	5,109	171,945
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
Derivative financial instruments	383	46,246	563	47,192
Of which:				
Foreign exchange	72	24,584	411	25,067
Interest rate	-	19,106	33	19,139
Commodity	311	1,173	-	1,484
Credit	-	1,120	10	1,130
Equity and stock index	-	263	109	372
At 31 December 2012	4,771	64,808	677	70,256

There are no significant transfers of financial assets and liabilities measured at fair value between level 1 and level 2 in 2012.

12. Financial instruments continued

Level 3 movement tables - Financial assets

Assets	Held at fair value through profit or loss: Loans and advances to customers $million	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 2013	910	176	1,125	486	58	396	1,958	5,109
Total (losses)/gains recognised in income statement	(89)	63	17	37	-	(18)	51	61
Total losses recognised in other comprehensive income	-	-	-	-	-	(23)	(46)	(69)
Purchases	-	18	264	86	-	6	119	493
Sales	-	(30)	(502)	(11)	(36)	(59)	(446)	(1,084)
Settlements	(103)	(38)	-	(50)	(3)	(100)	-	(294)
Transfers out	-	(44)	-	(1)	-	(56)	(180)	(281)
Transfers in	2	14	-	51	-	462	-	529
At 31 December 2013	720	159	904	598	19	608	1,456	4,464
Total (losses)/ gains recognised in the income statement relating to assets held at 31 December 2013	(86)	3	16	24	-	-	3	(40)

Transfers in during the year primarily relate to investments in structured notes, bonds and corporate debt securities where the valuation parameters became unobservable during the year.

Transfers out during the year primarily relate to certain equity shares and corporate debt securities where the valuation parameters became observable during the year and were transferred to level 1 and level 2 financial assets.

12. Financial instruments continued

Level 3 movement tables - Financial assets continued

Assets	Held at fair value through profit or loss: Loans and advances to customers $million	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 2012	-	293	566	276	49	745	1418	3,347
Total gains/(losses) recognised in income statement	-	9	313	(48)	-	48	(13)	309
Total losses 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)	-	(7)	(33)	(261)	(16)	(413)
Transfers in	937	50	-	2	-	2	5	996
At 31 December 2012	910	176	1125	486	58	396	1958	5,109
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2012	-	(10)	195	(30)	-	-	(14)	141

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 debt securities where the valuation parameters became observable during the year and were transferred to Level 2 financial assets.

Financial liabilities

Liabilities	2013: Customer Accounts $million	2013: Debt securities in issue $million	2013: Derivative financial instruments $million	2013: Total $million	2012: Customer Accounts $million	2012: Debt securities in issue $million	2012: Derivative financial instruments $million	2012: Total $million
At 1January	**-**	**114**	**563**	**677**	-	172	184	356
Total losses/(gains) recognised in income statement	**-**	**3**	**54**	**57**	-	(43)	80	37
Issues	**9**	**506**	**1**	**516**	-	50	324	374
Settlements	**(3)**	**(490)**	**(144)**	**(637)**	-	(28)	(25)	(53)
Transfers out	**-**	**(99)**	**(33)**	**(132)**	-	(37)	-	(37)
Transfers in	**2**	**5**	**-**	**7**	-	-	-	-
At 31 December	**8**	**39**	**441**	**488**	-	114	563	677
Total losses recognised in the income statement relating to liabilities held at 31 December	**-**	**4**	**37**	**41**	-	3	44	47

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

Valuation of financial instruments measured at amortised cost on a recurring basis

The valuation techniques used to establish the Group's fair values are consistent with those used to calculate the fair values of financial instruments carried at fair value. The fair values calculated are for disclosure purposes only and do not have any impact on the Group's reported financial performance or position. The fair values calculated by the Group may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument. As certain categories of financial instruments are not traded there is a significant level of management judgement involved in calculating the fair values.

The following sets out the Group's basis of establishing fair values of amortised cost financial instruments and their classification between level 1, 2 and 3.

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-fourth 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. Following the adoption of IFRS 13 the Group also adjusts the fair value of deposits and borrowings for own credit adjustment using the principles described above.

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.

Financial Hierarchy for Instruments at amortised cost

The valuation hierarchy, and the main 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	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)
Types of financial assets:	Actively traded corporate or other debt	Cash and balances at central banks Loans to banks and other financial institutions	Loans and advances to customers Illiquid or highly structured corporate bonds Illiquid loans and advances
Types of financial liabilities:	Quoted debt securities in issue Quoted subordinated liabilities	Unquoted debt securities in issue Unquoted subordinated liabilities Time deposits by customers Deposits by banks	Illiquid or highly structured debt securities in issue

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.

		Fair value			
	Carrying value $million	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	**54,534**	**-**	**54,534**	**-**	**54,534**
Loans and advances to banks	**83,702**	**-**	**83,408**	**177**	**83,585**
Loans and advances to customers	**290,708**	**-**	**3,518**	**286,958**	**290,476**
Investment securities	**2,828**	**-**	**2,812**	**73**	**2,885**
Other assets[1]	**26,351**	**-**	**26,182**	**168**	**26,350**
At 31 December 2013	**458,123**	**-**	**170,454**	**287,376**	**457,830**
Liabilities					
Deposits by banks	**43,517**	**12**	**43,506**	**-**	**43,518**
Customer accounts	**381,066**	**682**	**380,610**	**-**	**381,292**
Debt securities in issue	**64,589**	**19,015**	**45,673**	**-**	**64,688**
Subordinated liabilities and other borrowed funds	**20,397**	**17,987**	**2,512**	**-**	**20,499**
Other liabilities[1]	**21,894**	**201**	**21,691**	**9**	**21,901**
At 31 December 2013	**531,463**	**37,897**	**493,992**	**9**	**531,898**

[1] The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are short-term in nature or reprice to current market rates frequently.

	Carrying value $million	Fair value $million
Assets		
Cash and balances at central banks[1]	60,537	60,537
Loans and advances to banks	67,797	67,761
Loans and advances to customers	279,638	278,672
Investment securities	3,851	3,803
Other assets[1]	21,406	21,406
At 31 December 2012	433,229	432,179
Liabilities		
Deposits by banks	36,427	35,961
Customer accounts	372,874	371,702
Debt securities in issue	55,979	56,469
Subordinated liabilities and other borrowed funds	18,588	19,773
Other liabilities[1]	19,547	19,547
At 31 December 2012	503,415	503,452

[1] The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are short-term in nature or reprice to current market rates frequently.

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 2013 to 31 December 2013 that would have been recognised within				
	Carrying amount at 31 December 2013	Fair value at 31 December 2013	Income	AFS reserve	Income recognised in income statement in 2013	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	**46**	**46**	**5** [1]	**-**	**6**	**8.8%**	**123**
From trading to loans and receivables	**183**	**179**	**20**	**-**	**12**	**6.2%**	**214**
From AFS to loans and receivables	**486**	**520**	**-**	**12**	**21**	**5.5%**	**626**
	715	**745**	**25**	**12**	**39**		
Of which asset backed securities:							
reclassified to AFS	**46**	**46**	**7** [1]	**-**	**6**		
reclassified to loans and receivables	**614**	**647**	**-**	**33**	**33**		

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

			If assets had not been reclassified, fair value gains from 1 January 2012 to 31 December 2012 that 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, the gain 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. Assets sold under repurchase agreements are considered encumbered as the group cannot pledge these to obtain funding

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	**391**	**256**	**-**	**647**
Debt securities	**1,706**	**1,163**	**-**	**2,869**
Loan and advances to banks and customers	**-**	**-**	**2,714**	**2,714**
Off balance sheet				
Repledged collateral received	**257**	**-**	**1,547**	**1,804**
At 31 December 2013	**2,354**	**1,419**	**4,261**	**8,034**

Balance sheet liabilities - Repurchase agreements	
Deposits by banks	**4,330**
Customer accounts	**1,732**
At 31 December 2013	**6,062**

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	
Deposits by banks	1,338
Customer accounts	1,917
At 31 December 2012	3,255

12. Financial instruments continued

Repurchase and reverse repurchase agreements

The Group also undertakes reverse repurchase (reverse repo) lending agreements with counterparties typically financial institutions in exchange for collateral. Reverse repo agreements entitle the Group to have recourse to assets similar to those received as collateral in the event of a default. In addition the Group also obtains collateral on terms that permit the Group to repledge or resell the collateral to others. The Group does not recognise the securities bought under reverse repos as collateral on its balance sheet as the Group is not substantially entitled to the risks and rewards associated with those assets and instead recognises the lending as loans and advances to banks or customers, as appropriate. The Group's reverse repos at 31 December 2013 and 31 December 2012 are set out in the table below:

Balance sheet assets - Reverse repurchase agreements

	2013 $million	2012 $million
Loans and advances to banks	12,887	7,759
Loans and advances to customers	4,538	2,900
	17,425	10,659

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:

	2013 $million	2012 $million
Securities and collateral received (at fair value)	17,835	10,949
Securities and collateral which can be repledged or sold (at fair value)	15,906	10,517
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)	1,804	1,378

Securitisation transactions

The Group has also entered into a number of securitisation transactions where the underlying loans and advances have been transferred to Structured Entities (SEs) 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 SEs. The holders of the liability instruments have recourse only to the assets transferred to the SEs.

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 2013 and 2012 respectively.

	2013		2012	
	Carrying value $million	Fair value $million	Carrying value $million	Fair value $million
Loan and advances to customers	779	778	1,321	1,319
Securitisation liability – reported as debt securities in issue	502	502	1,093	1,093
Net	277	276	228	226

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

12. Financial instruments continued

Financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements

Impact of offset in the balance sheet

In accordance with IAS 32 Financial Instruments: Presentation the Group is permitted to offset assets and liabilities and present these net on the Group's balance sheet, only if there is a legally enforceable right to set off and the Group intends to settle on a net basis or realise the asset and liability simultaneously.

Amounts not offset in the balance sheet

In practice the Group is able to offset other assets and liabilities which do not meet the IAS 32 netting criteria set out above. Such arrangements include master netting arrangements for derivatives and global master repurchase agreements for repurchase and reverse repurchase transactions. These agreements generally allow that all outstanding transactions with a particular counterparty can be offset but only in the event of default or other pre determined events.

In addition the Group also receives and pledges readily realisable collateral for derivative transactions cover the net exposure in the event of a default. Under repurchase and reverse repurchase agreements the Group pledges (legally sell) and obtains (legally purchase) respectively, highly liquid assets which can be sold in the event of a default.

The table below sets out the following:

- Impact of offset on the balance sheet – This comprises derivative transactions settled through an enforceable netting agreement where we have the intent and ability to settle net that are offset on the balance sheet.
- Related amounts not offset the balance sheet: This comprise
  (a) Financial instruments not offset in the balance sheet, but covered by an enforceable netting arrangement. This comprises master netting arrangements held against derivative financial instruments and excludes the effect of over collateralisation; and
  (b) Financial collateral – This comprises cash collateral pledged and received for derivative financial instruments and collateral bought and sold for reverse repurchase and repurchase agreements respectively and excludes the effect of over collateralisation.

				Related amount not offset in the balance sheet		
	Gross amounts of recognised financial instruments $million	Impact of offset in the balance sheet $million	Net amounts of financial instruments presented in the balance sheet $million	Financial instruments $million	Financial collateral $million	Net amount $million
Assets						
Derivative financial instruments	**67,369**	**(5,567)**	**61,802**	**(46,242)**	**(5,147)**	**10,413**
Reverse repurchase agreements	**17,425**	**-**	**17,425**	**-**	**(17,425)**	**-**
At 31 December 2013	**84,794**	**(5,567)**	**79,227**	**(46,242)**	**(22,572)**	**10,413**
Liabilities						
Derivative financial instruments	**66,803**	**(5,567)**	**61,236**	**(46,242)**	**(9,240)**	**5,754**
Sale and repurchase liabilities	**6,062**	**-**	**6,062**	**-**	**(6,062)**	**-**
At 31 December 2013	**72,865**	**(5,567)**	**67,298**	**(46,242)**	**(15,302)**	**5,754**

				Related amount not offset in the balance sheet		
	Gross amounts of recognised financial instruments $million	Impact of offset in the balance sheet $million	Net amounts of financial instruments presented in the balance sheet $million	Financial instruments $million	Financial collateral $million	Net amount $million
Assets						
Derivative financial instruments	55,795	(6,300)	49,495	(35,073)	(3,245)	11,177
Reverse repurchase agreements	10,659	-	10,659	-	(10,517)	142
At 31 December 2012	66,454	(6,300)	60,154	(35,073)	(13,762)	11,319
Liabilities						
Derivative financial instruments	53,492	(6,300)	47,192	(35,073)	(5,068)	7,051
Sale and repurchase liabilities	3,255	-	3,255	-	(3,255)	-
At 31 December 2012	56,747	(6,300)	50,447	(35,073)	(8,323)	7,051

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

Financial assets held at fair value through profit or 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

	2013			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	7,763			
Other public sector securities	76			
	7,839			
Issued by banks:				
Certificates of deposit	292			
Other debt securities	457			
	749			
Issued by corporate entities and other issuers:				
Other debt securities	4,111			
Total debt securities	12,699			
Of which:				
Listed on a recognised UK exchange	144	21	-	165
Listed elsewhere	8,017	2,741	1,646	12,404
Unlisted	4,538	939	3,515	8,992
	12,699	3,701	5,161	21,561
Market value of listed securities	8,161	2,762	1,646	12,569

	2012			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	10,174			
Other public sector securities	131			
	10,305			
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	15,215			
Of which:				
Listed on a recognised UK exchange	467	23	-	490
Listed elsewhere	9,086	2,081	949	12,116
Unlisted	5,662	1,050	2,006	8,718
	15,215	3,154	2,955	21,324
Market value of listed securities	9,553	2,104	949	12,606

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

Financial liabilities held at fair value through profit or 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.

	2013			2012		
Total derivatives	**Notional principal amounts $million**	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	**1,303,103**	**17,213**	**17,490**	1,220,806	11,635	12,697
Currency swaps and options	**1,086,784**	**25,151**	**24,647**	853,460	13,932	12,370
Exchange traded futures and options	**340**	**-**	**-**	8,772	-	-
	2,390,227	**42,364**	**42,137**	2,083,038	25,567	25,067
Interest rate derivative contracts:						
Swaps	**1,974,451**	**15,295**	**15,241**	1,463,777	19,107	18,343
Forward rate agreements and options	**236,646**	**771**	**646**	145,020	1,266	796
Exchange traded futures and options	**694,212**	**-**	**-**	306,054	-	-
	2,905,309	**16,066**	**15,887**	1,914,851	20,373	19,139
Credit derivative contracts	**40,981**	**586**	**874**	61,186	830	1,130
Equity and stock index options	**15,684**	**415**	**502**	12,223	355	372
Commodity derivative contracts	**162,858**	**2,371**	**1,836**	138,642	2,370	1,484
Total derivatives	**5,515,059**	**61,802**	**61,236**	4,209,940	49,495	47,192

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 33.

The Derivatives and Hedging sections of the Risk review on pages 73-74 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.

	2013			2012[1]		
	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	41,598	756	589	35,896	1,111	524
Forward foreign exchange contracts	199	7	-	427	-	9
Currency swaps	22,026	1,190	169	18,396	1,143	117
	63,823	1,953	758	54,719	2,254	650
Derivatives designated as cash flow hedges:						
Interest rate swaps	20,564	22	19	17,033	33	17
Forward foreign exchange contracts	2,150	42	38	2,066	52	1
Currency swaps	7,169	20	15	8,955	23	13
	29,883	84	72	28,054	108	31
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	981	-	84	671	-	52
Total derivatives held for hedging	94,687	2,037	914	83,444	2,362	733

[1] The split within fair value hedges and cash flow hedges has been reclassified for prior year

15. Loans and advances to banks

	2013 $million	2012 $million
Loans and advances to banks	86,271	68,676
Individual impairment provision	(100)	(103)
Portfolio impairment provision	(2)	(2)
	86,169	68,571
Of which: loans and advances held at fair value through profit or loss (note 12)	(2,467)	(774)
	83,702	67,797

Analysis of loans and advances to banks by geography are set out in the Risk review section on page 36.

16. Loans and advances to customers

	2013 $million	2012 $million
Loans and advances to customers	299,460	287,668
Individual impairment provision	(2,749)	(2,330)
Portfolio impairment provision	(696)	(722)
	296,015	284,616
Of which: loans and advances held at fair value through profit or loss (note 12)	(5,307)	(4,978)
	290,708	279,638

The Group has outstanding residential mortgage loans to Korea residents of $12.6 billion (2012:$16.7 billion) and Hong Kong residents of $23.3 billion (2012: $21.4 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 36 to 64.

17. Investment securities

	2013				
	Debt securities				
	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:					
Government securities	26,111	-			
Other public sector securities	928	-			
	27,039	-			
Issued by banks:					
Certificates of deposit	6,476	-			
Other debt securities	24,897	49			
	31,373	49			
Issued by corporate entities and other issuers:					
Other debt securities	12,134	2,779			
Total debt securities	70,546	2,828			
Of which:					
Listed on a recognised UK exchange	5,563	113[1]	65	-	5,741
Listed elsewhere	26,091	619[1]	1,545	10,480	38,735
Unlisted	38,892	2,096	1,489	15,763	58,240
	70,546	2,828	3,099	26,243	102,716
Market value of listed securities	31,654	732	1,610	10,480	44,476

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

	2012				
	Debt securities				
	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:					
Government securities	23,059	390			
Other public sector securities	1,229	-			
	24,288	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	65,356	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	35,682	2,800	2,104	13,701	54,287
	65,356	3,851	3,278	26,740	99,225
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

There are no debt securities classified as held-to-maturity. Equity shares largely comprise investments in corporates.

17. Investment securities continued

The change in the carrying amount of investment securities comprised:

	2013				2012			
	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	**69,207**	**3,278**	**26,740**	**99,225**	60,975	2,543	21,428	84,946
Exchange translation differences	**(1,834)**	**(9)**	**(566)**	**(2,409)**	678	14	627	1,319
Additions	**93,136**	**215**	**49,537**	**142,888**	111,322	783	44,778	156,883
Maturities and disposals	**(86,954)**	**(533)**	**(49,676)**	**(137,163)**	(104,558)	(217)	(40,552)	(145,327)
Impairment, net of recoveries on disposal	**(59)**	**(61)**	**-**	**(120)**	24	(109)	-	(85)
Changes in fair value (including the effect of fair value hedging)	**(91)**	**209**	**(29)**	**89**	727	264	56	1,047
Amortisation of discounts and premiums	**(31)**	**-**	**237**	**206**	39	-	403	442
At 31 December	**73,374**	**3,099**	**26,243**	**102,716**	69,207	3,278	26,740	99,225

The analysis of unamortised premiums and unamortised discounts on debt securities and income on equity shares held for investment purposes is provided below:

	2013 $million	2012 $million
Debt securities:		
Unamortised premiums	**605**	607
Unamortised discounts	**425**	443
Income from listed equity shares	**67**	54
Income from unlisted equity shares	**37**	38

18. Other assets

	2013 $million	2012 $million
Financial assets held at amortised cost (note 12)		
Hong Kong SAR government certificates of indebtedness (note 24)[1]	**4,460**	4,191
Cash collateral	**9,240**	5,068
Acceptances and endorsements	**5,501**	4,957
Unsettled trades and other financial assets	**7,150**	7,190
	26,351	21,406
Non-financial assets and assets held for sale		
Commodities	**3,965**	5,574
Assets held for sale[2]	**1,623**	43
Other	**1,631**	1,525
	33,570	28,548

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

[2] In 2013, assets held for sale include $1,563 million in respect of the Group's realignment of the Consumer Banking business in Korea. The disposal group consists of Standard Chartered Capital (Korea) Company Limited and Standard Chartered Savings Bank Korea Company Limited. The assets recorded here are classified as level 3.

19. Business Combinations

2013 acquisitions

On 2 December 2013 the Group completed the acquisition of the South African custody and trustee business of Absa Bank for a consideration of $36 million recognising goodwill of $16 million. The net assets acquired primarily comprised customer relationships that have been recognised as intangibles assets of the Group.

Goodwill arising on the acquisition is attributable to the synergies expected to arise from their integration with the Group. The primary reason for this acquisition is to enhance capability.

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. The primary reason for these acquisitions is to enhance capability and broaden product offering to customers.

20. Goodwill and intangible assets

	2013				2012			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	6,378	658	923	7,959	6,186	643	806	7,635
Exchange translation differences	(187)	(15)	(15)	(217)	158	14	41	213
Acquisitions	16	35	-	51	34	3	-	37
Additions	-	-	372	372	-	-	294	294
Amounts written off	(1,000)	-	(175)	(1,175)	-	(2)	(218)	(220)
Other movements	-	-	(2)	(2)	-	-	-	-
At 31 December	5,207	678	1,103	6,988	6,378	658	923	7,959
Provision for amortisation								
At 1 January	-	481	333	814	-	404	340	744
Exchange translation differences	-	(6)	2	(4)	-	14	15	29
Amortisation for the period	-	55	226	281	-	65	189	254
Amounts written off	-	-	(173)	(173)	-	(2)	(211)	(213)
At 31 December	-	530	388	918	-	481	333	814
Net book value	5,207	148	715	6,070	6,378	177	590	7,145

20. Goodwill and intangible assets continued

Testing of goodwill for impairment

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.

	2013			2012		
	Goodwill	Pre-tax discount rate	Long-term forecast GDP growth rates	Goodwill	Pre-tax discount rate	Long-term forecast GDP growth rates
Cash Generating Unit	$million	per cent	per cent	$million	per cent	per cent
Korean business	**794**	**16.5**	**3.9**	1,850	16.4	3.9
Pakistan business	**249**	**25.9**	**4.4**	270	27.6	3.5
Taiwan business	**1,313**	**18.6**	**4.4**	1,348	16.3	4.8
Credit card and personal loan - Asia, India & MESA	**896**	**15.8**	**1.4**	896	15.8	1.8
India business	**324**	**17.7**	**6.5**	364	16.8	6.8
MESA business	**368**	**19.1**	**4.1**	368	20.4	4.0
Thailand business	**315**	**16.4**	**4.7**	331	16.1	5.0
Financial Institutions and Private Banking business	**396**	**14.5**	**1.4**	396	15.2	1.8
Corporate advisory business	**75**	**15.8**	**1.4**	77	15.9	1.8
Consumer banking business in Singapore	**221**	**11.2**	**3.8**	228	12.6	3.8
Other	**256**	**12.4-15.8**	**1.4 - 7.4**	250	15.6 - 17.0	1.8 - 7.5
	5,207			6,378		

Methodology for determining value-in-use

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 and Pakistan CGUs, where management forecasts cover a total of five years to 2018. 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.

Outcome of impairment assessment

The Group performed an impairment assessment on the level of goodwill assigned to the Korea CGU as at 30 June 2013 prior to its annual assessment date as a result of its consideration of reduced expectation for future cash flows and fluctuations in the discount rate. Based on this analysis, the carrying amount was assessed as exceeding the recoverable value by $1 billion which was recognised as an impairment charge.

At 31 December 2013, the results of our annual assessment review indicated that there is no other goodwill impairment to be recognised for 2013. Other than for the Korea CGU, 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 continues to be possible that certain scenarios (to which Korea is more sensitive than other CGUs) 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, would potentially result in the carrying amount of the goodwill exceeding the recoverable amount in the future.

21. Deposits by banks

	2013 $million	2012 $million
Deposits by banks	43,517	36,427
Deposits by banks included within:		
Financial liabilities held at fair value through profit or loss (note 12)	1,009	968
Total deposits by bank	44,526	37,395

22. Customer accounts

	2013 $million	2012 $million
Customer accounts	381,066	372,874
Customer accounts included within:		
Financial liabilities held at fair value through profit or loss (note 12)	9,905	12,243
Total customer accounts	390,971	385,117

Included in customer accounts were deposits of $4,956 million (2012: $2,862 million) held as collateral for irrevocable commitments under import letters of credit.

23. Debt securities in issue

	2013			2012		
	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	21,082	43,507	64,589	16,982	38,997	55,979
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 12)	141	6,682	6,823	165	5,096	5,261
Total debt securities in issue	21,223	50,189	71,412	17,147	44,093	61,240

24. Other liabilities

	2013 $million	2012 $million
Financial liabilities held at amortised cost (note 12)		
Notes in circulation[1]	4,460	4,191
Acceptances and endorsements	5,501	4,900
Cash collateral	5,147	3,245
Unsettled trades and other financial liabilities	6,786	7,211
	21,894	19,547
Non-financial liabilities		
Cash-settled share based payments	73	84
Liabilities held for sale[2]	344	-
Other liabilities	5,027	4,654
Total other liabilities	27,338	24,285

[1] Hong Kong currency notes in circulation of $4,460 million (2012: $4,191 million) that are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 18)

[2] Liabilities held for sale of $344 million is in respect of the Group's realignment of the Consumer Banking business in Korea. The disposal group consists of Standard Chartered Capital (Korea) Company Limited and Standard Chartered Savings Bank Korea Company Limited. In addition, the businesses also have total net liabilities due to Group undertakings of $1.1 billion which will be transferred to the acquirer on completion of the sale. Liabilities recorded here are classified as level 2.

25. Subordinated liabilities and other borrowed funds

	2013 $million	2012 $million
Subordinated liabilities and other borrowed funds	**20,397**	18,588

	2013				2012			
	USD $million	GBP $million	Euro $million	Others $million	USD $million	GBP $million	Euro $million	Others $million
Fixed rate subordinated debt	**9,663**	**3,922**	**4,426**	**2,060**	7,512	4,638	2,706	2,400
Floating rate subordinated debt	**238**	**50**	**-**	**38**	338	50	890	54
Total	**9,901**	**3,972**	**4,426**	**2,098**	7,850	4,688	3,596	2,454

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.

Issuances

On 11 January 2013, the Company issued $2 billion 3.95 per cent fixed interest rate notes due January 2023.

On 11 January 2013, the Company issued $500 million 5.3 per cent fixed interest rate notes due January 2043. On 17 January 2013, the Company issued a further $250 million 5.3 per cent fixed interest rate notes due January 2043 which were consolidated and form a single series with the existing $500 million 5.3 per cent fixed interest rate notes due January 2043 issued on 11 January 2013.

On 26 September 2013, the Company issued $1 billion 5.2 per cent fixed interest rate notes due January 2024.

On 21 October 2013, the Company issued €1.25 billion 4 per cent fixed interest rate notes due October 2025.

Redemptions

On 15 January 2013, Standard Chartered Bank (Botswana) Limited exercised its right to redeem its BWP75 million floating rate subordinated notes in full on the first optional call date.

On 25 January 2013, Standard Chartered Bank exercised the right to redeem its £300 million 6.0 per cent fixed rate subordinated notes in full on the first optional call date.

On 29 January 2013, Standard Chartered (Pakistan) Limited redeemed its PKR1 billion floating rate note on maturity.

On 28 March 2013, Standard Chartered Bank exercised its right to redeem its $100 million floating rate subordinated notes in full on the first optional call date.

On 28 March 2013, Standard Chartered Bank exercised the right to redeem its €675 million floating rate subordinated notes in full on the first optional call date.

On 25 April 2013, Standard Chartered Bank Korea Limited exercised its right to redeem its KRW260 billion 6.08 per cent subordinated debt in full on the first optional call date.

On 27 November 2013, the Company exercised its right to redeem its $925 million 8.125 per cent non-cumulative redeemable Dollar Preference Shares on the first optional call date.

The following subordinated notes issued by PT Bank Permata Tbk (Permata) are no longer disclosed as part of the Group consolidated accounts due to IFRS 11 ‘Joint Arrangements’ which requires all joint ventures to be equity accounted:

- $22 million 9.75 per cent fixed to floating interest rate note 2021 (callable and floating rate from 2016)
- IDR 700 billion 8.9 per cent subordinated notes 2019
- IDR 1,750 billion 11 per cent subordinated notes 2018
- IDR 1,800 billion 9.4 per cent subordinated notes 2019

26. Retirement benefit obligations

Retirement benefit obligations comprise:

	2013 $million	2012 $million
Total market value of assets	**2,585**	2,366
Present value of the schemes' liabilities	**(2,926)**	(2,836)
Defined benefit schemes obligation	**(341)**	(470)
Defined contribution schemes obligation	**(24)**	(21)
Net book amount	**(365)**	(491)

Retirement benefit charge comprises:

	2013 $million	2012 $million
Defined benefit schemes	**119**	96
Defined contribution schemes	**217**	203
Charge against profit	**336**	299

The pension cost for defined benefit schemes was:

	2013 $million	2012 $million
Current service cost	**100**	100
Past service cost and curtailments	**4**	3
Gain on settlements	**-**	(6)
Interest income on pension scheme assets	**(93)**	(112)
Interest on pension scheme liabilities	**108**	111
Total charge to profit before deduction of tax	**119**	96
Gain on assets above expected return	**(69)**	(75)
(Gain)/loss on liabilities	**(10)**	151
Total (gains)/loss recognised directly in statement of comprehensive income before tax	**(79)**	76
Deferred taxation	**21**	(14)
Total (gains)/loss after tax	**(58)**	62

27. Share capital, reserves and own shares

	Number of ordinary shares (millions)	Ordinary share capital $million	Preference share capital $million	Total $million
At 1 January 2012	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**
Capitalised on scrip dividend	**4**	**2**	**-**	**2**
Shares issued	**10**	**5**	**-**	**5**
At 31 December 2013	**2,427**	**1,214**	**-**	**1,214**

2013

On 13 May 2013, the Company issued 1,727,682 new ordinary shares instead of the 2012 final dividend and on 17 October 2013 the Company issued 2,081,685 new ordinary shares instead of the 2013 interim dividend.

During the year 10,542,375 new ordinary shares were issued under employee share plans at prices between nil and 1,463 pence.

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 1,463 pence.

27. Share capital, reserves and own shares continued

Own shares

Bedell Cristin Trustees Limited is trustee of both the 1995 Employees' Share Ownership Plan Trust (the 1995 trust), which is an employee benefit trust used in conjunction with some of the Group's employee share schemes, and of the Standard Chartered 2004 Employee Benefit Trust (the 2004 trust) which is an employee benefit trust used in conjunction with the Group's deferred bonus plan and the delivery of shares to satisfy any discretionary variable compensation arrangements such as the annual performance plan. The trustee has agreed to satisfy a number of awards made under these arrangements 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	**2013**	2012	**2013**	2012	**2013**	2012
Shares purchased	**4,855,145**	15,984,057	**790,829**	977,761[1]	**5,645,974**	16,961,818
Market price of shares purchased ($ million)	**133**	386	**21**	25	**154**	411
Shares held at the end of the year	**5,575,821**	6,809,269[2]	**141,160**	211,415	**5,716,981**	7,020,684
Maximum number of shares held during year					**7,278,439**	18,321,546

[1] The acquisition of shares in the year to 31 December 2012 was overstated by 4,472 shares in the 2012 accounts and has therefore been restated

[2] The closing balance at 31 December 2012 was understated by 894 shares in the 2012 accounts and has therefore been restated

28. Non-controlling interests

	$300m 7.267% Hybrid Tier 1 Securities $million	Other non-controlling interests $million	Total $million
At 1 January 2012	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**
Expenses in equity attributable to non-controlling interests	**-**	**(31)**	**(31)**
Other profits attributable to non-controlling interests	**22**	**88**	**110**
Comprehensive income for the year	**22**	**57**	**79**
Distributions	**(22)**	**(55)**	**(77)**
Other decreases	**-**	**(100)**	**(100)**
At 31 December 2013	**320**	**275**	**595**

The $300 million 7.267% Hybrid Tier 1 securities were issued by Standard Chartered Bank Korea Limited, a wholly owned subsidiary of the Group, and are classified in equity. The Group has no interest in these securities.

29. Cash flow statement

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

	2013 $million	2012 $million
Amortisation of discounts and premiums of investment securities	(206)	(442)
Interest expense on subordinated liabilities	655	569
Interest expense on senior debt securities in issue	492	418
Other non-cash items (including own credit adjustment)	173	120
Pension costs for defined benefit schemes	119	96
Share based payment costs	264	374
UK bank levy	55	10
Impairment losses on loans and advances and other credit risk provisions	1,617	1,196
Other impairment	1,129	196
Loss on business classified as held for sale	49	-
Profit from associates and joint ventures	(226)	(116)
Total	4,121	2,421

Change in operating assets

	2013 $million	2012 $million
(Increase)/decrease in derivative financial instruments	(13,065)	18,684
Decrease/(increase) in debt securities, treasury bills and equity shares held at fair value through profit or loss	5,220	(3,077)
Net increase in loans and advances to banks and customers	(29,918)	(20,925)
(Increase) / decrease in pre-payments and accrued income	(8)	(39)
(Increase)/decrease in other assets	(6,373)	(3,052)
Total	(44,144)	(8,409)

Change in operating liabilities

	2013 $million	2012 $million
Increase/(decrease) in derivative financial instruments	14,804	(18,968)
Net increase in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions	28,996	37,826
(Decrease) / increase in accruals and deferred income	(39)	113
Increase/(decrease) in other liabilities	1,387	(1)
Total	45,148	18,970

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.

	Group	
	2013 $million	2012 $million
Cash and balances at central banks	54,534	60,537
Less restricted balances	(9,946)	(9,336)
Treasury bills and other eligible bills	6,561	3,101
Loans and advances to banks	29,509	23,909
Trading securities	3,498	1,307
Total	84,156	79,518

31. Restatement of prior year

The Group has introduced the following changes in its financial statements and has re-presented prior year balances on a similar basis to enhance the comparability of information presented.

Restatements impacting 31 December 2012

- **Application of IFRS 11 Joint Arrangements as discussed in Note 1**

  The Group's investment in Permata has been presented using the equity method of accounting, applied on a retrospective basis. There is no impact on the profit for the period or Shareholders' equity, however, profit before taxation is lower as a result of profits from joint ventures been reported on a net of tax basis (see pages 137 to 141).

- **Allocation of associates and joint ventures to Consumer Banking and Wholesale Banking**

  The Group's profits and interests in associates are allocated to Consumer Banking and Wholesale Banking. The associates balances were previously reported as corporate items not allocated. Joint venture balances were previously allocated to Consumer Banking and Wholesale Banking on a line by line basis and has been presented within the line following adoption of IFRS 11 (see page 141).

  Goodwill and intangible assets previously allocated to Consumer Banking and Wholesale Banking is now reported in Corporate items not allocated.

- **Reclassification of liabilities due to operational improvements**

  The Group has reclassified certain liabilities measured at fair value, these liabilities were previously reported as trading but now classified as fair value through profit and loss (see page 141).

The impact of the above restatements on the primary statements is set out on pages 137 to 141.

Income statement

	Notes	As reported 31.12.12 $million	Permata restatement $million	Restated 31.12.12 $million
Interest income		18,258	(431)	17,827
Interest expense		(7,248)	202	(7,046)
Net interest income		11,010	(229)	10,781
Fees and commission income		4,618	(43)	4,575
Fees and commission expense		(497)	1	(496)
Net trading income	3	2,748	(9)	2,739
Other operating income	4	1,192	(8)	1,184
Non-interest income		8,061	(59)	8,002
Operating income		19,071	(288)	18,783
Staff costs	5	(6,584)	92	(6,492)
Premises costs	5	(886)	23	(863)
General administrative expenses	5	(2,758)	51	(2,707)
Depreciation and amortisation	6	(668)	8	(660)
Operating expenses		(10,896)	174	(10,722)
Operating profit before impairment losses and taxation		8,175	(114)	8,061
Impairment losses on loans and advances and other credit risk provisions	7	(1,221)	25	(1,196)
Other impairment	8	(194)	(2)	(196)
Profit from associates and joint ventures		116	66	182
Profit before taxation		6,876	(25)	6,851
Taxation	9	(1,891)	25	(1,866)
Profit for the year		4,985	-	4,985

31. Restatement of prior year continued

Statement of other comprehensive income

	Notes	As reported 2012 $million	Permata restatement $million	Restated 2012 $million
Profit for the year		4,985	-	4,985
Other comprehensive income:				
Items that will not be reclassified to Income statement:				
Actuarial losses on retirement benefit obligations	26	(76)	-	(76)
Items that may be reclassified subsequently to Income statement:				
Exchange differences on translation of foreign operations:				
Net gains taken to equity		575	(7)	568
Net losses on net investment hedges		(73)	-	(73)
Share of other comprehensive income from associates and joint ventures		(2)	6	4
Available-for-sale-investments:				
Net valuation gains taken to equity		1,056	(2)	1,054
Reclassified to income statement		(339)	3	(336)
Cash flow hedges:				
Net gains taken to equity		133	-	133
Reclassified to income statement		(20)	-	(20)
Taxation relating to components of other comprehensive income	9	(132)	-	(132)
Other comprehensive income for the period, net of taxation		1,122	-	1,122
Total comprehensive income for the year		6,107	-	6,107

31. Restatement of prior year continued

Balance sheet

	Notes	As reported 2012 $million	Permata restatement $million	Restated 2012 $million
Assets				
Cash and balances at central banks	12, 30	61,043	(506)	60,537
Financial assets held at fair value through profit or loss	12, 13	27,084	(8)	27,076
Derivative financial instruments	12, 14	49,496	(1)	49,495
Loans and advances to banks	12, 15	68,381	(584)	67,797
Loans and advances to customers	12, 16	283,885	(4,247)	279,638
Investment securities	12, 17	99,413	(188)	99,225
Other assets	12, 18	28,818	(270)	28,548
Current tax assets		215	-	215
Prepayments and accrued income		2,581	(29)	2,552
Interests in associates and joint ventures		953	731	1,684
Goodwill and intangible assets	20	7,312	(167)	7,145
Property, plant and equipment		6,646	(26)	6,620
Deferred tax assets		691	(15)	676
Total assets		636,518	(5,310)	631,208
Liabilities				
Deposits by banks	12, 21	36,477	(50)	36,427
Customer accounts	12, 22	377,639	(4,765)	372,874
Financial liabilities held at fair value through profit or loss	12, 13	23,064	-	23,064
Derivative financial instruments	12, 14	47,192	-	47,192
Debt securities in issue	12, 23	55,979	-	55,979
Other liabilities	12, 24	24,504	(219)	24,285
Current tax liabilities		1,069	(3)	1,066
Accruals and deferred income		4,860	(49)	4,811
Subordinated liabilities and other borrowed funds	12, 25	18,799	(211)	18,588
Deferred tax liabilities		161	-	161
Provisions for liabilities and charges		215	-	215
Retirement benefit obligations	26	504	(13)	491
Total liabilities		590,463	(5,310)	585,153
Equity				
Share capital	27	1,207	-	1,207
Reserves		44,155	-	44,155
Total parent company shareholders' equity		45,362	-	45,362
Non-controlling interests	28	693	-	693
Total equity		46,055	-	46,055
Total equity and liabilities		636,518	(5,310)	631,208

31. Restatement of prior year continued

Cash flow statement

	Notes	As reported 2012 $million	Permata restatement $million	Restated 2012 $million
Cash flows from operating activities				
Profit before taxation		6,876	(25)	6,851
Adjustments for:				
Non-cash items and other adjustments included within income statement	29	2,465	(44)	2,421
Change in operating assets	29	(15,882)	7,473	(8,409)
Change in operating liabilities	29	26,416	(7,446)	18,970
Contributions to defined benefit schemes		(204)	1	(203)
UK and overseas taxes paid		(1,791)	24	(1,767)
Net cash from operating activities		17,880	(17)	17,863
Net cash flows from investing activities				
Purchase of property, plant and equipment		(168)	6	(162)
Disposal of property, plant and equipment		195	-	195
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired		(63)	-	(63)
Purchase of investment securities		(157,325)	442	(156,883)
Disposal and maturity of investment securities		145,905	(578)	145,327
Dividends received from investment in subsidiaries, associates and joint ventures		14	-	14
Net cash used in investing activities		(11,442)	(130)	(11,572)
Net cash flows from financing activities				
Issue of ordinary and preference share capital, net of expenses		59	-	59
Purchase of own shares		(425)	-	(425)
Exercise of share options through ESOP		39	-	39
Interest paid on subordinated liabilities		(871)	(118)	(989)
Gross proceeds from issue of subordinated liabilities		3,390	-	3,390
Repayment of subordinated liabilities		(1,701)	-	(1,701)
Interest paid on senior debts		(867)	-	(867)
Gross proceeds from issue of senior debts		11,453	-	11,453
Repayment of senior debts		(5,938)	-	(5,938)
Dividends paid to non-controlling interests and preference shareholders, net of scrip		(161)	-	(161)
Dividends paid to ordinary shareholders, net of scrip		(1,306)	-	(1,306)
Net cash from financing activities		3,672	(118)	3,554
Net increase/ (decrease) in cash and cash equivalents		10,110	(265)	9,845
Cash and cash equivalents at beginning of the year		70,450	(884)	69,566
Effect of exchange rate movements on cash and cash equivalents		40	67	107
Cash and cash equivalents at end of the year	30	80,600	(1,082)	79,518

31. Restatement of prior year continued

Restatement by class of business

The Group's profits and interests in associates are allocated to Consumer Banking and Wholesale Banking. The associates balances were previously reported as corporate items not allocated. Joint venture balances were previously allocated to Consumer Banking and Wholesale Banking on a line by line basis and has been presented within the line following adoption of IFRS 11.

	As reported 2012				Restatement 2012				Restated 2012			
	Consumer Banking	Wholesale Banking	Corporate items not allocated	Total	Consumer Banking	Wholesale Banking	Corporate items not allocated	Total	Consumer Banking	Wholesale Banking	Corporate items not allocated	Total reportable segments
	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million
Operating income	7,202	11,779	90	19,071	(181)	(107)	-	(288)	7,021	11,672	90	18,783
Operating expenses	(4,723)	(5,999)	(174)	(10,896)	127	47	-	174	(4,596)	(5,952)	(174)	(10,722)
Operating profit before impairment losses and taxation	2,479	5,780	(84)	8,175	(54)	(60)	-	(114)	2,425	5,720	(84)	8,061
Impairment losses on loans and advances and other credit risk provisions	(697)	(524)	-	(1,221)	23	2	-	25	(674)	(522)	-	(1,196)
Other impairment	(4)	(120)	(70)	(194)	(41)	(31)	70	(2)	(45)	(151)	-	(196)
Profit from associates and joint ventures	-	-	116	116	43	139	(116)	66	43	139	-	182
Profit before taxation	1,778	5,136	(38)	6,876	(29)	50	(46)	(25)	1,749	5,186	(84)	6,851
Total assets employed	143,250	491,409	1,859	636,518	(4,551)	(6,936)	6,177	(5,310)	138,699	484,473	8,036	631,208
Total liabilities employed	189,779	399,454	1,230	590,463	(3,452)	(1,855)	(3)	(5,310)	186,327	397,599	1,227	585,153

Reclassification of financial liabilities

	As reported 2012			Restatement 2012			Restated 2012		
	Trading	Designated at fair value through profit or loss	Total	Trading	Designated at fair value through profit or loss	Total	Trading	Designated at fair value through profit or loss	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Deposits by banks	933	35	968	(933)	933	-	-	968	968
Customer accounts	4,858	7,385	12,243	(4,858)	4,858	-	-	12,243	12,243
Debt securities in issue	3,902	1,359	5,261	(3,902)	3,902	-	-	5,261	5,261
Total	9,693	8,779	18,472	(9,693)	9,693	-	-	18,472	18,472

32. 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.

	2013 $million	2012 $million
Contingent liabilities		
Guarantees and irrevocable letters of credit	36,936	34,258
Other contingent liabilities	10,002	10,035
	46,938	44,293
Commitments		
Documentary credits and short term trade-related transactions	7,409	7,610
Forward asset purchases and forward deposits placed	459	711
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	43,294	39,294
Less than one year	17,983	17,353
Unconditionally cancellable	123,481	110,138
	192,626	175,106

The Group's share of contingent liabilities and commitments relating to joint ventures is $388 million (2012: $348 million)

33. Legal and regulatory matters

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.

Further details in the 'Regulatory compliance, reviews, request for information and investigations' and 'Risk of fraud and other criminal acts' sections' are set out on pages 27 and 28 of the Risk Review.

34. Post balance sheet events

On 1 January 2014 the Group adopted a new regional geographic structure in order to better align with how the Group is managed. The new regions are Greater China (including Hong Kong), North East Asia (including Korea), ASEAN (Including Singapore), South Asia (Including India), Middle East, North Africa and Pakistan, Africa, Americas, and Europe.

On 9 January 2014 the Group announced that with effect from 1 April 2014 the two businesses of the Group, Wholesale Banking and Consumer Banking would be integrated to form one business. The new business will be organised into 3 segment groups (Corporate and Institutional; Commercial and Private banking; and Retail and Small business) serviced by 5 global product groups. The impact of this change will be reflected in the Group's 2014 Half Year report.

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, executive directors of Standard Chartered PLC and the Court Directors of Standard Chartered Bank.

	2013 $million	2012 $million
Salaries, allowances and benefits in kind	25	21
Pension contributions	5	5[1]
Bonuses paid or receivable	7	10
Share based payments	28	35
	65	71

[1]The 2012 pension balance has been restated (previously stated as $6 million). In addition, for 2013, the methodology for calculating pension value has been changed to be consistent with the new UK remuneration reporting requirements. The change in methodology does not affect the restated 2012 balance as the difference in value is not material.

Transactions with directors, officers and others

At 31 December 2013, 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:

	2013		2012	
	Number	$000	Number	$000
Directors	5	6,446	4	4,898
Officers[1]	-	-	1	18

[1] For this disclosure in respect of 2012 the term 'Officers' means the members of the Executive Management Group other than those who were 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 $nil million and $20 million respectively at 31 December 2013 (2012: $29 million and $32 million respectively) and amounts payable to Merchant Solutions and China Bohai Bank of $27 million and $20 million respectively at 31 December 2013 (2012: $21 million and $16 million respectively).

Joint ventures

The Group has loans and advances to PT Bank Permata Tbk totalling $31 million at 31 December 2013 (2012: $18 million), and deposits of $31 million (2012: $23 million). The Group has investments in subordinated debt issued by PT Bank Permata Tbk of $114 million (2012: $128 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 continued in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange ("HK Listing Rules"). The Company confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by Appendix 10 of the HK Listing Rules and that the directors of the Company have complied with this code of conduct throughout the year.

The directors also confirm that the announcement of these results have been reviewed by the Company's Audit Committee.

37. Other information

The financial information included within this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2013 were approved by the directors on 5 March 2014. These accounts will be published on 28 March 2014 after which they will be delivered to the Registrar of Companies in England and Wales. 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. 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 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 2013 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 2013 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 2014

A. Remuneration

The Group employed 86,640 staff at 31 December 2013 (2012: 89,058).

Performance and reward philosophy and principles

Our approach to performance, reward and benefits supports and drives our business strategy and reinforces our values in the context of a clearly articulated risk appetite.

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) the performance of the business; and (iii) the interests of shareholders.
- ensures a competitive reward package 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 responsibility and (ii) the individual's risk profile and that of the business.

Total remuneration is typically delivered via a combination of base salary and benefits plus variable compensation. Consistent with our pay for performance culture, our discretionary variable compensation incentives play an integral role in enabling us to recognise and reward superior performance and behaviour that support our values.

B. Summarised consolidated income statement

First and second half 2013	1st half 2013 $million	2nd half 2013 $million	**2013 $million**
Interest income	8,914	8,679	**17,593**
Interest expense	(3,316)	(3,121)	**(6,437)**
Net interest income	5,598	5,558	**11,156**
Fees and commission income	2,338	2,243	**4,581**
Fees and commission expense	(243)	(237)	**(480)**
Net trading income[1]	1,685	829	**2,514**
Other operating income[2]	610	396	**1,006**
Total non-interest income	4,390	3,231	**7,621**
Operating income	9,988	8,789	**18,777**
Staff costs	(3,397)	(3,173)	**(6,570)**
Premises costs	(426)	(451)	**(877)**
General administrative expenses	(860)	(1,172)	**(2,032)**
Depreciation and amortisation	(351)	(363)	**(714)**
Operating expenses	(5,034)	(5,159)	**(10,193)**
Operating profit before impairment losses and taxation	4,954	3,630	**8,584**
Impairment losses on loans and advances and other credit risk provisions	(730)	(887)	**(1,617)**
Other impairment:			
Goodwill Impairment	(1,000)	-	**(1,000)**
Other	(11)	(118)	**(129)**
Profit from associates and joint ventures	112	114	**226**
Profit before taxation	3,325	2,739	**6,064**
Taxation	(1,089)	(775)	**(1,864)**
Profit for the year	2,236	1,964	**4,200**
Profit attributable to:			
Non-controlling interests	55	55	**110**
Parent company shareholders	2,181	1,909	**4,090**
Profit for the year	2,236	1,964	**4,200**
Earnings per share:			
Basic earnings per ordinary share (cents)	88.1	76.4	**164.4**
Diluted earnings per ordinary share (cents)	87.3	75.6	**163.0**

[1] Includes Own credit adjustment (OCA) gain of $237 million in the first half of 2013 and a charge of $131 million in the second half of 2013, taking the full year gain to $106 million (2012: $ nil million)

[2] The second half of 2013 includes a net charge of $235 million relating to the UK bank levy

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 in 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 Prudential Regulation Authority (PRA).
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 institutions	An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.
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 including securities sold under Repo. 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'.
Deposits by banks	Deposits by banks comprise amounts owed to other domestic or foreign credit institutions by the Group including securities sold under Repo.
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	Forbearance takes place when a concession is made to the contractual terms of a loan in response to an obligor's financial liabilities.
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.
High Quality Liquid Assets (HQLA)	Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. These include, for example, cash and claims on central governments and central banks. The Basel 3 Rules require this ratio to be at least 100% and it's expected to apply from 2015.
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	These assets include high quality government or central bank securities, certain deposits with central banks and securities issued by designated multilateral development banks to meet the PRA's requirement for liquidity.
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.
Liquid cover ratio (LCR)	A short-term liquidity measure that considers a 30 day period of liquidity stress
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 banks	Amounts loaned to credit institutions including securities bought under Reverse repo.
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.
Net Stable Funding Ratio (NSFR)	The ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. It is a longer term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one year time horizon
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 and are defined as forborne loans. 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.
Risks-not-in-VaR (RNIV)	A framework for identifying and quantifying marginal types of market risk that are not captured in the Value at Risk (VaR) measure for any reason, such as being a fat-tail risk or the necessary historical market data not being available.
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 PRA.
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.
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)	Value at Risk is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.
Working profit	Operating profit before impairment losses and taxation.
Write downs	After an advance has been identified as impaired and is subject to an **impairment allowance**, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery. Write downs will occur when and to the extent that, the whole or part of a debt is considered irrecoverable.

Financial Calendar

Financial Calendar

Results and dividend announced	5 Mar 2014
Ex-dividend date	12 Mar 2014
Record date for dividend	14 Mar 2014
Last date to elect for share dividend or to change standing instructions	24 Apr 2014
Annual General Meeting	8 May 2014
Dividend payment date	14 May 2014

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The following information for the Full Year Results will be available on our website:

Video interviews with Peter Sands, Group Chief Executive and Richard Meddings, Group Finance Director

Analyst presentation in pdf format

Webcast of the live analyst presentation

Podcast of analyst presentation

Images of our Board of directors and senior management are available for the media at http://www.sc.com/en/about-us/our-people/index.html

Information regarding the Group's commitment to Sustainability is available at http://www.sc.com/sustainability

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.

The CRD IV position presented in this document does not constitute either a capital or RWA forecast and may be subject to change. Whiles the CRD IV rules text is finalised it remains subject to final EBA technical standards and certain aspects remain subject to ongoing national discretion or future regulatory decisions.

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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