The structured products involve derivatives. Do not invest in them unless you fully understand and are willing to assume the risks associated with them.

Non-collateralised Structured Products

Issuer

STANDARD CHARTERED BANK

(incorporated in England with limited liability by Royal Charter 1853)

Sponsor

STANDARD CHARTERED BANK (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability)

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this base listing document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this base listing document.

This base listing document, for which the Issuer accepts full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange's Listing Rules**") for the purpose of giving information with regard to the Issuer and the structured products referred to in this base listing document. The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge and belief the information contained in this base listing document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this base listing document misleading.

We, the Issuer of our structured products, are publishing this base listing document in order to obtain a listing on the Stock Exchange of our warrants and our callable bull/bear contracts ("**CBBCs**"). We will refer to the warrants and the CBBCs as "structured products" in this base listing document.

Investors are warned that the price of the structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the structured products and carefully study the risk factors set out in this base listing document and, where necessary, seek professional advice, before they invest in the structured products.

The structured products constitute general unsecured contractual obligations of the Issuer and of no other person and will rank equally among themselves and with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the structured products you are relying upon the creditworthiness of the Issuer and have no rights under the structured products against (i) the company which has issued the underlying securities; (ii) the trustee or the manager of the underlying fund or trust; or (iii) the index compiler of any underlying index. If we become insolvent or default on our obligations under the structured products, you may not be able to recover all or even part of the amount due under the structured products (if any).

The distribution of this base listing document, any addendum and the offering, sale and delivery of structured products in certain jurisdictions may be restricted by law. You are required to be aware of and observe such restrictions. Please read Annex 3 "Purchase and Sale" to this base listing document. **The structured products have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to or for the account or benefit of U.S. Persons (as defined in Regulation S under the Securities Act).**

Base Listing Document dated 22 April 2014

IMPORTANT

If you are in doubt as to the contents of this base listing document, you should obtain independent professional advice.

Copies of this base listing document and its addendum (if any), the relevant supplemental listing document (together with a Chinese translation of each of these documents) and other documents listed under the section "Where can I read copies of the Issuer's documentation?" in this base listing document may be inspected at the offices of Standard Chartered Bank (Hong Kong) Limited at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

本基本上市文件及其增編(如有)及有關補充上市文件(及以上各份文件的中文譯本)連同本基本上市文件之「本人從何處可查閱發行人的文件?」一節所列之其餘文件，可於渣打銀行(香港)有限公司的辦事處，地址為香港中環金融街八號國際金融中心二期十五樓查閱。

We do not give you investment advice; you must decide for yourself, after reading the listing documents for the relevant structured products and, if necessary, seeking professional advice, whether our structured products meet your investment needs.

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SUMMARY OF OUR STRUCTURED PRODUCTS

The types of structured products that we may issue include, but are not limited to: cash-settled stock warrants, cash-settled warrants relating to the units of a fund or trust, cash-settled index warrants, cash-settled CBBCs relating to a share, cash-settled CBBCs relating to an index and cash-settled CBBCs relating to the units of a fund or trust. Each type of our structured products will be subject to a separate set of master terms and conditions either as set out in Annex 1 or 2 (as applicable) to this base listing document (for the structured products listed above) or as set out in the relevant supplemental listing document (for other types of structured products). For each issue of our structured products, we will publish a supplemental listing document setting out the specific terms. The specific terms set out in the relevant supplemental listing document supplement and amend the applicable set of master terms and conditions to form the legally binding terms and conditions of that issue of structured products.

We describe below the main features of the different types of our structured products.

General features of our structured products:

Issuer:	Standard Chartered Bank ("**SCB**")
Sponsor:	Standard Chartered Bank (Hong Kong) Limited
Issuer's long-term credit ratings (as of 17 April 2014):	AA- (Negative outlook) by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") A1 (Stable outlook) by Moody's Investors Service Hong Kong Limited ("**Moody's**") The credit ratings are only an assessment by the rating agencies of the Issuer's overall financial capacity to pay its debts respectively. AA- is among the top three major credit rating categories and is the fourth highest investment-grade ranking of the ten investment-grade ratings (including + or - sub-grades) assigned by S&P. A1 is among the top three major credit rating categories and is the fifth highest investment-grade ranking of the ten investment-grade ratings (including 1, 2 and 3 sub-grades) assigned by Moody's. Please refer to the brief guide in Annex 4 to this document to what such credit ratings mean.
Ranking of our structured products:	Upon the occurrence of a mandatory call event (in the case of our CBBCs) or upon exercise, our structured products will become our direct, unconditional, unsecured and unsubordinated obligations ranking equally with all our other direct, unconditional, unsecured and unsubordinated obligations.

Liquidity provider:	Standard Chartered Securities (Hong Kong) Limited or such other entity appointed by us as may be specified in the relevant supplemental listing document. We will describe in each supplemental listing document our obligations to provide liquidity in our structured products.
Form:	In registered form subject to and with the benefit of a deed poll made by us. Each issue will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited as holder, and deposited within the Central Clearing and Settlement System ("**CCASS**"). We will not issue any definitive certificates for our structured products.
Use of proceeds:	The net proceeds from the issue of our structured products will be used for the general business purposes of Standard Chartered PLC and its subsidiaries (the "**Group**").
Further issues:	We can issue further structured products to form a single series with an existing issue of our structured products.
Delisting of the company, fund or trust underlying our structured products:	If the shares of the company or the units of the fund or trust (as the case may be) underlying a particular issue of our structured products are delisted from the Stock Exchange or the underlying exchange (as the case may be), we may adjust the terms of that issue as further detailed in the relevant terms and conditions of our structured products.
Adjustments upon certain events affecting the company, fund, trust or the index underlying our structured products:	If certain corporate events occur in connection with the company, fund or trust underlying our structured products, or if certain events have occurred which materially modify the underlying index, we may make adjustments to the terms of that issue to account for the effect of such events. Please see the relevant terms and conditions of our structured products for further details. These events and the possible adjustments we may make are set out in detail in the applicable terms and conditions.
Early termination for illegality or impracticability:	We may early terminate our structured products due to illegality or impracticability as further detailed in the section headed "Risk Factors" in this base listing document.
Governing law:	Our structured products are governed by the laws of Hong Kong Special Administrative Region of the People's Republic of China.

SPECIFIC FEATURES OF OUR STRUCTURED PRODUCTS

Warrants:

Warrants are structured financial products, the value of which is derived from the price or value of another asset. The underlying asset may be shares of a company, units in a fund or trust or an index.

- Cash-settled stock warrants:

The underlying asset of stock warrants is shares of a company. The shares may be listed in Hong Kong or overseas.

Our cash-settled stock warrants provide for cash settlement only, which means that physical delivery of the underlying shares will not be available as a method of settlement; instead, upon the exercise of each board lot of warrants, we will pay the warrantholder a cash amount equal to (1) the product of (i) the entitlement, (ii) the difference between the average price of the underlying share and the exercise price (in the case of call warrants) or the exercise price and the average price of the underlying share (in the case of put warrants), and (iii) one board lot, and divided by (2) the number of warrant(s) per entitlement, converting such amount into the settlement currency if necessary, and in each case less any exercise expenses, so long as such amount is greater than zero.

- Cash-settled index warrants:

The underlying asset of index warrants is an index published by an index compiler.

Our cash-settled index call warrant gives its holders a right upon exercise of each board lot of warrants, to receive from us a cash amount equal to (1) the product of (i) the difference between the closing level of the index on the valuation date and the predetermined strike level, (ii) one board lot, and (iii) the index currency amount and divided by (2) the divisor, converting such amount into the settlement currency if necessary and less any exercise expenses.

Our cash-settled index put warrant gives its holders a right upon exercise of each board lot of warrants, to receive from us a cash amount equal to (1) the product of (i) the difference between the predetermined strike level and the closing level of the index on valuation date, (ii) one board lot, and (iii) the index currency amount and divided by (2) the divisor, converting such amount into the settlement currency if necessary and less any exercise expenses.

The closing level of the index on the valuation date may be determined by reference to the official settlement price of an exchange traded contract relating to the index or some other means; please see the terms and conditions of our warrants for further details.

- Cash-settled warrants relating to the units of a fund or trust:

The underlying asset of warrants relating to the units of a fund or trust is units of the fund or trust (as the case may be). The units may be listed in Hong Kong or overseas.

Our cash-settled warrants relating to the units of a fund or trust provide for cash settlement only, which means that physical delivery of the underlying units will not be available as a method of settlement; instead, upon the exercise of each board lot of warrants, we will pay the warrantholder a cash amount equal to (1) the product of (i) the entitlement, (ii) the difference between the average price of the underlying unit and the exercise price (in the case of call warrants) or the exercise price and the average price of underlying unit (in the case of put warrants), and (iii) one board lot, and divided by (2) the number of warrant(s) per entitlement, converting such amount into the settlement currency if necessary, and in each case less any exercise expenses, so long as such amount is greater than zero.

The master terms and conditions for each of the different types of warrants are included in Annex 1 to this base listing document. If we issue any warrants which are not cash-settled stock warrants, cash-settled index warrants or cash-settled warrants relating to the units of a fund or trust, we will include a summary of their features in the relevant supplemental listing document.

The supplemental listing document will set out the following terms specific to our warrants to supplement the applicable set of master terms and conditions in Annex 1 to this base listing document:

Board lot — Minimum number at which our warrants trade

Shares of the company — Name of the underlying share (for our stock warrants only)

Company — Name of the company which issues the underlying shares (for our stock warrants only)

Fund/Trust — Name of the underlying fund or trust (for our warrants relating to the units of a fund or trust only)

Index — Name of the underlying index (for our index warrants only)

Index compiler — Name of the company that maintains the index and calculates and publishes the index levels (for our index warrants only)

Exercise price — Predetermined exercise price of the underlying share/unit (for our warrants over stock and warrants relating to the units of a fund or trust only)

Strike level — Predetermined level of the underlying index (for our index warrants only)

Closing level — The level of the underlying index for the calculation of the cash settlement amount payable upon the exercise of our warrants (for our index warrants only)

Expiry date — The date on which our warrants expire

Valuation date(s)	Date(s) on which the average price or closing level (as the case may be) of the underlying asset is determined for the calculation of the cash settlement amount upon exercise of our warrants
Entitlement	Number of shares/units to which a specified number of warrants relate (for our warrants over stock and warrants relating to the units of a fund or trust only)
Number of warrant(s) per entitlement	Number of warrants to which one entitlement relates (for our stock warrants and warrants relating to the units of a fund or trust only)
Index currency amount	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount payable upon the exercise of our warrants (for our index warrants only)
Divisor	A predetermined amount which is used in the calculation of the cash settlement amount payable upon the exercise of a board lot of our warrants (for our index warrants only)
European style	Our warrants are European style warrants. This means that they will be automatically exercised on the expiry date
Listing date	The date on which our warrants commence trading on the Stock Exchange

CBBCs:

- CBBCs relating to a share:

The underlying asset of CBBCs relating to a share is shares of a company. The shares may be listed in Hong Kong or overseas.

CBBCs relating to a share are issued either as bull CBBCs or bear CBBCs:

Bull CBBCs relating to a share

Generally for a series of bull CBBCs relating to a share, when the spot price of the underlying share as reported by the relevant exchange is at any time at or below the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the closing price of the underlying share and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bull CBBCs or Category R bull CBBCs.

For Category N bull CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bull CBBCs (where the call price is above the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the lowest spot price to which the underlying share has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions) and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bull CBBC relating to a share, a given percentage change in the underlying share price may not result in the same percentage change (in the same direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing the same amount directly in the underlying share, for a given change in the underlying share price. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

Bear CBBCs relating to a share

Generally for a series of bear CBBCs relating to a share, when the spot price of the underlying share as reported by the relevant exchange is at any time at or above the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the closing price of the underlying share, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bear CBBCs or Category R bear CBBCs.

For Category N bear CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bear CBBCs (where the call price is below the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the highest spot price to which the underlying share has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions), and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bear CBBC relating to a share, a given percentage change in the underlying share price may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying share, for a given change in the underlying share price. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

For both our bull CBBCs and bear CBBCs relating to a share, the closing price of an underlying share will be determined by reference to the market closing price on the valuation date. Please see the terms and conditions of our CBBCs for further details.

- CBBCs relating to an index: The underlying asset of CBBCs relating to an index is an index published by an index compiler.

CBBCs relating to an index are issued either as bull CBBCs or bear CBBCs:

Bull CBBCs relating to an index

Generally for a series of bull CBBCs relating to an index, when the level of the underlying index as published by the index compiler is at any time at or below the predetermined call level during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon the expiry of a CBBC, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the difference between the closing level of the underlying index and the strike level, (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor, and less any exercise expenses.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bull CBBCs or Category R bull CBBCs.

For Category N bull CBBCs (where the call level is equal to the strike level), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bull CBBCs (where the call level is above the strike level), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the difference between the lowest spot level of the underlying index as published by the index compiler during the MCE valuation period (as defined in the relevant terms and conditions) and the strike level, (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bull CBBC relating to an index, a given percentage change in the underlying index level may not result in the same percentage change (in the same direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing the same amount directly in the index, for a given change in the index level. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

Bear CBBCs relating to an index

Generally for a series of bear CBBCs relating to an index, when the level of the underlying index as published by the index compiler is at any time at or above the predetermined call level during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon the expiry of a CBBC, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the difference between the strike level and the closing level of the underlying index, (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor, and less any exercise expenses.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bear CBBCs or Category R bear CBBCs.

For Category N bear CBBCs (where the call level is equal to the strike level), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bear CBBCs (where the call level is below the strike level), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the difference between the strike level and the highest spot level of the underlying index as published by the index compiler during the MCE valuation period (as defined in the relevant terms and conditions), (ii) one board lot, and (iii) the index currency amount, and divided by (2) the divisor. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bear CBBC relating to an index, a given percentage change in the underlying index level may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing the same amount directly in the index, for a given change in the index level. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

For both our bull CBBCs and bear CBBCs relating to an index, the closing level of the index will be determined by reference to the index level calculated for the purpose of final settlement of the applicable futures contract specified in the relevant supplemental listing document. Please see the terms and conditions of our CBBCs for further details.

- CBBCs relating to the units of a fund or trust:

The underlying asset of CBBCs relating to the units of a fund or trust is units of the fund or trust (as the case may be).

CBBCs relating to the units of a fund or trust are issued as either bull CBBCs or bear CBBCs:

Bull CBBCs relating to the units of a fund or trust

Generally for a series of bull CBBCs relating to the units of a fund or trust, when the spot price of the underlying unit as reported by the relevant exchange is at any time at or below the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the closing price of the underlying unit and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bull CBBCs or Category R bull CBBCs.

For Category N bull CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bull CBBCs (where the call price is above the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the lowest spot price to which the underlying unit has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions) and the strike price, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bull CBBC relating to the units of a fund or trust, a given percentage change in the underlying unit price may not result in the same percentage change (in the same direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying unit, for a given change in the underlying unit price. Please refer to the "Risk Factors" section of this base listing document and the relevant supplemental listing document.

Bear CBBCs relating to the units of a fund or trust

Generally for a series of bear CBBCs relating to the units of a fund or trust, when the spot price of the underlying unit as reported by the relevant exchange is at any time at or above the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period then, upon expiry, for each board lot of CBBCs, we will pay the holder an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the closing price of the underlying unit, and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether or not the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N bear CBBCs or Category R bear CBBCs.

For Category N bear CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R bear CBBCs (where the call price is below the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (i) the entitlement, (ii) the difference between the strike price and the highest spot price to which the underlying unit has traded on the exchange during the MCE valuation period (as defined in the relevant terms and conditions), and (iii) one board lot, and divided by (2) the number of CBBC(s) per entitlement. However, if this residual value less any exercise expenses is a negative number, then no amount is payable.

Please note that during the life of a bear CBBC relating to the units of a fund or trust, a given percentage change in the underlying unit price may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, loss of a significant portion or the entirety of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing the same amount directly in the underlying unit, for a given change in the underlying unit price. Please refer to the "Risk Factors" section of this base listing document and the relevant supplemental listing document.

For both our bull CBBCs and bear CBBCs relating to the units of a fund or trust, the closing price of an underlying unit will be determined by reference to the market closing price on the valuation date. Please see the terms and conditions of our CBBCs for further details.

The supplemental listing document will set out the following terms specific to our CBBCs to supplement the applicable set of master terms and conditions in Annex 2 to this base listing document:

Category	The category of our CBBCs: Category N or Category R, bull or bear
Board lot	Minimum number at which our CBBCs trade
Shares of the company	Name of the underlying share (for our CBBCs relating to a share only)
Company	Name of the company which issues the underlying shares (for our CBBCs relating to a share only)
Fund/Trust	Name of the underlying fund or trust (for our CBBCs relating to the units of a fund or trust only)
Index	Name of the underlying index (for our CBBCs relating to an index only)

Index compiler	Name of the company that maintains the index and calculates and publishes the index levels (for our CBBCs relating to an index only)
Call price	Predetermined call price of the underlying share/unit (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)
Strike price	Predetermined strike price of the underlying share/unit (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)
Call level	Predetermined call level of the underlying index (for our CBBCs relating to an index only)
Strike level	Predetermined strike level of the underlying index (for our CBBCs relating to an index only)
Divisor	A predetermined amount which is used in the calculation of the cash settlement amount (if any) payable upon the occurrence of a mandatory call event or automatic exercise on expiry (for our CBBCs relating to an index only)
Expiry date	The date on which our CBBCs expire
Valuation date	Date on which the closing price or the closing level of the underlying asset is determined for calculation of the cash settlement amount upon automatic exercise on expiry
Entitlement	Number of shares/units to which a specified number of CBBCs relates (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)
Number of CBBC(s) per Entitlement	Number of CBBCs to which one entitlement relates (for our CBBCs relating to a share and our CBBCs relating to the units of a fund or trust only)
Index currency amount	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount (if any) payable upon the occurrence of a mandatory call event or automatic exercise on expiry (for our CBBCs relating to an index only)
Observation commencement date	The date on which the observation period commences
Observation period	The period from and including the observation commencement date to and including the trading day immediately preceding the expiry date
Listing date	The date on which our CBBCs commence trading on the Stock Exchange
Trading day	Any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions

MORE INFORMATION ABOUT OUR STRUCTURED PRODUCTS AND OUR LISTING DOCUMENTS

WHAT ARE THE LISTING DOCUMENTS?

The listing documents consist of this base listing document (including its addendum, if any) and for each series of our structured products, its supplemental listing document. If the information in this base listing document needs to be updated, we will either include the updated information in the relevant supplemental listing document or publish an addendum to this base listing document.

None of the listing documents constitutes an offer, advertisement, recommendation or invitation to the public to subscribe for or to acquire any structured products.

IS THERE ANY GUARANTEE OR COLLATERAL FOR OUR STRUCTURED PRODUCTS?

No. Our obligations under our structured products are neither guaranteed by any third party, nor collateralised with any of our assets or other collateral. When you purchase our structured products, you are relying on our creditworthiness only, and of no other person. If we become insolvent or default on our obligations under the structured products, you can only claim as an unsecured creditor of the Issuer. In such event, you may not be able to recover all or even part of the amount due under our structured products (if any).

WHO IS RESPONSIBLE FOR THE LISTING DOCUMENTS?

We accept full responsibility for the accuracy of the information contained in the listing documents.

We have included references to one or more websites in this base listing document and we may include references to one or more websites (including any third party websites) in the relevant supplemental listing document for each series of structured products to guide you to sources of freely available information. The information on these websites does not form part of our listing document. We are not responsible for information on these websites. Such information has not been prepared for the purposes of our structured products.

Our base listing document is accurate at the date stated on the cover. You must not assume, however, that information in this base listing document is accurate at any time after the date of this base listing document.

Neither the sponsor nor the liquidity provider is responsible in any way for ensuring the accuracy of our listing documents.

WHAT ARE OUR CREDIT RATINGS?

Our long-term credit ratings (as of 17 April 2014) are as set out on page 1 of this base listing document.

Rating agencies usually receive a fee from the companies that they rate.

When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

- a credit rating is not a recommendation to buy, sell or hold the structured products;
- ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence;
- a high credit rating is not necessarily indicative of low risk. Our credit ratings as of 17 April 2014 are for reference only. Any downgrading of our ratings could result in a reduction in the value of the structured products;
- a credit rating is not an indication of the liquidity or volatility of the structured products; and
- a credit rating may be downgraded if the credit quality of the Issuer declines.

The structured products are not rated.

The Issuer's credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to the Issuer's ratings from time to time.

IS THE ISSUER REGULATED BY THE HONG KONG MONETARY AUTHORITY REFERRED TO IN RULE 15A.13(2) OR THE SECURITIES AND FUTURES COMMISSION ("SFC") REFERRED TO IN RULE 15A.13(3)?

We are regulated by the Hong Kong Monetary Authority as a licensed bank. We are also regulated by the United Kingdom Financial Conduct Authority and the Prudential Regulation Authority.

WHERE CAN I FIND MORE INFORMATION ABOUT THE ISSUER AND THE STRUCTURED PRODUCTS?

Information on us and our structured products is described in the listing documents.

Please read the listing documents carefully before you decide whether to buy our structured products.

Additional and more up-to-date information about us may be available on the website www.standardchartered.com. You are cautioned that this information (if available) will be of a general nature and cannot be relied upon as being accurate and/or correct and will not have been prepared exclusively for the purposes of our structured products.

We have not authorised anyone to give you any information about our structured products other than the information in the listing documents.

WHEN WERE THE STRUCTURED PRODUCTS AUTHORISED?

The issue of our structured products was authorised on 25 March 2014.

WHERE CAN I READ COPIES OF THE ISSUER'S DOCUMENTATION?

You can read copies of the documents set out below by going to the offices of Standard Chartered Bank (Hong Kong) Limited at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. These offices are open only during normal business hours and not on Saturdays, Sundays or public holidays in Hong Kong.

These are the documents, copies of which may be inspected upon request while any of our structured products are outstanding:

- Royal Charter, Bye-Laws and Rules of SCB;
- our 2013 annual report which contains the financial statements of SCB and its subsidiaries ("**SCB Group**") for the year ended 31 December 2013;
- as they become available, the unaudited interim consolidated accounts of SCB Group;
- the letter from our auditors, KPMG Audit Plc, consenting to the reproduction of their reports in this base listing document;
- the instrument executed by us by way of deed poll on 25 June 2010 pertaining to the issue of our structured products (the "**Instrument**"); and
- this base listing document (and its addendum, if any) and the relevant supplemental listing document for a series of our structured products as long as the structured products are listed on the Stock Exchange (together with a Chinese translation of each of these documents).

A reasonable fee will be charged if you want to take photocopies of any of the documents while they are on display.

DEALING IN THE STRUCTURED PRODUCTS

Settlement of transactions between members of the Stock Exchange on any business day must take place on or before the second CCASS

settlement day (as defined in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time) thereafter. Securities executed on the Stock Exchange would normally be settled under the continuous net settlement system in CCASS. Dealings in the structured products will take place in relevant board lots in the relevant settlement currency. For further details on transfers of the structured products and their exercise or settlement, please see the terms and conditions of the relevant series of the structured products.

DO I HAVE TO PAY STAMP DUTY OR OTHER LEVIES ON THE STRUCTURED PRODUCTS?

There is no Hong Kong stamp duty on the issue or transfer of our cash-settled structured products. The levy for the investor compensation fund is currently suspended.

However, the SFC charges a transaction levy at the rate of 0.003 per cent. on the value of the transaction of the structured products and this amount is payable by each of the buyer and seller. Additionally, the Stock Exchange charges a trading fee on every purchase and sale of listed securities calculated at a rate of 0.005 per cent. of the amount of the transaction and is payable by each of the buyer and seller.

You should be aware that you may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the structured products are transferred. If you are in any doubt as to your tax position, you should consult your own independent tax advisers. You should also be aware that tax regulations and their application by the relevant taxation authorities change from time to time.

HOW DO I HOLD MY STRUCTURED PRODUCTS?

Our structured products will be issued in global registered form, represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited.

We will make all necessary arrangements to enable our structured products to be admitted for deposit, clearing and settlement in CCASS. We will not issue any definitive certificates for our structured products. Our structured products will be deposited within CCASS.

If you are a CCASS investor participant, you may hold your structured products in your account with CCASS. If you do not have a CCASS account, your broker or agent (as a CCASS participant) will arrange to hold your structured products for you in an account at CCASS. We will make all payments on our structured products to CCASS: you will have to check your CCASS account or rely on your broker to ensure that payments on your structured products are credited to your account with your broker. Once we have made the relevant payments in this way to CCASS, we will have no further obligations for that payment, even if CCASS or your broker fails to transmit to you your share of the payment or if it was transmitted late. Any notices we give in relation to our structured products will be given in the same way: you will have to rely on CCASS and/or your broker to ensure that those notices reach you.

RISK FACTORS

You should carefully consider the following information together with the other information contained in the listing documents (including the relevant supplemental listing document) before purchasing any of our structured products.

This section highlights the Issuer's considered assessment of the risks of dealing in the structured products. Their inclusion in this base listing document does not mean these are the only significant or relevant risks of dealing in our structured products.

1 Non-collateralised structured products; you must rely on our creditworthiness; our obligations are not deposit liability or debt obligations

Our structured products are not secured on any of our assets or any collateral. Our structured products represent our general contractual obligations and will rank equally with our other general unsecured obligations. The number of structured products outstanding at any given time may be substantial. When purchasing our structured products, you will be relying upon our creditworthiness alone, and not that of anyone else. There is no assurance of protection against a default by us in respect of our obligations under the structured products. If we become insolvent or default on our obligations under the structured products, you can only claim as our unsecured creditor regardless of the performance of the underlying asset and you may not be able to recover all or even part of the amount due under the structured products (if any). We do not intend to create upon ourselves a deposit liability or a debt obligation by issue of any structured products.

2 Our structured products are not rated

The Issuer's credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to the Issuer's ratings from time to time.

3 There are risks associated with investing in our structured products

Our structured products are structured financial instruments, their value may fall as rapidly as they may rise and you may sustain a total loss in your investment. Your investment in our structured products involves risks. Before investing in any of our structured products, you should consider whether our structured products are suitable for you in light of your own financial circumstances and investment objectives. Not all of these risks are described in this base listing document or a supplemental listing document. You should consider taking independent professional advice prior to making an investment in our structured products.

4 Structured products are complex and volatile instruments

Your investment in our structured products will be worthless if you are holding our structured products when they expire out-of-the-money – meaning that the closing price or level of the underlying asset, determined in accordance with the terms and conditions of our structured products, is greater (for our put warrants or bear CBBCs) or less (for our call warrants or bull CBBCs) than the exercise/strike price or strike level (as the case may be) of our structured products.

Our structured products are complex instruments and their values at any time prior to expiry are governed by a number of factors, including but not limited to the time left until expiry, the price or level of the underlying asset compared with the exercise/strike price/level or call price/level (in the case of our CBBCs) of our structured products, the value and volatility of price or level of the underlying asset, market interest rate movements, our financial condition and the market's view of our credit quality. The values of our structured products may rise or fall rapidly over a short time due to changes in one or more factors. The interplay of these different factors also means that the

effect on the value of our structured products from the change in one factor may offset or accentuate the effect from the change in another factor. The value or level of the underlying assets (and some of the other relevant factors) can also be unpredictable: it may change suddenly and in large magnitude or not change at all. You may risk losing your entire investment if the price or level of the underlying assets do not move in your anticipated direction. You should also note that, assuming all other factors are held constant, the value of structured products will decline over time.

The cash settlement amount of our structured products if calculated at any time prior to expiry may typically be less than the market price of such structured products at that time. The difference will reflect, among other things, a "time value" for the structured products which depends on a number of interrelated factors including those specified above.

5 Your ability to realise your investment in our structured products is dependent on the trading market for our structured products

As our structured products are not exercisable prior to the expiry date, the only way you may be able to realise the value of your investment in our structured products is to dispose of them in either the on-exchange market or over-the-counter market. If you dispose of your investment in our structured products before expiry in this way, the amount you will receive will depend on the price you are able to obtain from the market for our structured products. That price may depend on the quantity of our structured products you are trying to sell. The market price of our structured products may not be equal to the value of our structured products, and changes in the price of our structured products may not correspond (in direction and/or magnitude) with changes in the value of our structured products.

While we have appointed, or will appoint, a liquidity provider for the purposes of making a market for each series of our structured products, there may be circumstances outside our control where the appointed liquidity provider's ability to make a market in some or all series of our structured products is limited, restricted and/or, without limitation, frustrated. The more limited the secondary market, the more difficult it may be for you to realise the value of our structured products prior to expiry. You should refer to the section regarding liquidity provider in the relevant supplemental listing document for further details. The prices provided by our liquidity provider are influenced by, among other things, the supply and demand of our structured products for a particular series in the market, and may not correspond with the values of such structured products or changes in such values.

You should note that the prices available in the market for our structured products may also come from other participants in the market, although we cannot predict if and to what extent a secondary market may develop for our structured products or whether that market will be liquid or illiquid. The fact that a particular series of structured products is listed does not necessarily lead to greater liquidity. In addition, no assurance can be given that the listing of any particular series of our structured products will be maintained. If our structured products of a particular series cease to be listed, they will not be transacted through the Stock Exchange, and they may even be terminated early. Off-exchange transactions may involve greater risks than on-exchange transactions. You may be unable to find any buyer for your holdings of our structured products on the Stock Exchange if the value of the structured products falls below HK$0.01.

The liquidity of any series of our structured products may also be affected by restrictions on offers and sales of our structured products in some jurisdictions including the restrictions described in Annex 3 "Purchase and Sale" to this base listing document.

If trading in the underlying asset is suspended for whatever reason on the market on which they are listed or dealt in (including the Stock Exchange), trading in our structured products will also be suspended for a similar period. The value of our structured products will decrease over time as the length of the period remaining to expiration becomes shorter. You should note that in the

case of a prolonged suspension period, the market price of our structured products will be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of our structured products. This may adversely affect your investment in our structured products.

In view of the limited trading market of our structured products, you may need to hold our structured products until expiry.

6 You have no rights in the underlying assets and the market price for our structured products may fluctuate differently from that of the underlying assets

Our structured products are financial instruments issued by us and are separate from the underlying assets. You have no rights under our structured products against (i) any company, trust or fund which issues or comprises the underlying assets of the relevant series of our structured products or (ii) the trustee or the manager of any underlying asset that is a trust or a fund or (iii) the compiler of any underlying asset that is an index. In addition, buying our structured products is not the same as buying the underlying assets or having a direct investment in the underlying assets or shares comprising any underlying asset that is an index. You will not be entitled to have voting rights, rights to receive dividends or distributions or any other rights under the underlying asset or shares comprising any underlying asset that is an index. As mentioned, there are many factors influencing the value and/or market price of our structured products, which are leveraged instruments. For example, increases in the price or level of the underlying assets may not lead to an increase in the value and/or market price of our call warrants or bull CBBCs by a proportionate amount or even any increase at all; however, a decrease in the price or level of the underlying assets may lead to a greater than proportionate decrease in the value and/or market price of our call warrants or bull CBBCs. There is no assurance that a change in value and/or market price of our structured products will correspond in direction and/or magnitude with the change in price or level of the underlying assets. You should recognise the complexities of utilising our structured products to hedge against the market risk associated with investing in an underlying asset or shares comprising any underlying asset that is an index.

Unless otherwise specified, the Issuer, the trustee, the manager or the sponsor of the underlying assets will have no involvement in the offer and sale of our structured products and no obligation to you as investors of our structured products. The decisions made by them on corporate actions, such as a merger or sale of assets, or adjustment of the method for calculation of an index may also have adverse impact on the value and/or market price of our structured products.

7 There could be conflicts of interest arising out of our other activities which may affect our structured products

We and any of our subsidiaries and affiliates may engage in transactions (whether for our or their own accounts, including hedging, or trading for accounts under management or otherwise) involving, as well as provide investment banking and other services to, any company or any trustee or manager of a trust or a fund underlying our structured products or their securities and may enter into transactions with the substantial shareholders of the underlying company. Those transactions may have a positive or negative impact on the price or level of the underlying asset and in turn the value and/or market price of our structured products.

For example, in the case of CBBCs, these transactions may result in the price or level of the underlying asset moving closer to, or even reaching or going beyond the call price or call level of our CBBCs thus causing a mandatory call event. These transactions may also influence the price or level of the underlying asset after the occurrence of the mandatory call event and adversely impact on the residual value payable (if any, for a category R CBBC). The mandatory call event may be triggered by a single trade in the underlying asset, regardless of the size of the trade. In addition, the unwinding of hedges at any time on or after the occurrence of a mandatory call event may

affect the price or level of the underlying asset and consequently affect the cash settlement amount of our CBBCs. We and any of our subsidiaries and affiliates may have officers who serve as directors of the company underlying our structured products. Our own trading activities (which include hedging of our structured products) in the underlying securities or related structured products may affect the value and/or market price of the structured products. We may issue other competing financial products which may affect the value and/or market price of our structured products. You should also note that potential conflicts of interest may arise from the different roles played by us and any of our subsidiaries and affiliates in connection with our structured products and the economic interests in each role may be adverse to your interests in our structured products. However, we maintain regulatorily required information barriers between our different business areas as well as regulatorily required policies and procedures designed to minimise and manage such potential and actual conflicts of interest to comply with applicable laws and regulations, and to ensure our transactions and/or dealings in respect of our structured products will be transacted at arm's length.

8 We may early terminate our structured products due to illegality or impracticability

If we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, it has become or it will become illegal or impracticable: (i) for us to perform our obligations under any structured products in whole or in part; or (ii) for us or any of our affiliates to maintain our or their hedging arrangements with respect to the structured products, we may decide to terminate that series of structured products early. If this happens, we will, if and to the extent permitted by the applicable law or regulation, pay to each holder of those structured products a cash amount determined by us in good faith and in a commercially reasonable manner to be the fair market value of the structured products immediately prior to such termination (ignoring such illegality or impracticability) less our cost of unwinding any related hedging arrangement as determined by us in our sole and absolute discretion. Such amount may be substantially less than your initial investment and may be zero.

9 Structured products relating to an index involve valuation risks

You should note that, in the case of structured products relating to an index, an investment involves valuation risks in relation to the index. The level of the index may vary over time and may increase or decrease due to various factors including changes in the formula for or the method of calculating the index. In addition, a level for the index may be published by the index compiler at a time when one or more securities comprising the index are not trading. If this occurs on the valuation date and there is no market disruption event called under the terms of the relevant structured products, then the value of such securities used in calculating the closing level of the index will not be their up-to-date market price. Certain (but not all) events relating to the index underlying our structured products require or, as the case may be, permit us to make certain adjustments or amendments to the conditions (including, but not limited to, determining the level of the index). However, we are not required to make an adjustment for every event that can affect the index. If an event occurs that does not require us to adjust the terms and conditions, the market price of our structured products and the return upon mandatory call event or expiry of our structured products may be affected.

10 Risks associated with our structured products relating to the units of a fund or trust

For our structured products relating to the units of a fund or trust, neither we nor any of our affiliates have the ability to control or predict the actions of the trustee or the manager of the fund or trust. Neither the trustee nor the manager of the fund or trust (i) is involved in the offer of any structured products in any way, or (ii) has any obligation to consider the interest of the holders of any structured products in taking any corporate actions that might affect the value of any structured products. We have no role in the fund or trust. The trustee or the manager of the fund or trust is responsible for making investment and other trading decisions with respect to the management of

the fund or trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the fund or trust. The manner in which the fund or trust is managed and the timing of actions may have a significant impact on the performance of the units. Hence, the price which is used to calculate the performance of the units is also subject to these risks.

You should note that our structured products relating to the units of a fund or trust reference the units of the fund or trust and the cash settlement amount payable upon exercise will be calculated using the official closing prices of the units on the underlying exchange on the valuation dates. If the fund or trust is designed to track the performance of an index, you should note that our structured products do not reference the index tracked by the fund or trust. Changes in the price of the units on the underlying exchange may not correspond with changes in the level of such index, and such price at any given time may differ from the net asset value per unit of the fund or trust.

There is also a risk that the investment objectives and/or investment restrictions as set out in the constitutive documents of the fund or trust are materially changed or are not complied with or the method of calculating the net asset value of the fund or trust is materially changed. In addition, the applicable laws and regulations governing the fund or trust may also restrict the operations of the fund or trust and restrict its ability to achieve the investment objectives.

For our structured products relating to the units of an exchange traded fund ("**ETF**"), you should note that (i) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track; (ii) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and (iii) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the structured products will also be indirectly subject to these risks.

Additionally, where the underlying asset of structured products comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track ("**Synthetic ETF**"), you should note that (i) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on the other counterparties of the Synthetic ETF. Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and (ii) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market. Accordingly, by investing in the structured products you are also exposed to the credit risk of the counterparties who issued the derivatives in addition to the risks associated with the underlying index the performance of which the Synthetic ETF is designed to replicate.

You should note that the above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of our structured products linked to such ETF or Synthetic ETF.

11 Liquidation of underlying company or termination of underlying trust or fund

In the event of liquidation, dissolution, winding up or termination of the company, trust or fund that issues the underlying shares or units or the appointment of a receiver or administrator or analogous person to the company, trust or fund, the relevant structured products shall lapse.

12 Time lag between the time of exercise or the occurrence of a mandatory call event (in the case of CBBCs) and the time of determination of the cash settlement amount may affect the cash settlement amount

There may be a time lag between the time or date when our structured products are automatically exercised; or (in the case of our CBBCs only) when a mandatory call event occurs and the time of determination of the cash settlement amount payable to the investors. Such delay could be significantly longer in the case of a market disruption event, delisting of the company that issues the underlying assets or shares comprising any underlying asset that is an index, termination of the trust or fund that issues the underlying unit or other adjustment events. The cash settlement amount may change significantly during any such period and may result in such cash settlement amount being zero.

13 We may adjust the terms and conditions of our structured products upon the occurrence of certain corporate events or extraordinary events affecting the underlying assets

We may determine that certain corporate events or extraordinary events affecting the underlying assets have occurred and may make corresponding adjustments to the terms and conditions of our structured products, including adjustments to the value or level of the underlying assets or changing the composition of the underlying assets. Such events and/or adjustments (if any) may have adverse impact on the value and/or market price of our structured products. We may also in our sole discretion adjust the entitlement of our structured products for dilution events such as stock splits and stock dividends.

However, we have no obligation to make an adjustment for every event that can affect the underlying asset. The value and/or market price of our structured products may be adversely affected by such events in the absence of an adjustment by us. If adjustments were made, we do not assure that such adjustments can negate any adverse impact of such events on the value and/or market price of our structured products.

14 We may modify the terms and conditions of our structured products

We may, without your consent, modify the terms and conditions applicable to our structured products if such modification is: (i) not materially prejudicial to your interests; (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provision(s) of the laws or regulations of Hong Kong.

15 Our determination of the occurrence of a market or settlement disruption event may affect the value and/or market price of our structured products

We may determine that a market or settlement disruption event has occurred. Such determination may affect the value and/or market price of our structured products, and may delay settlement in respect of our structured products.

If we determine that a market disruption event exists, the valuation of the underlying assets for the purpose of calculating the cash settlement amount of our structured products may be postponed. Under certain circumstances, we may determine the good faith estimate of the value or level of the underlying assets that would have prevailed on the relevant valuation date or postponed valuation date (as the case may be) but for such market disruption event.

16 The implied volatility of our structured products may not reflect the actual volatility of the underlying asset

The market price of our structured products is determined among other factors by the supply and demand of the structured products. This price "implies" a level of volatility in the underlying asset in the sense that such level of volatility would give a theoretical value for the structured product which is equal to that price; but such level of volatility may not be equal to the actual level of volatility of the underlying asset in the past or future.

The implied volatility of our structured products may change without notice throughout the life of our structured products.

17 Investment in our structured products may involve exchange rate risks and interest rate risks

An investment in our structured products may involve exchange rate risks. For example, the underlying asset may be denominated in a currency other than that of our structured products, our structured products may be denominated in a currency other than the currency of your home jurisdiction and our structured products may settle in a currency other than the currency in which you wish to receive funds. Changes in the exchange rate(s) between the currency of the underlying asset, the currency in which our structured products settle and/or the currency of your home jurisdiction may adversely affect the return of your investment in our structured products. We cannot assure that exchange rates on the issue date of our structured products will be representative of the future exchange rates used in computing the value of our structured products. Fluctuations in exchange rates may therefore affect the value of our structured products.

An investment in our structured products may also involve interest rate risk as the intrinsic value of a structured product may be sensitive to fluctuations in interest rates. Fluctuations in the short term or long term interest rates of the currency in which our structured products are settled or the currency in which the underlying asset is denominated may affect the value and/or market price of our structured products.

18 Please consult your tax advisers if you are in any doubt about your tax position

You may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where our structured products are transferred and such laws and practices may change from time to time. If you are in any doubt about your tax position, you should consult your own independent tax advisers.

19 Our structured products are issued in global registered form; you have to rely on your brokers to evidence title to your investment and to receive notices and the cash settlement amount

Our structured products are issued in global registered form and held on your behalf within a clearing system. This means that evidence of title to your interests, as well as the efficiency of ultimate delivery of the cash settlement amount, will be governed by the CCASS Rules.

Our structured products in global registered form will be registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited, which shall be treated by us as the holder of our structured products for all purposes. This means that you will not receive definitive certificates and the register will record at all times that our structured products are being held by HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited. You will have to rely solely upon your brokers and the statements received from your brokers to evidence title to your investments. You will also have to rely on your brokers to effectively inform you of any

notices, announcements and/or meetings issued or called by us (upon receipt by those brokers as CCASS participants of the same from CCASS and ultimately from us). The Stock Exchange's Listing Rules also provide that our obligations to deliver notices, announcements and/or meetings will be complied with by a posting on the Stock Exchange website. Our obligations to deliver any cash settlement amount to you will be duly performed by the delivery of any such amount to HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited as the holder. You will therefore have to check your CCASS account (if any) or rely on your brokers for the ultimate delivery of any cash settlement amount to you as the investor.

20 We do not give you any advice or credit analysis

We are not responsible for the lawfulness of your acquisition of our structured products. We are not giving you any advice or credit analysis of the underlying assets. You shall be deemed to have made a representation to such effect for each purchase of any series of our structured products.

21 We are not the holding company of the Group to which we belong

We are not the ultimate holding company of the Group to which we belong and with which our name is identified. The ultimate holding company of the Group to which we belong is Standard Chartered PLC ("**SCPLC**").

22 U.S. foreign accounts reporting

We and other financial institutions through which payments on the structured products are made may be required to withhold U.S. federal tax at a rate of 30 per cent. on all or a portion of payments made after 1 July 2014 in respect of our structured products.

Legislation known as the United States Hiring Incentives to Restore Employment Act (the "**HIRE Act**"), which included provisions referred to as the Foreign Account Tax Compliance Act ("**FATCA**"), was passed in the United States on 18 March 2010. Under the HIRE Act and FATCA, we may be required to withhold moneys on account of U.S. federal tax on all, or a portion of:

(a) any payments made in respect of our structured products that are linked to the value of, or dividends on, stock issued by an entity that is treated as a U.S. corporation (or by any other entity the dividends of which would be U.S. source) for U.S. federal income tax purposes (such payments, "**U.S. Source Payments**"); or

(b) any payments (regardless of whether such payments have any connection to a U.S. Source Payment) made after 31 December 2016 in respect of our structured products.

HIRE Act and FATCA withholding tax can affect both coupon or periodic payments and "gross proceeds" (including principal payments).

The relevant rules are still being developed and the future application of FATCA to us and the holders of structured products is uncertain. It is our intention, subject to further clarification and analysis of the legal requirements associated with entering into relevant legal agreements with the U.S. government, to comply with FATCA and to conclude certain FATCA agreements with the U.S. Internal Revenue Service ("**IRS Agreements**") for relevant entities in the Group. Additionally, U.S. Treasury regulations issued under FATCA provide an alternative to FATCA compliance for entities that reside in jurisdictions that have entered into intergovernmental agreements ("**IGAs**") with the United States. Although the relevant rules have not yet been fully developed, the United States and the United Kingdom have signed an IGA and it is our intention to comply with the relevant reporting requirements imposed therein. As a result of FATCA (including the application of the IRS

Agreements and IGAs), holders of structured products may be required to provide certain certification and information or be subject to FATCA withholding on all or a portion of the payments made to them in respect of our structured products.

If withholding is required under FATCA, we would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

FATCA is particularly complex and its application is uncertain at this time. Each holder of structured products should consult its own tax advisor as to the application of FATCA to an investment in the structured products.

23 Potential U.S. withholding tax

For U.S. federal income tax purposes, a "dividend equivalent" payment is generally treated as a dividend from sources within the U.S. and such payments generally would be subject to a 30 per cent. (or a lower rate under an applicable treaty) U.S. withholding tax if paid to a non-U.S. holder. Under proposed U.S. Treasury Department regulations, payments (including deemed payments) that are contingent upon or determined by reference to actual or estimated U.S. source dividends with respect to certain equity-linked instruments, whether explicitly stated or implicitly taken into account in computing one or more of the terms of such instrument, may be treated as dividend equivalents. Based on the proposed regulations and recent guidance by the U.S. Internal Revenue Service, the regulations (when enacted) will impose a withholding tax on payments made on our structured products on or after January 1, 2016 that are treated as dividend equivalents. However, the U.S. Treasury Department and Internal Revenue Service have announced that they intend to limit this withholding to equity-linked instruments issued on or after the date that is 90 days after the date of publication in the U.S. Federal Register of final regulations addressing dividend equivalent withholding. If any payments are treated as dividend equivalents subject to withholding, we would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld. Further, non-U.S. holders may be required to provide certifications prior to, or upon the sale, redemption or maturity of our structured products in order to minimize or avoid U.S. withholding taxes.

24 The effect of the combination of risk factors may be unpredictable

Two or more risk factors may simultaneously have an effect on the value of our structured products such that the effect of any individual risk factor may not be predictable. No assurance can be given as to the effect any combination of risk factors may have on the value of our structured products.

Additional risks associated with our CBBCs

25 You may lose all or substantially all your investment at expiry

If you hold your CBBCs until expiry and no mandatory call event occurs during the observation period, the cash settlement amount payable upon exercise at expiry will depend on how much the closing price or level of the underlying asset is above (in the case of bull CBBCs) or below (in the case of bear CBBCs) the strike price or level. The cash settlement amount may be substantially less than your initial investment in the CBBCs, and may even be zero.

26 You may lose all or substantially all of your investment upon the occurrence of the mandatory call event

You may lose all or substantially all of your investment in our CBBCs if a mandatory call event occurs during the observation period of our CBBCs – meaning that the price or level of the underlying asset is at any time at or below (for our bull CBBCs) or at or above (for our bear

CBBCs) the predetermined call price or call level during the observation period. The mandatory call event may be triggered by a single, small trade in the underlying share or security comprised in the underlying index, regardless of the size of the trade. The trade that triggers the mandatory call event may only be the result of a temporary fall (or rise, as the case may be) in the price or level of the underlying asset caused by a number of factors. Subsequent to the occurrence of the mandatory call event, the price or level of the underlying asset may recover to above or below, as the case may be, the call price or call level.

Upon the occurrence of a mandatory call event, a Category N CBBC will become worthless while a Category R CBBC will be settled by the payment of a residual value (if any) by us. Such residual value is determined by reference to the amount by which the minimum trade price or index level of the underlying asset during the MCE valuation period exceeds the strike price or strike level (for our Category R bull CBBCs) or the amount by which the strike price or strike level exceeds the maximum trade price or index level of the underlying asset during the MCE valuation period (for our Category R bear CBBCs). This residual value may be as low as zero.

Where the mandatory call event occurs in a continuous trading session of the Stock Exchange, all trades in the CBBCs concluded via auto-matching or manually after the time the occurrence of a mandatory call event will be invalid and will be cancelled and will not be recognised by us or the Stock Exchange. Where the mandatory call event occurs during a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in such session will be invalid and will be cancelled and will not be recognised by us or the Stock Exchange. We will announce the occurrence of the mandatory call event in accordance with the requirements of the Stock Exchange but the announcement of the same can be delayed by among other reasons, technical errors or system failures beyond our control. Your gain or loss from a trade that is subsequently cancelled will be reversed. If in the meantime you have entered into transactions with our CBBCs as a hedge, then upon cancellation of trades in our CBBCs, you will need to find a replacement hedge and may incur losses in doing so.

Under the terms and conditions of our CBBCs, none of the Stock Exchange, us, the Issuer or sponsor of the underlying asset or any of our or their affiliates or agents shall be responsible for any losses suffered as a result of the determination of the price or level of the underlying asset, any adjustments involved in determining the occurrence of the mandatory call event, the calculation of any cash settlement amount and the suspension of trading in connection with the mandatory call event, notwithstanding that such adjustments, calculation or suspension may have occurred as a result of an error.

27 Mandatory call event is irrevocable except in limited circumstances

A mandatory call event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of the Hong Kong Exchanges and Clearing Limited (such as the setting up of wrong call price/call level and other parameters), and such event is reported by the Stock Exchange to us and we and the Stock Exchange mutually agree that such mandatory call event is to be revoked; or

(b) manifest errors caused by the relevant third party price source where applicable (such as any miscalculation of the index level by the relevant index compiler), and such event is reported by us to the Stock Exchange and we and the Stock Exchange mutually agree that such mandatory call event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the trading day of the Stock Exchange immediately following the day on which the mandatory call event occurs, or such other time frame as prescribed by the Stock Exchange from time to time.

28 A CBBC is different from a margin trading position over the same underlying asset

An investment in CBBC is similar to but not the same as a corresponding margin trading position. Both are different from an actual position in the underlying asset in that an investor does not have to pay an amount equal to the maximum potential exposure of the position upon entry. Because the initial payment is small by comparison, a given change in the price or level of the underlying asset can result in a greater percentage change in the value of the investment.

Whilst the total gain or loss of investing in a CBBC upon exercise at expiry may be similar to that of an equivalent margin trading position (of same size and strike price or level) on the same underlying asset, at other times a CBBC differs from an equivalent margin trading position in many ways.

Generally a margin trading position will be marked-to-market at the end of every trading day so that the holder would realise the day's gain or loss immediately, unless a mandatory call event or expiry occurs the gain or loss of a CBBC is realised only when it is sold. One can maintain a margin trading position even if the underlying asset price or level continues to move against the direction anticipated, so long as the holder continues to put up additional margin, with the CBBC when the underlying asset price or level reaches the call level it is immediately terminated. Once the call level is reached, a CBBC investor would lose his entire investment (for a category N CBBC) or would only receive the residual value (if any, for a category R CBBC) and due to the call termination, he would not benefit from the reversal of direction of the underlying asset price or level subsequent to the mandatory call event (for a category N CBBC) or the determination of residual value (for a category R CBBC).

This call termination feature of CBBCs (among other reasons) also means that the theoretical value of a CBBC at a time prior to its expiry will be different from that of an equivalent margin trading position. A given percentage change in the price or level of the underlying asset may not result in the same percentage change (in the same direction for a bull CBBC or in the opposite direction for a bear CBBC) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller (or may be zero), in the same or opposite direction.

The theoretical value of a CBBC at any time will also contain an amount which reflects our cost of maintaining the corresponding hedge position in the underlying asset (e.g. the cost of funding a long position in shares, the net cost of borrowing shares for short sale, or the cost of margin in maintaining the futures position). The purchase price of a CBBC you pay may include all or part of such cost and when the mandatory call event occurs, the residual value (if any) will not contain a refund of such cost.

Other than at expiry (assuming mandatory call event does not occur prior to expiry) when the cash settlement amount will be set by the closing price or level of the underlying asset, at any time prior to the expiry you may sell your holding of CBBCs in the market and the price realised may or may not be the same as the theoretical value of the CBBCs, as the price will be determined by the levels of supply and demand in the market.

29 The funding costs of our CBBCs will fluctuate during the term of our CBBCs

The issue price of our CBBCs is set by reference to the difference between the initial reference spot price or level of the underlying asset and the strike price or strike level, plus the applicable funding cost. The initial funding cost applicable to our CBBCs is specified in the relevant supplemental listing document. It will fluctuate during the term of our CBBCs as the funding rate changes from time to time. The initial funding cost is an amount determined by us based on one or more factors, including but not limited to the strike price or strike level (as the case may be), the prevailing interest rate, the expected term of our CBBCs, any expected notional dividends in respect of the underlying asset and the margin financing provided by us (if any).

30 Residual Value will not include residual funding cost

The residual value (if any) payable by us following the occurrence of a mandatory call event will not include the residual funding cost for our CBBCs. When a mandatory call event occurs, you will lose the funding cost for the full period.

Risks relating to the Group

Internal risks and risks relating to the Group and its business operations

31 Changes in the credit quality and the recoverability of loans and amounts due from counterparties may have a material adverse effect on the Group's financial condition, results of operations and prospects

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Adverse changes in the credit quality of the Group's borrowers and counterparties (both sovereign and non-sovereign), or adverse changes arising from a further deterioration in global economic conditions or asset values, or systemic failures in financial systems could reduce the recoverability and value of the Group's assets and require an increase in the Group's level of provisions for bad and doubtful debts or increase the levels of impairments or write-downs experienced by the Group. An adverse change in economic conditions could also adversely affect the Group's level of banking activity. Although the Group devotes considerable resources to managing the above risks, many of the factors affecting borrower and counterparty credit risks are beyond the control of the Group and the occurrence of any of the foregoing risks or a failure by the Group to manage these risks effectively could have a material adverse effect on the Group's financial condition, results of operations and prospects.

32 The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgments and estimates which may change over time

In order to establish the value of financial instruments which the Group, under International Financial Reporting Standards as adopted by the European Union ("**IFRS**"), recognises at fair value, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instrument utilised by such valuation models may not be available, or may become unavailable, due to changes in market conditions, as has been the case at times since the commencement of the financial crisis. In such circumstances, the Group's internal valuation models require the Group to make assumptions, judgments and estimates in order to establish fair value. In common with other financial institutions, these internal valuation models are complex, and the assumptions, judgments and estimates the Group is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, asset price appreciation and depreciation, and relative levels of defaults and deficiencies. Such assumptions, judgments and

estimates may need to be updated to reflect new information, changing trends and market conditions. The resulting change in the fair values of financial instruments could have a material adverse effect on the Group's financial condition, results of operations and prospects.

33 The Group's business could be affected if its capital is not managed effectively

The Group must ensure the effective management of its capital position in order to operate its business, to continue to grow organically and to pursue its strategy. Future changes that limit the Group's ability to manage its balance sheet and capital resources effectively, as well as capital decisions taken by the Group, could have a material adverse effect on the Group's regulatory capital position, its financial condition, results of operations and prospects.

34 Lack of liquidity is a risk to the Group's business

Liquidity risk is the risk that the Group either does not have sufficient financial resources available to meet its obligations as they fall due, or can only access these financial resources at excessive cost. This risk is inherent in banking operations and can be heightened by a number of factors, including an over-reliance on or inability to access a particular source of funding (including, for example, reliance on inter-bank funding), the extent of mobility of intra-Group funding, changes in credit ratings or market-wide phenomena such as financial market instability and natural disasters.

As the Group operates in markets which have been and may continue to be affected by illiquidity and extreme price volatility, either directly or indirectly through exposures to securities, loans, derivatives and other commitments, the Group's policy is to manage its liquidity prudently in all geographic locations and for all currencies. However, any reoccurrence or prolonged continuation of such conditions could have an adverse effect on the Group's results of operations and, if severe, could have a material adverse effect on the Group's financial condition and prospects. In addition, any significant increase in the cost of acquiring deposits, inability to further increase deposits or significant outflow of deposits from the Group, particularly if it occurs over a short period of time, could have a material adverse impact on the Group's financial condition and liquidity position.

35 The Group is subject to the risk of regulators imposing more onerous prudential standards, including increased capital and liquidity requirements

The Group's lead supervisor, the Prudential Regulation Authority (the "**PRA**"), determines the minimum level of capital that the Group is required to hold by reference to its balance sheet, off-balance sheet, counterparty and risk exposures. Currently, the Group is adequately capitalised under CRD IV (as defined below) and holds sufficient liquidity resources. However, the PRA could (beyond the changes described below) apply increasingly stringent stress test scenarios in determining the required capital minima for the Group and any of its UK regulated firms, increase the minimum regulatory requirements imposed on the Group or any of its UK regulated firms, introduce certain changes to the basis on which capital and risk-weighted assets ("**RWA**") are computed, impose additional capital buffers, require additional restrictions on leverage, introduce further liquidity requirements, impose new regulatory requirements and/or change the manner in which it applies existing requirements to the Group or its UK regulated firms. In order to meet such additional regulatory requirements the Group may be required to raise capital and/or liquidity or take other actions to ensure compliance which could have a material adverse impact on the Group's financial condition, results of operations and prospects.

The Group's ability to maintain its regulatory capital ratios in the longer term could be affected by a number of factors, including its RWA, post-tax profit and fair value adjustments. Capital levels and requirements are more sensitive to market and economic conditions under Basel III than under previous regimes and effective capital requirements could increase if economic or financial market conditions worsen.

Basel III Capital Requirements

In December 2010, the Basel Committee on Banking Supervision (the "**BCBS**") finalised its proposals for new capital and liquidity requirements intended to strengthen existing capital standards and to establish minimum liquidity standards (commonly referred to as "**Basel III**"). These include new definitions of Common Equity Tier 1 Capital ("**CET1 Capital**") as well as new eligibility criteria for Additional Tier 1 Capital and Tier 2 Capital. A revised version of the Basel III capital rules was published in June 2011 and further changes or clarifications are possible.

Under Basel III, the minimum CET1 Capital ratio will be 4.5 per cent. of RWA, with a further capital conservation buffer of 2.5 per cent. of RWA to be made up of CET1 Capital, increasing the required CET1 Capital ratio to 7 per cent. of RWA. The minimum total capital ratio (including the capital conservation buffer of 2.5 per cent.) will increase from 8 per cent. to 10.5 per cent. of RWA. In addition, banks will need to satisfy a minimum leverage ratio requirement which has been set at 3 per cent. of Tier 1 Capital over total exposures from 1 January 2018 subject to future review and calibration. National regulators may impose an additional counter-cyclical capital buffer of up to 2.5 per cent. of RWA.

The BCBS proposed that the Basel III requirements be introduced on a phased basis, with final implementation by 1 January 2019. Global systemically important banks ("**G-SIBs**") will be required to maintain regulatory capital in excess of the Basel III minimum standards. According to the approach finalised by the BCBS in November 2011 and updated in July 2013, G-SIBs will need to meet an additional CET1 Capital requirement ranging from 1 per cent. to 2.5 per cent. of RWA, depending on their perceived systemic importance. The higher capital requirements for G-SIBs will be phased in between 2016 and 2018. The Group was designated a G-SIB by the Financial Stability Board ("**FSB**") when it published its most recent list of G-SIBs. The Group has been categorised within the 1 per cent. capital buffer requirement and will need to meet this additional capital requirement between 2016 and January 2019 if it is still on the G-SIB list that is published in early 2015. Certain of the Group's non-UK entities may be designated domestic systemically important banks in the markets in which they operate in accordance with the approach developed by the BCBS and FSB, which may result in higher capital requirements for such entities.

CRD IV Capital Requirements

Basel III has been implemented in the European Union ("**EU**") through legislation replacing the EU Capital Requirements Directive II. The new legislation is commonly referred to as "**CRD IV**" and consists of an EU directive and a regulation. Agreement of the CRD IV text was reached on 16 April 2013 and the final text was published in the Official Journal of the EU on 26 June 2013. Member states were required to apply the new requirements (with certain exceptions and subject to transitional arrangements) from 1 January 2014.

On 19 December 2013, the PRA published its final statement of policy, rules and supervisory statements required to implement CRD IV in the UK for banks, building societies and PRA designated investment firms. This outlined how the PRA would treat certain aspects of CRD IV where they had national discretion, including capital filters and deductions, the implementation of Pillar 1 capital requirements and the grandfathering treatment of existing non-qualifying capital instruments. At a Group level, the PRA is applying all CET1 Capital filters and deductions in full from 1 January 2014 and not using the transitional provisions available within CRD IV. With respect to the phase-in of Pillar 1 capital requirements, the PRA is using the transitional provisions

available in CRD IV. From 1 January 2014 to 31 December 2014, the minimum Pillar 1 CET1 Capital ratio will be 4 per cent., rising to 4.5 per cent. from 1 January 2015 onwards. Similarly, during the same period, the required Pillar 1 Tier 1 capital ratio will be 5.5 per cent., rising to 6 per cent. from 1 January 2015 onwards. According to CRD IV, capital instruments issued prior to 31 December 2011 that do not qualify as Additional Tier 1 Capital or Tier 2 Capital will be phased out over a transitional period. The PRA has confirmed that the level of recognition of such instruments will be capped at 80 per cent. as at 1 January 2014, and will decline by 10 per cent. each subsequent year, being fully phased out by 1 January 2022. Further, instruments with an incentive to redeem (e.g. with an interest step-up) will be phased out at their effective maturity date.

The European Banking Authority has been tasked by the European Commission with developing technical standards ("**EBA Technical Standards**") in respect of many of the CRD IV requirements, facilitating the creation of a single EU rulebook for banks. These technical standards will need to be adopted by the European Commission to come into force. There is uncertainty on the final impact of CRD IV as certain EBA Technical Standards have not been finalised or published.

UK Banking Reform

The Financial Services (Banking Reform) Bill, first published in October 2012, received Royal Assent in December 2013, becoming an Act of Parliament. The Act will implement the recommendations of the Independent Commission on Banking including the requirement for certain UK banks to hold minimum levels of Primary Loss-Absorbing Capacity ("**PLAC**") and to ring-fence their retail operations, as well as many of the Parliamentary Commission on Banking Standards' ("**PCBS**") recommendations around professional standards and culture. The Group does not have significant retail banking operations in the European Economic Area, so will not be required to ring-fence its retail operations.

The Act will be supplemented by secondary legislation, which is still being developed, and the Financial Conduct Authority ("**FCA**") and PRA rules which are yet to be formulated.

The main provisions of the Act that will impact the Group are:

1. The requirement to hold a minimum level of PLAC – regulatory capital and debt instruments that can be bailed-in when a bank fails – by ring-fenced banks and G-SIBs. The Group will be required to hold PLAC by virtue of being categorised as a G-SIB. The actual amount and implementation timelines are not set out in the Act and will be determined in accordance with the EU Recovery and Resolution Directive and the detailed rules that the PRA will be developing in 2014.

2. The imposition of higher standards of conduct on the banking industry by introducing a criminal sanction for reckless misconduct that leads to bank failure, and a more stringent approval regime for senior bankers. The territorial scope of application will not be known until the FCA / PRA publish their detailed rules.

3. The PRA will be required to undertake a review of banks' proprietary trading activities. This may lead to future requirements for such activities to be ring-fenced or prohibited.

4. The Bank of England is required to undertake a review of the need for it to have powers to set the leverage ratio higher and at an earlier date than the international standards proposed by the BCBS. The review is expected to be completed in 2014 and it is possible that it may lead to a higher leverage ratio standard for UK banks in the future.

New liquidity standards under Basel III and CRD IV

Under Basel III as implemented in Europe by CRD IV, banks will be required to meet two new liquidity standards: a liquidity coverage ratio ("**LCR**") and a net stable funding ratio ("**NSFR**"). The LCR will require banks to hold an amount of unencumbered, high quality liquid assets that can be used to offset the net cash outflows the bank could encounter under an acute short-term liquidity stress scenario. The NSFR will measure the amount of longer-term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on liquidity arising from off-balance sheet commitments and obligations, although the details of the NSFR are subject to further development and calibration. The LCR will be introduced on 1 January 2015 and the minimum requirement will begin at 60 per cent., rising in equal annual steps of 10 percentage points to reach 100 per cent. on 1 January 2018. The NSFR will remain subject to an observation period ahead of its planned implementation on 1 January 2018.

In addition, the PRA has its own liquidity standards based on the following elements: (i) principles of self-sufficiency and adequacy of liquidity resources, (ii) enhanced systems and control requirements, (iii) quantitative requirements, including Individual Liquidity Adequacy Standards, coupled with a narrow definition of liquid assets and (iv) frequent regulatory reporting. SCB meets the minimum requirements set by the PRA.

UK Macro-prudential Regulation

The Financial Services Act 2012 empowers the Financial Policy Committee ("**FPC**") of the Bank of England to give directions to the PRA and the FCA so as to ensure implementation of macro-prudential measures intended to manage systemic risk. HM Treasury consulted in October 2013 on a proposal to provide the FPC with the power to impose the counter-cyclical capital buffer in advance of the international timeline of 2016. The Government intends that the FPC should be able to require the PRA to impose additional specific capital requirements on banks to address risks to the UK market for banking services. The Government intends to provide the FPC with a power of direction over the leverage ratio although the date of implementation is unclear at present, and will be subject to the outcome of the Bank of England's review on the leverage ratio being undertaken this year. In the meantime, the FPC intends to manage systemic risks impacting the UK financial system using its power of direction to set sectoral capital requirements or through its power to make recommendations to the PRA, FCA and other parties. The new powers conferred on the FPC will enable it to set higher prudential standards for UK banks through the PRA, although it is not yet possible to ascertain definitively what the impact of exercising such powers would be on the Group.

If the regulatory capital requirements, liquidity requirements or other requirements applied to the Group are increased in the future, any failure by the Group to satisfy such increased requirements could result in regulatory intervention or sanctions (including loss or suspension of a banking licence) or significant reputational harm, which in turn may have a material adverse effect on the Group's financial condition, results of operations and prospects.

"Common Equity Tier 1 Capital", "Core Tier 1 Capital" "Additional Tier 1 Capital", "Innovative Tier 1 Capital", "Tier 1 Capital", "Tier 2 Capital" and "Tier 3 Capital", depending on the context, have the meaning (i) given to such terms in the General Prudential Sourcebook for Banks, Building Societies, Insurers and Investment Firms (as set out in the Prudential Regulation Authority Handbook),(ii) other guidance or rules of the PRA or (iii) required under Basel III and/or CRD IV (including EBA Technical Standards).

36 Failure to manage legal and regulatory risk properly can impact the Group adversely

The Group is subject to a wide variety of banking and financial services laws and regulations and is supervised by a large number of regulatory and enforcement authorities in each of the jurisdictions in which it operates. As a result, the Group is exposed to many forms of legal and regulatory risk, which may arise in a number of ways, primarily:

- losses may be caused by changes in applicable laws and regulations or in their application; the Group may not be able to predict the timing or form of any current or future regulatory or law enforcement initiatives which are becoming increasingly common for international banks and financial institutions;

- as a result of being subject to a variety of complex legal and regulatory regimes in many of the countries where it operates, in respect of which requirements, standards or sanctions may differ significantly from country to country;

- as a result of being subject to extensive laws and regulations which are designed to combat money laundering and terrorist financing, and to enforce compliance with sanctions against designated countries, entities and persons, including countries in which, and entities or persons with which, the Group may conduct and may have conducted business from time to time;

- risk from defective transactions or contracts, either where contractual obligations are not enforceable or do not allocate rights and obligations as intended, or where contractual obligations are enforceable against the Group in an unexpected or adverse way, or by defective security arrangements;

- the title to and ability to control the assets of the Group (including the intellectual property of the Group, such as its trade names) may not be adequately protected; and

- allegations being made against the Group claiming liability for damages to third parties including where legal proceedings are brought against it; regardless of whether such claims have merit, the outcome of legal proceedings is inherently uncertain and could result in financial loss.

Although the Group has processes and controls to manage legal and regulatory risks, failure to manage such risks properly may impact the Group adversely or result in administrative actions, penalties or other proceedings involving the Group which may have a material adverse effect on the Group's business, reputation, its financial condition, results of operations and prospects.

In addition, a failure to comply with applicable laws or regulations by the Group's employees, representatives, agents and third party service providers, either in or outside the course of their employment or services, or suspected or perceived failures by them, may result in enquiries or investigations by regulatory and enforcement authorities, or in regulatory or enforcement action against the Group or such employees, representatives, agents and third party service providers in various jurisdictions. Such actions may adversely impact the reputation of the Group, result in adverse media reports, lead to increased levels of scrutiny by relevant regulatory or supervisory bodies, additional costs, penalties, claims and expenses being incurred by the Group and, as a result, have a material adverse effect on the Group's ability to conduct its business, its financial condition, results of operations and prospects.

37 Operational risks are inherent in the Group's business

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems, or from external events. Operational losses can result, for example, from fraud, errors by employees, failure to document transactions properly or to obtain proper authorisation, failure to comply with legal or regulatory requirements or conduct of business rules (including regimes covering anti-money laundering and anti-terrorism, applicable sanctions, insider dealing, market manipulation and market abuse or similar behaviour, including practices for setting market interest rates and other benchmarks) or equipment failures, natural disasters or the failure of external systems. The Group seeks to ensure that operational risks are managed in a timely and effective manner, through a framework of policies, procedures and tools but this framework may prove inadequate in managing such risks. Any of these risks could have a material adverse effect on the Group's ability to conduct business, its financial condition, results of operations and prospects.

However, this does not imply that either SCB or the Group will be unable to comply with their obligations as a supervised firm regulated by the PRA and the FCA.

38 Practice and process reviews in certain markets may present risk in terms of not being able to predict scope and outcome of these reviews

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 may be difficult to predict and can be material to the Group. The Group seeks to co-operate with regulators in response to requests for information, inquiries and investigations and takes remedial actions as necessary.

Regulators and other agencies in certain markets are conducting investigations into or reviews of 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 SCPLC's branches and/or subsidiaries were (and are) members of panels in some of those markets, submitting data to bodies that set such rates and benchmarks. The Group is participating in reviews of practices and processes in those markets. It is not possible to predict the scope and ultimate outcome of these or future reviews, including the timing or potential impact of their conclusions.

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 sanctions regimes.

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.

39 The business of the Group may be affected if it is unable to recruit, retain and develop appropriate senior management and skilled personnel

The Group's continued success depends in part on the continued service of key members of its management team and other skilled personnel. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of the Group's strategy. The successful implementation of the Group's growth strategy depends on the availability of skilled management at its head office and at each of its business units and international locations. Competition for skilled management and other employees is particularly evident in a number of the geographic areas in which the Group operates, particularly, in emerging markets. If the Group or one of its business units or other functions fails to staff their operations appropriately, or loses one or more of its key senior executives and fails to replace them in a satisfactory and timely manner, its business, financial condition and results of operations, including control of operational risks, may be adversely affected. Likewise, if the Group fails to attract and appropriately train, motivate and retain qualified professionals, its business, and in particular the ability to expand in certain areas, may be adversely affected, which could have a material adverse effect on the Group's financial condition, results of operations and prospects. The European Union ("**EU**") and the UK regulators have introduced, and are planning to introduce further, requirements in respect of remuneration which could potentially affect the ability of the Group to recruit, retain and motivate appropriate senior management and skilled personnel.

In particular, restrictions have applied from 1 January 2011 on the payment, structure and disclosure of bonuses and other non-contractual remuneration to senior management and anyone whose professional activities could have a material impact on a firm's risk profile. These restrictions apply globally to the Group but similar restrictions do not apply to competitors based outside the EU, notably in the Group's core markets across Asia (except Hong Kong), Africa, and the Middle East which creates an uneven playing field when competing in those markets for talent with other local and non-EU international banks. In addition to the existing remuneration requirements, CRD IV will limit, with effect from the 2014 performance year, the amount of variable compensation that can be paid for certain regulated staff to a maximum of two times their fixed compensation. This may have global implications for the Group as such a requirement would not apply to competitors headquartered outside the EU operating in the Group's core markets. Such provisions may also have a significant impact on both the Group's ability to manage the variable compensation pool in stress situations and to compete and retain talent.

Any of these matters could have a material adverse effect on the Group's ability to conduct its business, its financial condition, results of operations and prospects.

40 *The Group is expanding its operations and this growth may represent a risk if not managed effectively*

The Group's business strategy is based on organic growth but includes selective plans to continue to acquire assets or businesses that it believes are logical extensions of its existing businesses to increase cash flow and earnings. The Group continues to look at potential acquisitions in a number of markets. The Group may experience some, or all, of the difficulties described below in managing the integration of any subsequent acquisitions into its existing businesses. The failure to manage effectively its expansion, whether organic or inorganic, could have a material adverse effect on the Group's financial condition, results of operations and prospects.

The success of the Group's acquisitions will depend, in part, on the ability of its management to integrate the operations of newly acquired businesses with its existing operations and to integrate various departments, personnel, systems and procedures.

Consequently, the Group's ability to implement its business strategy may be constrained and the timing of such implementation may be impacted due to demands placed on existing resources by the acquisition and integration process. There can be no assurance that:

- the Group will be successful in acquiring all the entities it seeks to acquire;
- the acquired entities will achieve the level of performance that the Group anticipates, or that the carrying value of goodwill on acquisition will be fully supported by the cash flows of the cash generating unit to which it has been allocated for the purposes of impairment testing (and, therefore, the value of the assets being carried may be written-down or impaired);
- the projected demand for and prices of the Group's products and services will be realised;
- the acquired entities will not cause a disruption to the Group's ongoing businesses, distract management attention and other resources, or make it difficult to maintain the Group's standards, internal controls and procedures;
- the Group will not be required to incur debt or issue equity securities to pay for acquisitions, for which financing may not be available or may not be available on commercially attractive terms;
- the Group will realise any or all of the intended synergy or growth benefits expected at the time of acquisition;
- the Group's credit ratings will not be negatively affected by such acquired entities or the method of financing any acquisition or acquired business;
- the Group will be able to successfully integrate the services, products and personnel of an acquired entity into its operations, especially if the Group acquires large businesses; or
- the Group will not assume unforeseen liabilities and exposures as a result of such acquisitions.

The occurrence of any one or a combination of these events could have a material adverse effect on the Group's financial condition, results of operations and prospects.

41 The Group's business is subject to reputational risk

Reputational risk is the potential for damage to the Group's franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the Group or its actions. Reputational risk could arise from the failure by the Group to effectively mitigate the risks in its businesses including one or more of country, credit, liquidity, market, regulatory, legal or other operational risk. Damage to the Group's reputation could cause existing clients to reduce or cease to do business with the Group and prospective clients to be reluctant to do business with the Group. All employees are responsible for day to day identification and management of reputational risk. These responsibilities form part of the Group Code of Conduct and are further embedded through values-based performance 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.

Material damage to the Group's reputation with one or more of its key stakeholders could have a material impact on the future earning capacity of the Group through the loss of current and prospective customers or through damage to key governmental or regulatory relationships. A failure to manage reputational risk effectively could materially affect the Group's business, results of operations and prospects.

42 The Group is exposed to pension risk

Pension risk is the potential for loss due to having to meet or meeting an actuarially assessed shortfall in the Group's pension schemes. Pension risk exposure is focused upon the risk to the Group's financial position arising from the need to meet its pension scheme funding obligations. In the event of a shortfall the Group may be required or may choose to make additional payments to the Group's pension schemes which, depending on the amount, could have a material adverse effect on the Group's business, results of operations and prospects.

43 The banking industry is a target for fraud and other criminal activity

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.

The Group seeks to be vigilant to the risks of internal and external crime in its management of people, processes, systems and in its dealings with customers and other stakeholders. The Group has a broad range of measures in place to monitor and mitigate these risks. 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. However, such measures may not be adequate and these risks could have a material adverse effect on the Group's ability to conduct business, its financial condition, results of operations and prospects.

44 The European Commission's proposals for the Bank Recovery and Resolution Directive may restrict the Group's business operations and lead to an increase in its costs of doing business.

On 20 December 2013, political agreement was reached on the proposals for an EU Directive to create a framework for the recovery and resolution of EU banks and investment firms ("**Institutions**"), which includes powers for EU regulators to facilitate the orderly resolution of failing Institutions. The directive, will give powers to EU regulators and other bodies responsible for resolution activities ("**Resolution Authorities**") to recapitalise Institutions in severe financial difficulty breaching the point of non-viability by writing-down shares and other regulatory capital instruments issued by such firms (or converting regulatory capital debt instruments into shares) ("**Regulatory Capital Write-Down Powers**"). Resolution Authorities will also have powers to 'bail-in' other unsecured liabilities of an Institution in a resolution scenario ("**Bail-In Powers**"), i.e. to impose losses of a failed or failing Institution onto certain creditors by writing down their unsecured liabilities or by converting them into shares.

The Bank Recovery and Resolution Directive ("**BRRD**") will introduce three categories of measures: preparatory and preventative measures, early intervention powers, and resolution powers. When these proposals are implemented, they will directly affect the rights of shareholders and creditors, and could potentially alter or restrict the Group's business operations in certain situations, or increase the cost of doing business for the Group. The transposition date for the majority of the provisions of the BRRD is 2015. However, provisions relating to the bail-In powers will be transposed into the national law of EU member states by 1 January 2016. The UK is expected to introduce formal bail in powers in 2014. Institutions and groups will be required to produce and keep up-to-date recovery plans to withstand a significant deterioration in their financial position. Institutions will also be required to provide detailed information about their businesses and entities, from which Resolution Authorities will be required to produce plans for resolving the institution and its group. The need to prepare and submit recovery plans and resolution plan-related information (and requirements to keep such plans and information up-to-date on a regular basis) is likely to represent a significant operational burden.

Institutions that are subject to the BRRD will be required to make ex ante contributions to support 'resolution funds', such contributions being proportionate to their liabilities (possibly excluding own funds and covered deposits). These resolution funds will be set up to ensure the effective application of resolution powers by Resolution Authorities. The amounts to be contributed by individual Institutions are yet to be determined but it is expected that contributions will be made on an annual basis, beginning once the BRRD has been implemented, and could represent a material cost to SCB or the Group, although the UK has effectively obtained powers to treat the UK Bank Levy as the chosen source of such funding going forward. Institutions may also be required to make an extraordinary ex-post contribution if the amounts raised by the ex ante contributions are insufficient to cover the losses, costs or other expenses involved in the resolution of an Institution or Institutions.

Article 50 of the BRRD requires contractual provisions to be inserted in a broad range of creditor documentation governed by third country (non EU) law within branches of SCB. Work is underway to define and size the potential competitive disadvantages arising from the impact of this Article in those third country jurisdictions in which SCB maintains a branch presence.

The BRRD also requires firms to hold loss absorbing capacity ("**LAC**") although the specific levels of LAC will be defined on a firm by firm basis. The level of LAC to be maintained by the Group is yet to be finalised but is likely to be material.

The BRRD will extend the existing powers of regulators to intervene at an appropriately early stage to facilitate the recovery of viable Institutions, including powers to remove and replace board members, implement one or more measures identified in the Institution's recovery plan, require

changes to the legal or operational structure of the Institution or appoint special managers to restore the financial health of the Institution. Resolution Authorities may also require that Institutions take certain measures that would improve the resolvability of the Institution or its group, which may necessitate changes to the structure of an Institution's group or its operational strategy (for example, requiring groups to subsidiarise certain businesses or critical services). In a resolution scenario, a number of powers will be conferred on Resolution Authorities under the BRRD to facilitate the orderly resolution of a failing Institution (and certain of its holding companies), including powers to:

(i) transfer, cancel or write-down shares and debt instruments of an Institution or procure the issue of new shares or other capital instruments, including preference shares and contingent convertible instruments;

(ii) amend or alter the maturity of debt instruments issued by an Institution or amend the amount of interest payable or the date on which interest becomes payable under such instruments;

(iii) transfer assets, rights and liabilities of an Institution free from any legal or contractual restriction on such transfers;

(iv) require an Institution to provide any services or facilities that are necessary to enable a purchaser of the Institution's business to operate that business effectively; and

(v) require the transfer of property located in non-EU jurisdictions.

The wide-ranging powers to intervene and alter an Institution's business, operations and capital and debt structure that will be conferred by the BRRD could have significant consequences for the Group's profitability, its financing costs and implementation of its global strategy if such powers were ever exercised. In addition to the direct impact of the statutory write-down and conversion powers described above, changes to the Group's business activities that may be implemented through the powers described above may affect the Group's or its subsidiaries' ability to pay any cash settlement amount under the structured products. The exercise of any of the foregoing powers may have a material adverse effect on the Group's financial condition, results of operations and prospects.

45 The Group may face increased compliance costs as a result of tax legislation passed in the United States

In March 2010, the United States passed legislation that would require non-United States banks to provide information on United States account holders. The first reports will be provided to the US Internal Revenue Service in 2015. If this information is not provided in a form satisfactory to the United States tax authorities, that bank will have a 30% withholding tax applied to certain amounts derived from United States sources, and possibly in the future, non-United States sources. The increased due diligence of customer information and the reporting of information to the US authorities will increase operational and compliance costs for banks. At this time, it is not possible to quantify the full costs of complying with the new legislation as some aspects are still to be determined.

No assurance can be given about the likelihood of further changes to this regime either: (i) in the U.S. or other countries; (ii) to the Group's particular business sectors; or (iii) specifically in relation to the Group. Moreover, governmental authorities of jurisdictions outside the United States are considering passing similar legislation. Any or all of these factors could have a material adverse effect on the conduct of the business of the Group, its strategy and profitability, and therefore its financial condition, results of operations and prospects.

46 Changes in law or regulation applicable to derivatives may adversely affect the Group's business and the Group may face increased costs and/or reduced revenues

The business of the Group is subject to increased regulation and regulatory changes at both a local and global level which may increase the costs of, and/or reduce the revenue from, its business. The Group is subject to financial services laws, regulations, administrative actions and policies in each location in which the Group operates. Financial regulators around the world have responded to the recent financial crisis by proposing significant changes to the regulatory regime applicable to financial service companies such as ours. Changes to the current system of supervision and regulation, or any failure to comply with applicable laws and rules could materially and adversely affect the Group's business, financial condition or operations.

In July 2010, the United States passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"). The Dodd-Frank Act established wide-ranging reform of the US regulatory system designed to contain systemic risk (central clearing, margin requirements, capital) and increase market transparency (real-time reporting, exchange or SEF trading, disclosure and record retention). The legislation also introduces registration and oversight of key entities engaging in swaps. The Group is not a US Person and it is registered with the Commodity Futures Trading Commission ("**CFTC**") as a Non-US Person Swap Dealer. The reforms have not all taken effect immediately as relevant federal regulatory agencies have been issuing new rules, implementing regulations, and instructing the relevant regulatory agencies to examine specific issues before taking any action. The Group therefore continues to track and assess the impact of the reforms as and when further detail and timing is known.

On 16 August 2012, the European Market Infrastructure Regulation ("**EMIR**") (formally known as Regulation (EU) No 648/2012 of the European Parliament and the Council on OTC Derivatives, Central Counterparties and Trade Repositories) came into force. EMIR imposes requirements to report all derivative transactions to authorised or recognised trade repositories and the obligation to clear on authorised or recognised central clearing counterparties certain OTC derivative transactions executed with financial counterparties and non-financial counterparties who exceed certain clearing thresholds. EMIR also introduces a stringent risk mitigation regime for all uncleared OTC derivative transactions including a requirement to exchange collateral or margin.

The regulatory changes and resulting requirements of the Dodd-Frank Act, EMIR and similar international reform efforts may increase the costs of, and/or reduce the revenue from, engaging in transactions in OTC derivatives ("**Transactions**") and related activities for the Group. Provisions of the Dodd-Frank Act may cause or require certain market participants to transfer some of their derivatives activities to separate entities, which may not be as creditworthy as the current entities. Accordingly, the ability to enter into and perform Transactions or engage in future Transactions may be affected in unpredictable ways, including increasing the costs of or reducing the incentives for engaging in such activities. New regulations may also put restraints on the way the Group can conduct its business with regard to derivatives, if those derivatives are not cleared through a central clearing house.

No assurance can be given about the likelihood of further changes to this regulatory regime either (i) in the US or other countries; (ii) to the Group's particular business sectors; or (iii) specifically in relation to the Group. Any or all of these factors could impact the conduct of the business of the Group, its strategy and profitability, and therefore its financial condition, results of operations and prospects.

External Risk Factors

47 *Macroeconomic risks could result in a material adverse effect on the Group's financial condition, results of operations and prospects*

The Group operates in over 68 countries and territories and is affected by the prevailing economic conditions in each market. Macroeconomic factors have an impact on personal expenditure and consumption, demand for business products and services, the debt service burden of consumers or businesses, and the general availability of liquidity and credit. All these factors may impact the Group's financial condition, results of operations and prospects.

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 and risks remain of secondary impacts from events in the West on financial institutions, other counterparties and global economic growth.

The linkages between economic activities in different markets are complex and depend not only on direct drivers such as the balance of trade and investment between countries, but also on domestic monetary, fiscal and other policy responses to macroeconomic conditions. For example, 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.

Consequently, one uncertainty for the corporate sector will be the extent to which exports are impacted by any slowdown in the global economy. Similarly, there may be uncertainty about domestic demand in the Group's markets, which is a function of a number of factors including consumer and business confidence.

Another principal uncertainty for the Group relates to the management of inflationary pressures, to the extent to which they arise. These inflationary pressures may be exacerbated in some countries by the reduction or removal of fuel price subsidies and the impact of significant rises in the price of certain foodstuffs. An increase in inflation can have a number of adverse impacts on the Group's business, including, but not limited to, increasing its operating expenses. High inflation could also have an adverse effect on the credit quality of the Group's individual and corporate borrowers, as well as its counterparties, and could lead to an increase in delinquencies and defaults across a wide range of sectors and otherwise have a material adverse effect on the Group's financial condition, results of operations and prospects.. Whilst the Group maintains significant geographic and business diversification which may minimise the impact of certain economic factors including a downturn, diversification of the Group may not be effective to safeguard the Group from the effect of macroeconomic factors which may impact on the overall economy in a single country or region, or globally. The Group seeks to manage this risk by setting concentration caps (by counterparty or groups of connected counterparties, by industry sector and country for corporate clients and by product and country for retail customers), and by regularly monitoring credit exposures and political and economic trends. Additionally, the Group conducts stress tests to assess the effects of extreme but plausible trading conditions on our portfolio and also continuously reviews the suitability of our risk policies and controls.

48 The Group operates primarily in Asia, Africa and the Middle East, and these operations expose it to risks arising from the political and economic environment of markets in these areas that could adversely affect its financial condition, results of operations and prospects

The Group faces significant economic and political risks, including risks arising from economic volatility, recession, inflationary pressures, exchange rate fluctuation and interruption of business, as well as from civil unrest, imposition of exchange or capital controls, sanctions relating to specific countries, entities and individuals, expropriation, nationalisation, renegotiation or nullification of existing contracts and changes in law, tax policy and regulation. Furthermore, while many of the economies in which the Group operates have in recent years performed relatively well compared to many of the economies of Western Europe and North America, there can be no assurance that the relatively favourable economic environments in these markets will continue. The occurrence of any of these risks could result in a material adverse effect on the Group's financial condition, results of operations and prospects.

49 The Group operates in competitive markets, which may have a material adverse effect on its financial condition, results of operations and prospects

The Group is subject to significant competition from local banks and other international banks carrying on business in the markets in which it operates, including competitors that may have greater financial and other resources. In addition, the Group may experience increased competition from new entrants in the relevant product or geographic markets and existing competitors may combine to increase their existing market presence or market share. Furthermore, in certain of the Group's markets, it competes against financial institutions that are supported or controlled by governments or governmental bodies and which are required to satisfy certain lending thresholds and other identified targets. In such markets, in order to remain competitive, the Group may not realise the margins which it would otherwise have expected or desired. Regulations may also favour local banks by restricting the ability of international banks, such as the Group, operating in the relevant country to enter the market and/or expand their existing operations. Such restrictions could adversely affect the Group's ability to compete in these markets. In addition, certain competitors may have access to lower cost funding and be able to offer retail deposits on more favourable terms than the Group. Furthermore, the Group's competitors may be better able to attract and retain clients and talent, which may have a negative impact on the Group's competitive position and profitability in the relevant markets. Moreover, many of the international and local banks operating in the Group's markets compete for substantially the same customers as the Group and competition may increase in some or all of the Group's principal markets. The foregoing matters, individually or in combination, may have a material adverse effect on the Group's financial condition, results of operations and prospects.

50 The Group operates in a highly regulated industry and changes to bank regulations and laws could have an adverse impact on its operations, financial condition or prospects

The Group's businesses are subject to a complex framework of financial services laws and regulations and associated legal and regulatory risks, including the effects of changes in laws, regulations, policies and voluntary codes of practice. As a result of the financial crisis, there has been a substantially enhanced level of governmental and regulatory intervention and scrutiny, and there have been, and are expected to be, further changes to regulations applying to financial institutions. Additional changes to laws and regulations are under consideration in many jurisdictions. Although the Group works closely with its regulators and regularly monitors the situation, future changes in laws, regulations and fiscal or other policies can be difficult to predict and are beyond the control of the Group. Furthermore, laws and regulations may be adopted, enforced or interpreted in ways that could materially adversely affect the Group's business, financial condition, results of operations and prospects.

Governmental policies and regulatory changes that could adversely impact the Group's business include:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in governmental or regulatory policy, or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the Group operates, may change the structure of those markets and the products offered, or may increase the costs of doing business in those markets;
- changes to other regulatory requirements such as rules on consumer protection and prudential rules relating to capital adequacy and/or liquidity, charging special levies to fund governmental intervention in response to crises (which may not be tax deductible for the Group), separation of certain businesses from deposit-taking and the breaking up of financial institutions that are perceived to be too large for regulators to take the risk of their failure;
- Over The Counter (OTC) Derivative reforms across our markets, designed to contain systemic risk (central clearing, margin requirements, capital) and increase market transparency (real-time reporting, exchange or SEF (Swap Execution Facility) trading, disclosure and record retention);
- changes in competition and pricing environments;
- further developments in relation to financial reporting including changes in accounting and auditing standards, corporate governance, conduct of business and employee compensation;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments, producing social instability or legal uncertainty which, in turn, may affect demand for the Group's products and services.

In response to the financial crisis and recent global economic conditions, there has already been a substantial increase in the regulation and supervision of the financial services industry in order to seek to prevent future crises and otherwise ensure the stability of institutions, including the imposition of higher capital and liquidity requirements (including pursuant to Basel III and CRD IV), increased levies and taxes, requirements to centrally clear certain transactions, heightened disclosure standards, further development of corporate governance and employee compensation regimes and restrictions on certain types of transaction structures. (See the paragraphs headed "The Group is subject to the risk of regulators imposing more onerous prudential standards, including increased capital and liquidity requirements" and "The European Commission's proposals for the Bank Recovery and Resolution Directive may restrict the Group's business operations and lead to an increase in its costs of doing business" for more detail).

These new requirements could to a certain extent significantly impact on the profitability and results of operations of firms operating within the financial services industry, including entities within the Group, or could require those affected to alter their current strategies, prevent the continuation of existing lines of operations, restrict the type or volume of transactions which may be entered into or set limits on, or require the modification of, rates or fees that may be charged. The Group may also face increased compliance costs and limitations on its ability to pursue its business activities.

Whilst there is growing international regulatory cooperation on supervision and regulation of international and EU banking groups, the Group is, and will continue to be, subject to the complexity of complying with existing and new regulatory requirements in each of the jurisdictions in which it operates. Where changes in regulation are made they may not be co-ordinated, potentially resulting in the Group having to comply with different and possibly conflicting requirements. The foregoing matters may adversely impact any number of areas of the Group's operations and activities which in turn may have a material adverse effect on its financial condition, results of operations and prospects.

51 The business and operations of the Group may be affected by the provisions of the Banking Act 2009 which gives the UK Treasury and the Bank of England wide-ranging powers to make certain orders in respect of deposit-taking institutions

The Banking Act 2009 came into force on 21 February 2009 and applies to deposit-taking institutions that are incorporated in or formed under the law of any part of the UK (such as SCB). It provides HM Treasury, the Bank of England (including the PRA) and the FCA with powers to deal with banks which are failing or likely to fail to satisfy the threshold conditions within the meaning of section 55B and Schedule 6 of the Financial Services and Markets Act (which is not currently the case in respect of SCB and which the Group does not consider to be likely) where it is not reasonably likely that action will be taken to satisfy those threshold conditions. The Banking Act 2009 creates a special resolution regime which comprises three stabilisation options and two insolvency procedures. The stabilisation options involve (i) the transfer of a bank or bank holding company (such as SCPLC) into temporary public ownership; (ii) the transfer of all or part of a bank to a private sector purchaser and (iii) the transfer of all or part of a bank to a bridge bank wholly owned by the Bank of England. The insolvency procedures are (i) bank insolvency, designed to ensure that eligible depositors' accounts are transferred to another bank, or that eligible depositors are compensated under the Financial Services Compensation Scheme, followed by winding-up of the affairs of the bank so as to achieve the best result for the bank's creditors and (ii) a bank administration procedure designed to ensure that where the transfer of part of a bank to a private sector purchaser or bridge bank is effected in accordance with the special resolution regime, the non-sold or non-transferred bank continues to provide services and facilities to the business which has been transferred to enable the commercial purchaser or transferee to operate effectively. In February 2011, special administration procedures were introduced by the Investment Bank Special Administration Regulations 2011 for UK deposit-taking institutions that have an "investment banking" business. The procedures are based on the bank insolvency and bank administration procedures under the Banking Act 2009 but additionally take into account special administration objectives.

HM Treasury, the Bank of England (including the PRA) and the FCA must have regard to specified objectives (the protection and enhancement of the stability of the UK financial system, protecting and enhancing public confidence in the stability of the UK banking system, protecting depositors, protecting public funds and avoiding interference with property rights in contravention of the European Convention on Human Rights) when exercising the special resolution regime powers. In addition, the final report of the ICB recommended that authorities should have a primary bail-in power allowing them to impose losses on eligible bonds (unsecured debt with a term of at least 12 months at the time of issue) in a resolution. The report also recommended that the resolution authorities should have a secondary bail-in power to impose losses on all other unsecured liabilities (including liabilities subject to a floating charge) in a resolution. Such powers are also now mandated by the EU BRRD, which requires member states to enact bail in powers by 1 January 2016. (See further the paragraph entitled "The European Commission's proposals for the BRRD may restrict the Group's business operations and lead to an increase in its costs of doing business"). The Financial Services (Banking Reform) Act 2013 which was enacted in December 2013, states that bail-in powers will be brought in via secondary legislation and this is expected during 2014.

HM Treasury consulted in 2013 on secondary legislation under the Financial Services (Banking Reform) Act 2013 on powers to require firms to hold specific levels of LAC. Such powers are required to be introduced by all EU Member States under the BRRD. The proposals do not define specific levels of LAC but provide a guide as to the types of instruments which will be eligible to meet LAC requirements. The specific level of required LAC to be maintained by the Group is yet to be finalised but it is likely to be material.

52 Downgrades to the Group's credit ratings or downward changes in outlook could impair the Group's access to funding and the Group's competitive position

The Group's ability to access the capital markets, and the cost of borrowing in these markets, is influenced by the Group's credit ratings. There can be no guarantee that the Group will not be subject to downgrades to its credit ratings and downward changes in outlook. Factors leading to any such downgrade or change in outlook may not be within the control of the Group. A material downward change in the short-term or long-term credit ratings of the Group could impact the volume, price and source of its funding, and this could have a material adverse effect on the Group's profitability, its financial condition, results of operations and prospects.

53 Changes in interest rates, commodity prices, equity prices and other market risks could adversely affect the Group's financial condition, results of operations and prospects

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Group's exposure to market risk arises principally from customer driven transactions.

The primary categories of market risk for the Group are:

- interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;

- currency exchange risk: arising from changes in exchange rates and implied volatilities on related options;

- commodity price risk: arising from changes in commodity prices and implied volatilities on commodity options, covering energy, precious metals, base metals and agriculture; and

- equity price risk: arising from changes in the prices of equities, equity indices, equity baskets and implied volatilities on related options.

Failure to manage these risks effectively or the occurrence of unexpected events resulting in significant market dislocation could have a material adverse effect on the Group's financial condition, results of operations and prospects.

54 The Group is subject to the risk of exchange rate fluctuations arising from the geographical diversity of its businesses

As the Group's business is conducted in a number of jurisdictions and in a number of foreign currencies, including, but not limited to, Sterling, Korean won, Hong Kong dollars, Singapore dollars, Taiwan dollars, Chinese yuan and Indian rupees, the Group's business is subject to the risk of exchange rate fluctuations. The results of operations of Group companies are reported in the local currencies in which they are domiciled, and these results are then translated into U.S. dollars at the applicable foreign currency exchange rates for inclusion in the Group's consolidated financial statements. The exchange rates between local currencies and the U.S. dollar have been and may continue to be volatile. The Group is therefore exposed to movements in exchange rates in relation

to foreign currency receipts and payments, dividend and other income from foreign subsidiaries and branches, reported profits of foreign subsidiaries and branches and the net asset carrying value of foreign investments and risk-weighted assets attributable to foreign currency operations.

Whilst the Group monitors exchange rate movements, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group and the translation effect against the U.S. dollar of such fluctuations in the exchange rates of the currencies of those countries in which the Group operates, any of which may adversely affect its financial condition, results of operations and prospects.

55 Financial markets volatility globally and in the markets in which the Group operates could result in a material adverse effect on the Group's assets, financial condition, results of operations and prospects

Additional volatility, and further dislocation affecting certain financial markets and asset classes, are factors that may have a material adverse effect on the Group's assets, its financial condition, results of operations and prospects. These factors have had and may have a negative impact on the mark-to-market valuations of assets in the Group's available-for-sale and trading portfolios. In addition, any further deterioration in the performance of the assets underlying the Group's asset backed securities ("**ABS**") portfolio could lead to additional impairment. The ABS portfolio accounted for approximately 1 per cent. of Group assets as at 31 December 2013. Continued market volatility may also negatively impact certain customers exposed to derivative contracts. While the Group seeks to manage customer exposure and risk, the potential losses incurred by certain customers as a result of derivative contracts could lead to an increase in customer disputes and corporate defaults and result in further write-downs or impairments by the Group.

56 Systemic risk resulting from failures by banks, other financial institutions and corporates could adversely affect the Group

Within the financial services industry the default of any institution or corporate could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely correlated as a result of their credit, trading, clearing or other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, other financial institutions and exchanges with whom the Group interacts on a daily basis, which could have an adverse effect on the Group's ability to raise new funding and have a material adverse effect on the Group's business, its financial condition, results of operations and prospects.

57 Country cross-border risk could have a material adverse effect on the Group's financial condition, results of operations and prospects

Country cross-border risk is the risk that the Group will be unable to obtain payment from its customers (sovereign and non-sovereign) 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.

These risks could have a material adverse effect on the Group's financial condition, results of operations and prospects.

58 The Group operates in some markets that have relatively less developed judicial and dispute resolution systems, which could have a material adverse effect on the Group's financial condition, results of operations and prospects

In some of the less developed markets in which the Group operates, judicial and dispute resolution systems may be less developed than in North America and Western Europe. In case of a breach of contract, there may be difficulties in making and enforcing claims against contractual counterparties. On the other hand, if claims are made against the Group, there may be difficulties in defending such allegations. If the Group becomes party to legal proceedings in a market with an insufficiently developed judicial system, an adverse outcome to such proceedings could have a material adverse effect on the Group's financial condition, results of operations and prospects.

59 Hostilities, terrorist attacks or social unrest as well as natural calamities in the markets in which the Group operates could adversely affect the Group's business, results of operations and prospects

The Group operates in a large number of markets around the world, and its performance is in part reliant on the openness of cross-border trade and capital flows. Geopolitical tensions or conflicts in our footprint could impact trade flows, customers' ability to pay, and the Group's ability to manage capital, liquidity or operations across borders.

Some of the countries in which the Group operates have, from time to time, experienced and/or are currently experiencing social and civil unrest, hostilities both internally and with neighbouring countries and terrorist attacks. Some of those countries have also experienced natural calamities like earthquakes, floods and drought in recent years. These and similar hostilities, tensions and natural disasters could lead to political or economic instability in the markets in which the Group operates and have a material adverse effect on the Group's business, its financial condition, results of operations and prospects.

60 European Banking Union

The European Commission adopted proposals on 12 September 2012 for a regulation that will confer specific responsibilities on the European Central Bank (the "**ECB**") in respect of the prudential supervision of credit institutions. In accordance with the proposals, the ECB will become responsible for the authorisation and supervision of all credit institutions within the eurozone, and will have certain responsibilities for credit institutions incorporated outside of the eurozone that establish a branch or provide services within the eurozone on a cross-border basis. Other EU Member States (such as the UK) will be able to establish close cooperation with the ECB in which case the ECB could become responsible for the authorisation and supervision of credit institutions in such Member States. If the UK established close cooperation with the ECB, or joined the European Monetary Union, the ECB would, under the proposals, become responsible for the supervision of the Group which may differ in significant respects from that carried out by the PRA and FCA, and which, depending on the circumstances, could have a material adverse effect on the conduct of the business of the Group, its strategy and profitability, and therefore its financial condition, results of operations and prospects.

TAXATION

The information below is of a general nature and is only a summary of the law and practice currently applicable in Hong Kong and the United States. It is intended to give you an overview of what Hong Kong and United States tax you might have to pay if you hold our structured products. It is not complete and we are not giving you any tax advice. You should consult your own tax adviser about the tax consequences of investing in our structured products, particularly if you are subject to special tax rules (for example, if you are a bank, dealer, insurance company or a tax-exempt entity).

HONG KONG

Withholding Tax

We are not required under current law to make any withholding on account of Hong Kong tax from payments in respect of our structured products.

Capital Gains Tax

No capital gains tax is payable in Hong Kong on any capital gains arising from a sale or disposal of our structured products.

Profits Tax

Hong Kong profits tax may be chargeable on any gains arising from a sale or disposal of our structured products where the sale or disposal is or forms part of a trade, profession or business carried on in Hong Kong and the gains are of a Hong Kong source.

Stamp Duty

Our cash-settled structured products are not subject to Hong Kong stamp duty or bearer instrument duty either when issued or on any subsequent transfer.

UNITED STATES

FATCA Withholding

Legislation known as the United States Hiring Incentives to Restore Employment Act (the "**HIRE Act**"), which included provisions referred to as the Foreign Account Tax Compliance Act ("**FATCA**"), was passed in the United States on 18 March 2010. Under the HIRE Act and FATCA, we may be required to withhold moneys on account of U.S. federal tax (at a rate of 30 per cent.) on all, or a portion of:

(a) any payments made in respect of our structured products that are linked to the value of, or dividends on, stock issued by an entity that is treated as a U.S. corporation (or by any other entity the dividends of which would be U.S. source) for U.S. federal income tax purposes (such payments, "**U.S. Source Payments**"); or

(b) any payments (regardless of whether such payments have any connection to a U.S. Source Payment) made after 31 December 2016 in respect of our structured products (such payments, "**Foreign Passthru Payments**").

HIRE Act and FATCA withholding tax can affect both coupon or periodic payments and "gross proceeds" (including principal payments).

Based on the provisions of the HIRE Act, current regulations under FATCA, and a notice issued by the U.S. Internal Revenue Service, payments made with respect to our structured products that are not U.S. Source Payments generally will not be subject to HIRE Act or FATCA withholding tax if either (i) such structured products are issued before the Grandfather Date (as defined below) or (ii) such structured products does not provide for any payments after 31 December 2016. For these purposes, the "**Grandfather Date**" is the date that is six months after the date on which final regulations defining the term "Foreign Passthru Payment" are filed with the U.S. Federal Register.

The relevant rules are still being developed and the future application of FATCA to us and the holders of structured products is uncertain. It is our intention, subject to further clarification and analysis of the legal requirements associated with entering into relevant legal agreements with the U.S. government, to comply with FATCA and to conclude certain FATCA agreements with the U.S. Internal Revenue Service ("**IRS Agreements**") for relevant entities in the Group. Additionally, U.S. Treasury regulations issued under FATCA provide an alternative to FATCA compliance for entities that reside in jurisdictions that have entered into intergovernmental agreements ("**IGAs**") with the United States. Although the relevant rules have not yet been fully developed, the United States and the United Kingdom have signed an IGA and it is our intention to comply with the relevant reporting requirements imposed therein. However, if we do not enter into an IRS Agreement or fail to comply with an applicable IRS Agreement or IGA, we may be subject to the 30 per cent. FATCA withholding tax on certain amounts derived from United States and foreign sources and would have less cash to make payments on our structured products.

Additionally, as a result of FATCA (including the application of the IRS Agreements and IGAs), holders of structured products may be required to provide certain certification and information or be subject to FATCA withholding on all or a portion of the payments made to them in respect of our structured products. Investors that hold their structured products through a non-United States financial institution that has not entered into an IRS Agreement (or otherwise fully complied with FATCA) may also be subject to this U.S. withholding tax.

If withholding is required under FATCA, we would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

FATCA is particularly complex and its application is uncertain at this time. Each holder of structured products should consult its own tax advisor as to the application of FATCA to an investment in the structured products.

Dividend Equivalent Payments

For U.S. federal income tax purposes, a "dividend equivalent" payment is generally treated as a dividend from sources within the U.S. and such payments generally would be subject to a 30 per cent. (or a lower rate under an applicable treaty) U.S. withholding tax if paid to a non-U.S. holder (as defined below). Under proposed U.S. Treasury Department regulations, payments (including deemed payments) that are contingent upon or determined by reference to actual or estimated U.S. source dividends with respect to certain equity-linked instruments, whether explicitly stated or implicitly taken into account in computing one or more of the terms of such instrument, may be treated as dividend equivalents. Based on the proposed regulations and recent guidance by the U.S. Internal Revenue Service, the regulations (when enacted) will impose a withholding tax on payments made on our structured products on or after January 1, 2016 that are treated as dividend equivalents. However, the U.S. Treasury Department and Internal Revenue Service have announced that they intend to limit this withholding to equity-linked instruments issued on or after the date that is 90 days after the date of publication in the U.S. Federal Register of final regulations addressing dividend equivalent withholding. If any payments are treated as dividend equivalents subject to withholding, we would be entitled to withhold taxes without being required to pay any

additional amounts with respect to amounts so withheld. Further, non-U.S. holders may be required to provide certifications prior to, or upon the sale, redemption or maturity of our structured products in order to minimize or avoid U.S. withholding taxes.

CIRCULAR 230 NOTICE. THIS NOTICE IS BASED ON U.S. TREASURY REGULATIONS GOVERNING PRACTICE BEFORE THE U.S. INTERNAL REVENUE SERVICE: (1) ANY U.S. FEDERAL TAX ADVICE CONTAINED HEREIN, INCLUDING ANY OPINION OF COUNSEL REFERRED TO HEREIN, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (2) ANY SUCH ADVICE IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS DESCRIBED HEREIN (OR IN ANY SUCH OPINION OF COUNSEL); AND (3) EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The above summary only applies to you if you are a non-U.S. holder. You are a non-U.S. holder unless you are: (1) an individual citizen or resident of the United States, (2) a corporation, partnership or other entity (excluding a trust) that is formed or organized under the laws of the United States or any of its political subdivisions, (3) an estate that is subject to U.S. federal income taxation regardless of its source, or (4) a trust that is subject to the jurisdiction of a U.S. court and for which one or more “United States persons” (as defined in the U.S. Internal Revenue Code) control all of the substantial decisions, or has otherwise made an appropriate election under U.S. tax regulations.

INFORMATION ABOUT SCB AND THE GROUP

You should read this base listing document (and its addendum, if any) in conjunction with the relevant supplemental listing document for updated information about us.

Standard Chartered PLC ("**SCPLC**"), the ultimate holding company of Standard Chartered Bank ("**SCB**"), was incorporated and registered in England and Wales on 18 November 1969 as a company limited by shares. Its ordinary shares and preference shares are listed on the Official List and traded on the London Stock Exchange. SCPLC's ordinary shares are also listed on The Stock Exchange of Hong Kong Limited, and through Indian Depository Receipts on the Bombay Stock Exchange and National Stock Exchange of India. SCPLC operates under the Companies Act 2006 and its registered number is 966425. SCPLC's registered office and principal place of business in the United Kingdom is at 1 Basinghall Avenue, London EC2V 5DD. SCPLC's telephone number is +44 (0)20 7885 8888. SCPLC adopted new articles of association on 7 May 2010.

SCB was incorporated in England with limited liability by Royal Charter on 29 December 1853. SCB's issued share capital comprises ordinary shares, all of which are owned by Standard Chartered Holdings Limited, a company incorporated in England and Wales and a wholly-owned subsidiary of SCPLC, non-cumulative irredeemable preference shares of US$0.01 each, all of which are owned by Standard Chartered Capital Investments LLC, a company incorporated in the United States, and non-cumulative redeemable preference shares of US$5.00 each, all of which are owned by SCPLC. SCB's principal office and principal place of business in the United Kingdom is at 1 Basinghall Avenue, London EC2V 5DD. SCB's reference number is ZC18.

SCPLC together with its subsidiaries and subsidiary undertakings (including SCB) (the "**Group**") is an international banking and financial services group particularly focused on the markets of Asia, Africa and the Middle East. As at 31 December 2013, the Group had a network of around 1,700 offices and outlets in 70 markets and over 86,000 employees worldwide.

On 9 January 2014 the Group announced a reorganisation, integrating its Wholesale Banking and Consumer Banking businesses to form one business, organised in three client segment groups, and serviced by five global product groups. The reorganisation will take effect on 1 April 2014.

The three new client segment groups are Corporate and Institutional Clients, Commercial and Private Clients, and Retail Clients. The five new global product groups are Financial Markets, Corporate Finance, Transaction Banking, Wealth Management and Retail Products.

As of 1 January 2014, the Group has also implemented a simplified structure of eight geographic regions: Greater China, Middle East, North Africa and Pakistan ("**MENAP**"), The Association of South East Asian Nations ("**ASEAN**"), North East Asia, South Asia, Africa, Europe and the Americas.

Client Segment Groups

Corporate and Institutional Clients

Corporate and Institutional Clients provides a wide range of solutions to help global and local corporates and financial institutional clients facilitate trade and finance across markets and trade corridors in today's global economy. Corporate and Institutional Clients provides clients with trade finance, cash management, securities services, foreign exchange, risk management, capital raising and corporate finance solutions.

Commercial and Private Banking Clients

Commercial and Private Banking Clients provides a wide range of solutions to help both commercial clients and private banking clients.

Retail Clients

Retail Clients provides financial services to Business Clients, Priority & International Clients, and Personal & Preferred Clients across the SCPLC franchise.

Geographic Markets

The Group's network covers Greater China, ASEAN, MENAP, North East Asia, South Asia, Africa, Europe and the Americas.

The following geographic analysis is related to the most current audited financial statements for the year ended 31 December 2013. During this period the group was organised around the following geographic regions: Hong Kong, Singapore, Other Asia Pacific, Korea, India, Middle East and other South Asia, Africa, and the Americas, the United Kingdom and Europe.

Hong Kong

Hong Kong is the Group's largest market, for the year ended 31 December 2013, Hong Kong contributed US$3,725 million of operating income and US$1,920 million of profit before tax to the Group. For the year ended 31 December 2012, Hong Kong activities contributed US$3,348 million operating income and US$1,660 million profit before tax to the Group.

Singapore

Singapore is the Group's second largest market by income and profit before tax. For the year ended 31 December 2013, Singapore contributed US$2,132 million of operating income and US$925 million of profit before tax to the Group. For the year ended 31 December 2012 Singapore contributed US$2,203 million of operating income and US$966 million of profit before tax to the Group.

Other Asia Pacific

For the year ended 31 December 2013, the Other Asia Pacific region contributed US$3,473 million of operating income and US$1,161 million of profit before tax to the Group. For the year ended 31 December 2012, the Other Asia Pacific region contributed US$3,672 million of operating income and US$1,217 million of profit before tax to the Group.

The Group continues to be positioned in a range of growth markets in the Other Asia Pacific region, which includes China, Indonesia, Malaysia and Taiwan.

Korea

The Group acquired Korea First Bank, a banking group in the Republic of Korea (South Korea) in April 2005 and completed the rebranding as SC First Bank in September 2005. In November 2005, SCB's branch business in South Korea was integrated with SC First Bank. In January 2012 we rebranded the bank, dropping the SC First Bank name, and replacing it with Standard Chartered Korea.

For the year ended 31 December 2013, Korea contributed operating income of US$1,564 million and a loss of US$1,012 million to the Group. The loss includes a goodwill impairment of US$1 billion. For the year ended 31 December 2012, Korea contributed operating income of US$1,852 million and profit before tax of US$514 million to the Group.

India

For the year ended 31 December 2013, India contributed operating income of US$1,696 million and profit before tax of US$697 million to the Group and is the Group's third largest contributor of income and profits. For the year ended 31 December 2012, India contributed operating income of US$1,585 million and profit before tax of US$676 million to the Group.

Middle East and Other South Asia

For the year ended 31 December 2013, Middle East and other South Asia contributed operating income of US$2,209 million and profit before tax of US$1,058 million to the Group. For the year ended 31 December 2012, Middle East and other South Asia contributed operating income of US$2,234 million and profit before tax of US$786 million to the Group. The United Arab Emirates represents over 50 per cent of Middle East and Other South Asia income.

Africa

As at 31 December 2013, the Group has a presence in 15 countries in Africa. For the year ended 31 December 2013, Africa contributed operating income of US$1,751 million and profit before tax of US$619 million to the Group. For the year ended 31 December 2012, Africa contributed operating income of US$1,593 million and profit before tax of US$771 million to the Group.

Americas, United Kingdom and Europe

In the Americas, United Kingdom and Europe, the Group is focused on supporting our clients cross border business within our footprint of Asia, Africa and the Middle East. For the year ended 31 December 2013, the region contributed operating income of US$2,227 million and operating profit before tax of US$696 million. For the year ended 31 December 2012, the Group's operations in the Americas, United Kingdom and Europe contributed operating income of US$2,296 million and profit before tax of US$261 million to the Group.

Subsidiaries

As at 31 December 2013, the principal subsidiary undertakings of SCB principally engaged in the business of banking and provision of other financial services, were as follows: Standard Chartered Bank (Hong Kong) Limited, Standard Chartered Bank Korea Limited, Standard Chartered Bank (Singapore) Limited, Standard Chartered Bank Malaysia Berhad, Standard Chartered Bank (Thai) Public Company Limited, Standard Chartered Bank (China) Limited, Standard Chartered Bank (Taiwan) Limited, Standard Chartered Bank (Pakistan) Limited, Standard Chartered Bank Nigeria Limited, Standard Chartered Bank Kenya Limited, and Standard Chartered Private Equity Limited.

All the above are directly or indirectly wholly owned subsidiaries of SCB, except Standard Chartered Bank (Thai) Public Company Limited, which is 99.99 per cent. directly owned by SCB, Standard Chartered Bank (Pakistan) Limited, which is 98.99 per cent. directly owned by SCB and Standard Chartered Bank Kenya Limited which is 74.3 per cent. indirectly owned by SCB. Standard Chartered Bank (Hong Kong) Limited is 49 per cent. owned by Standard Chartered Holdings Limited, SCB's parent company.

Directors of SCPLC

The directors of SCPLC and their respective principal outside activities, where significant to SCPLC or SCB, are as follows:

Sir J W Peace *Non-Executive Chairman*[1]
Chairman of Experian plc and Burberry Group plc

P A Sands *Group Chief Executive, Director and Chairman of SCB*[1]
Non-Executive Director of the Board of the Department of Health, and Board Member of the Institute of International Finance and World Economic Forum

O P Bhatt *Non-Executive Director*[1]
Non-Executive Director of Hindustan Unilever Limited, Oil and Natural Gas Corporation, Tata Consultancy Services, India, and Tata Steel Limited

J S Bindra *Group Executive Director, Chief Executive Officer, Asia and Director of SCB*[2]

S P Bertamini *Group Executive Director, Consumer Banking and Director of SCB*[3]

K L Campbell *Non-Executive Director*[1]

Dr L Cheung *Non-Executive Director*[1]
Non-Executive Director of Fubon Financial Holding Co Limited and Director of Boyu Overseas Services Limited

J F T Dundas *Non-Executive Director*[1]
Chairman of Jupiter Fund Management plc

Dr Han Seung-soo, KBE *Non-Executive Director*[1]
Non-Executive Director of the Seoul Semiconductor Inc

C M Hodgson *Non-Executive Director*[1]
Non-Executive Director of Ladbrokes PLC and Director of Capgemini UK plc

S J Lowth *Non-Executive Director*[1]
Director of AstraZeneca PLC

N Kheraj *Non-Executive Director*[1]

R H P Markham *Non-Executive Director*[1]
Non-Executive Director of Legal and General Group plc, AstraZeneca PLC and United Parcel Service, Inc.

R Markland *Non-Executive Director*[1]
Non-Executive Director of The Sage Group plc and Arcadis NV

R H Meddings *Group Finance Director and Director of SCB*[1]
Non-Executive Director of 3i Group plc

J G H Paynter *Non-Executive Director*[1]
Non-Executive Director of Standard Life plc

A M G Rees *Group Executive Director, Wholesale Banking and Director of SCB*[1]

P D Skinner *Non-Executive Director*[1]
Non-Executive Director of the Tetra Laval International SA, L'Air Liquide SA, and Non-Executive Director of the Public Interest Body of PricewaterhouseCoopers LLP

O H J Stocken *Non-Executive Director*[1]
Chairman of Stanhope Group Holdings Limited and Director of Hoyle Barn Limited

V Shankar *Group Executive Director, CEO Europe, Middle East, Africa, Americas and Director of SCB*[4]
Non-Executive Director of Majid Al Futtaim Holding LLC

L T Thunell *Non-Executive Director*[1]
Director of Kosmos Energy and Non-Executive Director and Vice Chairman of Sithe Global LLP

On 9 January 2014 the Group announced the appointment of A M G Rees as Deputy Group Chief Executive, and that S P Bertamini and R H Meddings would be stepping down from the SCPLC and SCB Board's in March 2014 and June 2014 respectively.

Notes:

1. The business address should be regarded for the purposes of this Prospectus as:
   1 Basinghall Avenue
   London EC2V 5DD

2. The business address should be regarded for the purposes of this Prospectus as:
   Standard Chartered Bank (Hong Kong) Limited
   32nd Floor, 4-4A Des Voeux Road
   Central, Hong Kong

3. The business address should be regarded for the purposes of this Prospectus as:
   8 Marina Boulevard
   Marina Bay Financial Centre Tower 1
   Level 29 Singapore

4. The business address should be regarded for the purposes of this Prospectus as:
   Standard Chartered Bank, Dubai Branch
   DIFC Level 7, DIFC Bur Dubai
   Dubai 999

There are no existing or potential conflicts of interest between any duties of the directors named above owed to SCPLC and/or their private interests and other duties.

Directors of SCB

As at 1 March 2014, the directors of SCB and their respective principal outside activities, where significant to SCB, are as follows:

P A Sands *Chairman, and Group Chief Executive of SCPLC*
Non-Executive Director of the Board of the Department of Health and Board Member of the Institute of International Finance and World Economic Forum

J S Bindra *Director, Group Executive Director of SCPLC and Chief Executive Officer, Asia*

S P Bertamini *Director, Group Executive Director of SCPLC, and Chief Executive, Consumer Banking*

T J Clarke *Director*
Non-Executive Director of British Sky Broadcasting Group plc

R F Goulding *Director*

R H Meddings *Director, and Group Finance Director of SCPLC*
Non-Executive Director of 3i Group plc

A M G Rees *Director, Group Executive Director of SCPLC and Chief Executive, Wholesale Banking*

V Shankar *Director, Group Executive Director of SCPLC and CEO Europe, Middle East, Africa, Americas*
Non-Executive Director of Majid Al Futtaim Holding LLC

J P Verplancke *Director*

On 9 January 2014 the Group announced the appointment of A M G Rees as Deputy Group Chief Executive, and that S P Bertamini and R H Meddings would be stepping down from the SCPLC and SCB Board's in March 2014 and June 2014 respectively.

NO MATERIAL ADVERSE CHANGE

Save for any that has been disclosed in this base listing document, there has been no material adverse change in our financial or trading position since the date of our most recently published audited financial statements that would have a material adverse effect on our ability to perform our obligations in the context of any issue of structured products.

LITIGATION

Save for any that has been disclosed in this base listing document (including the paragraphs headed "Regulatory changes and compliance" in the section headed "Financial Information Relating to SCB" as set out in Annex 5 to this base listing document), we are not aware, to the best of our knowledge and belief, of any litigation or claims of material importance in the context of any issue of structured products pending or threatened against SCB Group.

FINANCIAL INFORMATION ABOUT THE ISSUER

SCB publishes its directors' report and the audited financial statements of SCB Group and SCB following the end of each of its financial year. Its financial year end is 31 December.

As at the date of this document, KPMG Audit Plc, our independent accountants and auditors, have given and have not withdrawn their written consent to the inclusion of their report dated 5 March 2014 (which relates to our financial statements for the year ended 31 December 2013) in this base listing document in the form and context in which they are included. Their report was not prepared for the purposes of this base listing document.

KPMG Audit Plc do not have any shareholding in us or any of our subsidiaries nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of any of our subsidiaries.

OUR PROCESS AGENT

Standard Chartered Bank (Hong Kong) Limited of 32/F, 4-4A Des Voeux Road, Central, Hong Kong has been authorised to accept, on our behalf, service of process and any other notices required to be served on us in Hong Kong.

ANNEX 1

PART A – TERMS AND CONDITIONS OF CASH-SETTLED STOCK WARRANTS

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of Warrants. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the "**Instrument**") made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the "**Sponsor**") at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 10 from time to time. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligations of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Warrants, deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

(F) The term "**Warrants**" refers to the Warrants set out in the relevant Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)), if any, minus the determined Exercise Expenses (as defined in Condition 2(B)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(B).

3 Automatic Exercise

(A) Any Warrant in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

(B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) In these terms and conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Issuer on the Expiry Date shall be notified as soon as practicable after determination thereof by the Issuer to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid Exercise Expenses.

(C) Following the Expiry Date the Global Certificate will be cancelled.

(D) Subject to the Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all Warrants deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" per Board Lot means an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

In the case of a series of Call Warrants:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**Average Price**" shall be the arithmetic mean of the closing prices of one Share, as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like in respect of each Valuation Date.

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

"**Entitlement**" means the number of Shares to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Shares or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances.

"**Settlement Currency**" means the currency specified in the relevant Supplemental Listing Document.

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these terms and conditions.

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date.

If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(i) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Any payment made pursuant to this Condition 4(D) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) as is recorded on the register.

(E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the Warrants.

(F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent (including the Sponsor) or nominee and the Warrantholder and neither the Stock Exchange, the Issuer nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation or determination made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the holder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Issuer to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Exercise Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Exercise Price immediately prior to the Rights Offer

S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these terms and conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.

(B) (i) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement and the Exercise Price will be adjusted, subject to Condition 6(B)(iii), on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

Adjustment Factor = 1 + M

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Exercise Price immediately prior to the Bonus Issue

M: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 6(A) and 6(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is 1 per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect. The Adjusted Exercise Price shall be rounded to the nearest 0.001.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the sole and absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its sole and absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the sole and absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these terms and conditions to the Shares shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Exercise Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price (which shall be rounded to the nearest 0.001)} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Exercise Price immediately prior to the relevant Cash Distribution

S: The closing price of a Share, as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Share (applicable only if the date on which trading in the Shares becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Share

(F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

8 Global Certificate

A global certificate (the "**Global Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholders; Modification

(A) *Meetings of Warrantholders*. Notices for convening meetings to consider any matter affecting the Warrantholders' interests will be given to the Warrantholders in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholders) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholders) being or representing Warrantholders whatever the number of Warrants so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

Where the Warrantholder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of Warrants in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Warrantholder.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

12 Delisting of Company

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these terms and conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its sole and absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these terms and conditions may, in the sole and absolute discretion of the Issuer, be amended to the extent necessary to

allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into amounts in the relevant currency) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

15 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

16 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor
Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

PART B – TERMS AND CONDITIONS OF CASH-SETTLED INDEX WARRANTS

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of Warrants. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Index as published by the compiler of the Index (the "**Index Compiler**") are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the "**Instrument**") made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the "**Sponsor**") at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 10 from time to time. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligations of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Warrants, deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

(F) The term "**Warrants**" refers to the Warrants set out in the relevant Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)), if any, minus the determined Exercise Expenses (as defined in Condition 2(B)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payments, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(B).

3 Automatic Exercise

(A) Any Warrant in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

(B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) In these terms and conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Issuer on the Expiry Date shall be notified as soon as practicable after determination thereof by the Issuer to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid Exercise Expenses.

(C) Following the Expiry Date the Global Certificate will be cancelled.

(D) Subject to the Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all Warrants deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" per Board Lot means an amount calculated by the Issuer in accordance with the following formula (and if applicable, either (i) converted into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

In respect of Index Call Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{(Closing Level – Strike Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

In respect of Index Put Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{(Strike Level – Closing Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

"**Market Disruption Event**" means:

(a) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

(i) the suspension of or material limitation on the trading of a material number of constituent securities that comprise the Index;

(ii) the suspension of or material limitation on the trading of options or futures contracts relating to the Index on any exchange on which such contracts are traded; or

(iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (a), (X) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (Y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event;

(b) (where the Index Exchange is the Stock Exchange) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(c) a limitation or closure of the Index Exchange due to any other unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these terms and conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Settlement Currency**" means the currency specified in the relevant Supplemental Listing Document.

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with these terms and conditions.

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document, provided that if the Issuer determines, in its sole and absolute discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Issuer will determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, if applicable, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

Any payment made pursuant to this Condition 4(D) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) as is recorded on the register.

(E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the Warrants.

(F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent (including the Sponsor) or nominee and the Warrantholder and neither the Stock Exchange, the Issuer nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation or determination made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the holder in accordance with Condition 10.

6 Adjustments to the Index

(A) If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(B) If (i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events), or (ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(D) All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 10.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

8 Global Certificate

A global certificate (the "**Global Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholders; Modification

(A) *Meetings of Warrantholders*. Notices for convening meetings to consider any matter affecting the Warrantholders' interests will be given to the Warrantholders in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholders) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholders) being or representing Warrantholders whatever the number of Warrants so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

Where the Warrantholder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of Warrants in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Warrantholder.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

12 Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

13 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

14 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor
Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

PART C – TERMS AND CONDITIONS OF CASH-SETTLED WARRANTS RELATING TO THE UNITS OF A FUND OR TRUST

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of Warrants. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Units of the Fund or Trust are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the "**Instrument**") made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the "**Sponsor**") at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 10 from time to time. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Warrants, deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

(F) The term "**Warrants**" refers to the Warrants set out in the relevant Supplemental Listing Document.

2 Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)), if any, minus the determined Exercise Expenses (as defined in Condition 2(B)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(B).

3 Automatic Exercise

(A) Any Warrant in respect of which the Cash Settlement Amount would be payable by the Issuer if exercised on the Expiry Date shall be deemed to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

(B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) In these terms and conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount and an undertaking to pay any Exercise Expenses not deducted from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Issuer on the Expiry Date shall be notified as soon as practicable after determination thereof by the Issuer to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid Exercise Expenses.

(C) Following the Expiry Date the Global Certificate will be cancelled.

(D) Subject to the Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and not later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all Warrants deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" per Board Lot means an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

In the case of a series of Call Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**Average Price**" shall be the arithmetic mean of the closing prices of one Unit, as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like in respect of each Valuation Date.

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time.

"**Entitlement**" means the number of Units to which the Warrants relate, as specified in the relevant Supplemental Listing Document.

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Units or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances.

"**Settlement Currency**" means the currency specified in the relevant Supplemental Listing Document.

"**Settlement Date**" means the third CCASS Settlement Day after the later of (i) the Expiry Date and (ii) the day on which the Average Price is determined in accordance with these terms and conditions.

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date.

If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(i) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Any payment made pursuant to this Condition 4(D) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder, or such bank, broker or agent in Hong Kong (if any) as is recorded on the register.

(E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the Warrants.

(F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent (including the Sponsor) or nominee and the Warrantholder and neither the Stock Exchange, the Issuer nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation or determination made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the holder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Issuer to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Fund or Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Exercise Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Exercise Price immediately prior to the Rights Offer

S: Cum-Rights Unit price, being the closing price of an existing Unit, as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Right

M: Number of new Unit(s) per existing Unit (whether a whole or a fraction) each holder of an existing Unit is entitled to subscribe or have

For the purposes of these terms and conditions, "**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.

(B) (i) If and whenever the Fund or Trust shall make an issue of Units credited as fully paid to holders of Units generally by way of capitalisation of profits or reserves (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Fund or Trust or otherwise in lieu of a cash distribution) (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement and the Exercise Price will be adjusted, subject to Condition 6(B)(iii), on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

Adjustment Factor = 1 + M

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Exercise Price immediately prior to the Bonus Issue

M: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

(ii) The Adjusted Exercise Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 6(A) and 6(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is 1 per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.

(C) If and whenever the Fund or Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units or consolidate the Units or any class of its outstanding Units into a smaller number of units, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect. The adjusted Exercise Price shall be rounded to the nearest 0.001.

(D) If it is announced that the Fund or Trust is to or may merge or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Fund or Trust is the surviving entity in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the sole and absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its sole and absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) or fund(s) as the case may be resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the sole and absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these terms and conditions to the Units shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Fund or Trust, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Fund or Trust.

If and whenever the Fund or Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Exercise Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\begin{array}{c}\text{Adjusted Exercise Price}\\ \text{(which shall be rounded}\\ \text{to the nearest 0.001)}\end{array} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Exercise Price immediately prior to the relevant Cash Distribution

S: The closing price of an Unit, as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Unit (applicable only if the date on which trading in the Units becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Unit

(F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after the determination thereof.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

8 Global Certificate

A global certificate (the "**Global Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

9 Meeting of Warrantholders; Modification

(A) *Meetings of Warrantholders*. Notices for convening meetings to consider any matter affecting the Warrantholders' interests will be given to the Warrantholders in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholders) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholders) being or representing Warrantholders whatever the number of Warrants so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

Where the Warrantholder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Warrantholders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of Warrants in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Warrantholder.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Warrantholders.

11 Termination or Liquidation of Fund or Trust

In the event of a Termination or the liquidation or dissolution of the trustee of the Fund or Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Fund or Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 11, "**Termination**" means (i) the Fund or Trust is terminated, or the Trustee or the manager of the Fund or Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Fund or Trust under the trust deed ("**Trust Deed**") constituting the Fund or Trust or applicable law, or the termination of the Fund or Trust commences; (ii) the Fund or Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Fund or Trust to hold the property of the Fund or Trust in its name and perform its obligations under the Trust Deed; or (iv) the Fund or Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

12 Delisting of Fund or Trust

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these terms and conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its sole and absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these terms and conditions may, in the sole and absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into amounts in the relevant currency) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in

respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

15 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

16 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor
Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

ANNEX 2

PART A – TERMS AND CONDITIONS OF CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS RELATING TO A SHARE

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of CBBCs. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The callable bull/bear contracts or "**CBBCs**" (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the "**Instrument**") made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the "**Sponsor**") at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 9 from time to time. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the Issuer nor any of its affiliates shall have any responsibility towards the Holder for any losses

suffered in connection with the determination of a Mandatory Call Event, whether or not such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Exercise Expenses

(A) Every Board Lot of the CBBCs entitles the Holder to payment of the Cash Settlement Amount (as defined in Condition 3(D)), if any, minus the determined Exercise Expenses (as defined in Condition 3(D)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

(B) The Holder will be required to pay the Exercise Expenses in respect of a Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D). Any Exercise Expenses which have not been determined by the Issuer after the end of the MCE Valuation Period or on the Valuation Date (as the case may be) shall be notified as soon as practicable after determination thereof by the Issuer to the Holder and shall be paid by the Holder forthwith in immediately available funds no later than 3 Business Days after the Holder receives notice of any unpaid Exercise Expenses.

(C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

(A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the day on which the Mandatory Call Event occurs ("**Mandatory Call Termination**") and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

Whereas:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

"**Mandatory Call Event**" occurs when the Spot Price of the Shares at any time during a Trading Day in the Observation Period is (in the case of a series of bull CBBCs) at or below the Call Price or (in the case of a series of bear CBBCs) at or above the Call Price;

"**Observation Period**" means the period from and including the Observation Commencement Date to and including the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Spot Price**" means:

(i) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time ("**Trading Rules**"), excluding direct business (as defined in the Trading Rules); and

(ii) in respect of a pre-opening session or a closing auction session (if any) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if any), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time; and

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions.

(B) Any CBBCs with respect to which a Mandatory Call Event has not occurred during the Observation Period shall be deemed to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

(C) Following the occurrence of a Mandatory Call Event or the Expiry Date, the Global Certificate will be cancelled.

(D) Following a Mandatory Call Termination or the Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a day no later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

"**Cash Settlement Amount**" per Board Lot means, subject to adjustment as provided in Condition 5, an amount determined by the Issuer in accordance with the following formula:

(i) if no Mandatory Call Event has occurred:

(a) in the case of a series of bull CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Closing Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero.

Provided that if the relevant formula above produces an amount that is equal to or less than the determined Exercise Expenses, then no amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency;

"**Closing Price**" shall be the closing price of one Share (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Entitlement**" means such number of Shares to which the CBBC relates, as specified in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means all taxes, duties and/or expenses, including all applicable depository, transaction or exercise charges, stamp duties, stamp duty reserve tax, issue, registration, securities transfer and/or other taxes or duties, arising in connection with (i) the Mandatory Call Termination (not applicable in the case of Category N CBBCs) or Automatic Exercise of such CBBC and/or (ii) any payment due following Mandatory Call Termination or Automatic Exercise in respect of such CBBC;

"**Market Disruption Event**" means:

(i) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(iii) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Shares during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(b) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Shares during the MCE Valuation Period;

"**Residual Value**" per Board Lot means, subject to adjustment as provided in Condition 5:

(i) in the case of a series of bull CBBCs:

$$\text{"Residual Value" per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{"Residual Value" per Board Lot} = \frac{\text{Entitlement x (Strike Price – Maximum Trade Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Currency**" means the currency specified in the relevant Supplemental Listing Document; and

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with these terms and conditions (as the case may be).

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date. If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case: (a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and (b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

(E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Issuer or its agent (including the Sponsor) or nominee and the Holder and neither the Stock Exchange, the Issuer nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the Holders in accordance with Condition 9.

5 Adjustments

Adjustments may be made by the Issuer to the terms of the CBBCs (including, but not limited to (i) the Strike Price, (ii) the Call Price and/or (iii) the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Strike Price, the Call Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Whereas:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Strike Price immediately prior to the Rights Offer

Y: Existing Call Price immediately prior to the Rights Offer

S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these terms and conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Strike Price and the Adjusted Call Price (in each case rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.

(B) (i) If and whenever the Company shall make an issue of Shares credited as fully paid to holders of Shares generally by way of capitalisation of profits or reserves (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement, the Strike Price and the Call Price will be adjusted, subject to Condition 5(B)(iii), on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

Adjustment Factor = 1 + M

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Strike Price immediately prior to the Bonus Issue

Y: Existing Call Price immediately prior to the Bonus Issue

M: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

(ii) The Adjusted Strike Price and the Adjusted Call Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 5(A) and 5(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is 1 per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Strike Price and the Call Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Strike Price and the Call Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect. The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest 0.001.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the sole and absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its sole and absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the sole and absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these terms and conditions to the Shares shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Strike Price, the Call Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price (which shall be rounded to the nearest 0.001)} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price (which shall be rounded to the nearest 0.001)} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Strike Price immediately prior to the relevant Cash Distribution

Y: Existing Call Price immediately prior to the relevant Cash Distribution

S: The closing price of a Share, as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Share (applicable only if the date on which trading in the Shares becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Share

(F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Any such adjustment or amendment shall be set out in a notice, which shall be given to the Holders in accordance with Condition 9 as soon as practicable after the determination thereof.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

7 Global Certificate

A global certificate (the "**Global Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holders; Modification

(A) *Meetings of Holders*. Notices for convening meetings to consider any matter affecting the Holders' interests will be given to the Holders in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by the Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holders) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holders) being or representing Holders whatever the number of CBBCs so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

Where the Holder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder.

(B) *Modification*. The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with

mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

10 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all CBBCs will lapse and shall cease to be valid for any purpose. In the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Company's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

11 Delisting of Company

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these terms and conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its sole and absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 11(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these terms and conditions may, in the sole and absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of the Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into amounts in the relevant currency) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 11 shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 9 as soon as practicable after they are determined.

12 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

13 Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

14 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

15 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor
Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

PART B – TERMS AND CONDITIONS OF CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS RELATING TO AN INDEX

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of CBBCs. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The callable bull/bear contracts or "**CBBCs**" (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 10) relating to the Index as published by the compiler of the Index (the "**Index Compiler**") are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the "**Instrument**"), made by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the "**Sponsor**") at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 9 from time to time. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the Issuer, the Index Compiler nor any of its affiliates shall have any responsibility towards the Holder for any losses suffered in connection with the determination of a Mandatory

Call Event, whether or not such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Exercise Expenses

(A) Every Board Lot of the CBBCs entitles the Holder to payment of the Cash Settlement Amount (as defined in Condition 3(D)), if any, minus the determined Exercise Expenses (as defined in Condition 3(D)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

(B) The Holder will be required to pay the Exercise Expenses in respect of the Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D). Any Exercise Expenses which have not been determined by the Issuer after the end of the MCE Valuation Period or on the Valuation Date (as the case may be) shall be notified as soon as practicable after determination thereof by the Issuer to the Holder and shall be paid by the Holder forthwith in immediately available funds no later than 3 Business Days after the Holder receives notice of any unpaid Exercise Expenses.

(C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

(A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the day on which the Mandatory Call Event occurs ("**Mandatory Call Termination**") and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

Whereas:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

"**Index Business Day**" means a day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Mandatory Call Event**" occurs when the Spot Level of the Index at any time during an Index Business Day in the Observation Period is (in the case of a series of bull CBBCs) at or below the Call Level or (in the case of a series of bear CBBCs) at or above the Call Level;

"**Observation Period**" means the period from and including the Observation Commencement Date to and including the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Spot Level**" means, unless otherwise specified in the relevant Supplemental Listing Document, the spot level of the Index as compiled and published by the Index Compiler; and

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions.

(B) Any CBBCs with respect to which a Mandatory Call Event has not occurred during the Observation Period shall be deemed to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

(C) Following the occurrence of a Mandatory Call Event or the Expiry Date, the Global Certificate will be cancelled.

(D) Following a Mandatory Call Termination or the Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a day no later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

"**Cash Settlement Amount**" per Board Lot means, subject to adjustment as provided in Condition 5, an amount calculated by the Issuer in accordance with the following formula (and if applicable, either (i) converted into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(i) if no Mandatory Call Event has occurred:

(a) in the case of a series of bull CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(b) in the case of a series of bear CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(ii) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero.

Provided that if the relevant formula above produces an amount that is equal to or less than the determined Exercise Expenses, then no amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency;

"**Closing Level**" has the meaning given to it in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Exercise Expenses**" means all taxes, duties and/or expenses, including all applicable depository, transaction or exercise charges, stamp duties, stamp duty reserve tax, issue, registration, securities transfer and/or other taxes or duties, arising in connection with (i) the Mandatory Call Termination (not applicable in the case of Category N CBBCs) or Automatic Exercise of such CBBC and/or (ii) any payment due following Mandatory Call Termination or Automatic Exercise in respect of such CBBC;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Trading Day or Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

(i) the suspension of or material limitation on the trading of a material number of constituent securities that comprise the Index;

(ii) the suspension of or material limitation on the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

(iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (a), (X) a limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (Y) a limitation on trading imposed by reason of movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event;

(b) (where the Index Exchange is the Stock Exchange) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(c) a limitation or closure of the Index Exchange due to any other unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these terms and conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Maximum Index Level**" means the highest Spot Level of the Index during the MCE Valuation Period;

"**MCE Valuation Period**" means:

(a) in respect of an Index Exchange located in Hong Kong, the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Index Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available. In that case:

    (i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the day on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

    (ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level and such other factors as the Issuer may determine to be relevant in its good faith.

    For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

    For the purposes of this definition,

    (a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

    (b) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only; or

(b) in respect of an Index Exchange located outside Hong Kong, the period specified in the relevant Supplemental Listing Document;

"**Minimum Index Level**" means the lowest Spot Level of the Index during the MCE Valuation Period;

"**Residual Value**" per Board Lot means, subject to adjustment as provided in Condition 5, an amount calculated by the Issuer in accordance with the following formula (and if applicable, either (i) converted into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(i) in the case of a series of bull CBBCs:

$$\text{"Residual Value" per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{"Residual Value" per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

"**Settlement Currency**" means the currency specified in the relevant Supplemental Listing Document; and

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with these terms and conditions (as the case may be).

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document. If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event, provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

(E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Issuer, the Index Compiler, or its agent (including the Sponsor) or nominee and the Holder and neither the Stock Exchange, the Issuer, the Index Compiler, nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange, the Issuer, or the Index Compiler shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as to the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the Holders in accordance with Condition 9.

5 Adjustments to the Index

(A) If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(B) If (i) on or prior to the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events), or (ii) on the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of the level of the Index calculated for the purpose of final settlement of the contract specified in the relevant Supplemental Listing Document, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(D) All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 9.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

7 Global Certificate

A global certificate (the "**Global Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holders; Modification

(a) *Meetings of Holders*. Notices for convening meetings to consider any matter affecting the Holders' interests will be given to the Holders in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by the Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holders) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holders) being or representing Holders whatever the number of CBBCs so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

Where the Holder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder.

(b) *Modification*. The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

10 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

11 Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each

CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

12 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

13 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

14 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor
Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

PART C – TERMS AND CONDITIONS OF CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS RELATING TO THE UNITS OF A FUND OR TRUST

These master terms and conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the relevant global certificate. The applicable supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these master terms and conditions, replace or modify these master terms and conditions for the purpose of such series of CBBCs. Capitalised terms used in these master terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1 Form; Status; Transfer and Title

(A) The callable bull/bear contracts or "**CBBCs**" (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Units of the Fund or Trust are issued in registered form subject to and with the benefit of the instrument dated 25 June 2010 (the "**Instrument**") by Standard Chartered Bank (the "**Issuer**").

A copy of the Instrument is available for inspection at the offices of Standard Chartered Bank (Hong Kong) Limited (the "**Sponsor**") at 15th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong or such other place as notified pursuant to Condition 9 from time to time. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument.

(B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of CBBCs may be effected only in a Board Lot or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the Issuer nor any of its affiliates shall have any responsibility towards the Holder for any losses suffered in connection with the determination of a Mandatory Call Event, whether or not

such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Exercise Expenses

(A) Every Board Lot of the CBBCs entitles the Holder to payment of the Cash Settlement Amount (as defined in Condition 3(D)), if any, minus the determined Exercise Expenses (as defined in Condition 3(D)). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

(B) The Holder will be required to pay the Exercise Expenses in respect of a Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D). Any Exercise Expenses which have not been determined by the Issuer after the end of the MCE Valuation Period or on the Valuation Date (as the case may be) shall be notified as soon as practicable after determination thereof by the Issuer to the Holder and shall be paid by the Holder forthwith in immediately available funds no later than 3 Business Days after the Holder receives notice of any unpaid Exercise Expenses.

(C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

(A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the day on which the Mandatory Call Event occurs ("**Mandatory Call Termination**") and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

Whereas:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by Hong Kong Securities Clearing Company Limited from time to time;

"**Mandatory Call Event**" occurs when the Spot Price of the Units at any time during a Trading Day in the Observation Period is (in the case of a series of bull CBBCs) at or below the Call Price or (in the case of a series of bear CBBCs) at or above the Call Price;

"**Observation Period**" means the period from and including the Observation Commencement Date to and including the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Spot Price**" means:

(i) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time ("**Trading Rules**"), excluding direct business (as defined in the Trading Rules); and

(ii) in respect of a pre-opening session or a closing auction session (if any) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if any), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time; and

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions.

(B) Any CBBCs with respect to which a Mandatory Call Event has not occurred during the Observation Period shall be deemed to be automatically exercised on the Expiry Date (the "**Automatic Exercise**").

(C) Following the occurrence of a Mandatory Call Event or the Expiry Date, the Global Certificate will be cancelled.

(D) Following a Mandatory Call Termination or the Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a day no later than the Settlement Date in accordance with these terms and conditions procure payment of the aggregate Cash Settlement Amount minus the determined Exercise Expenses for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

"**Cash Settlement Amount**" per Board Lot means, subject to adjustment as provided in Condition 5, an amount determined by the Issuer in accordance with the following formula:

(i) if no Mandatory Call Event has occurred:

(a) in the case of a series of bull CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Closing Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero;

Provided that if the relevant formula above produces an amount that is equal to or less than the determined Exercise Expenses, then no amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency;

"**Closing Price**" shall be the closing price of one Unit (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Entitlement**" means such number of Units to which the CBBC relates, as specified in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means all taxes, duties and/or expenses, including all applicable depository, transaction or exercise charges, stamp duties, stamp duty reserve tax, issue, registration, securities transfer and/or other taxes or duties, arising in connection with (i) the Mandatory Call Termination (not applicable in the case of Category N CBBCs) or Automatic Exercise of such CBBC and/or (ii) any payment due following Mandatory Call Termination or Automatic Exercise in respect of such CBBC;

"**Market Disruption Event**" means:

(i) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any such case, that suspension or limitation is, in the determination of the Issuer, material;

(ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for dealings for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(iii) a limitation or closure of the Stock Exchange due to any other unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Units during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the day on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(b) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Units during the MCE Valuation Period;

"**Residual Value**" per Board Lot means, subject to adjustment as provided in Condition 5:

(i) in the case of a series of bull CBBCs:

$$\text{"Residual Value" per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{"Residual Value" per Board Lot} = \frac{\text{Entitlement x (Strike Price – Maximum Trade Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Currency**" means the currency specified in the relevant Supplemental Listing Document; and

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with these terms and conditions (as the case may be).

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date. If the Issuer determines, in its sole and absolute discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case: (a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and (b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Unit on the Stock Exchange and such other factors as the Issuer determines to be relevant.

(E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(F) These terms and conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Issuer or its agent (including the Sponsor) or nominee and the Holder and neither the Stock Exchange, the Issuer nor its agent (including the Sponsor) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange or the Issuer shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment of the Sponsor will be given to the Holder in accordance with Condition 9.

5 Adjustments

Adjustments may be made by the Issuer to the terms of the CBBCs (including, but not limited to (i) the Strike Price, (ii) the Call Price and/or (iii) the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Fund or Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Strike Price, the Call Price and the Entitlement shall be adjusted on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Whereas:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Strike Price immediately prior to the Rights Offer

Y: Existing Call Price immediately prior to the Rights Offer

S: Cum-rights Unit price, being the closing price of an existing Unit, as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Units per existing Unit (whether a whole or a fraction) each holder of an existing Unit is entitled to subscribe or have

For the purposes of these terms and conditions, "**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Strike Price and the Adjusted Call Price (in each case rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.

(B) (i) If and whenever the Fund or Trust shall make an issue of Units credited as fully paid to holders of Units generally by way of capitalisation of profits or reserves (and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement, the Strike Price and the Call Price will be adjusted, subject to Condition 5(B)(iii), on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

Adjustment Factor = 1 + M

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Strike Price immediately prior to the Bonus Issue

Y: Existing Call Price immediately prior to the Bonus Issue

M: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

(ii) The Adjusted Strike Price and the Adjusted Call Price (which shall be rounded to the nearest 0.001) shall take effect on the same day that the Entitlement is adjusted.

(iii) For the purposes of Conditions 5(A) and 5(B), the Issuer may determine that no adjustment will be made if the adjustment to the Entitlement is 1 per cent. or less of the Entitlement immediately prior to the adjustment, all as determined by the Issuer.

(C) If and whenever the Fund or Trust shall subdivide its Units or any class of its outstanding Units into a greater number of Units or consolidate the Units or any class of its outstanding Units into a smaller number of Units, the Entitlement shall be increased and the Strike Price and the Call Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Strike Price and the Call Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect. The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest 0.001.

(D) If it is announced that the Fund or Trust is to or may merge or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Fund or Trust is the surviving entity in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the sole and absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its sole and absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) or fund(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the sole and absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these terms and conditions to the Units shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Fund or Trust, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Fund or Trust.

If and whenever the Fund or Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Strike Price, the Call Price and the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formulae:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price (which shall be rounded to the nearest 0.001)} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price (which shall be rounded to the nearest 0.001)} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Strike Price immediately prior to the relevant Cash Distribution

Y: Existing Call Price immediately prior to the relevant Cash Distribution

S: The closing price of a Unit, as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Unit (applicable only if the day on which trading in the Units becomes ex-entitlement in respect of the ordinary cash dividend is the same as the Dividend Adjustment Date)

CD: Amount of the relevant Cash Distribution per Unit

(F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable terms and conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable terms and conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in applicable terms and conditions, provided that such adjustment is: (a) not materially prejudicial to the interests of the Holders generally (without considering the

circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Any such adjustment or amendment shall be set out in a notice, which shall be given to the Holders in accordance with Condition 9 as soon as practicable after the determination thereof.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the sole and absolute discretion of the Issuer or any such affiliate, as the case may be.

7 Global Certificate

A global certificate (the "**Global Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successor) or another nominee of Hong Kong Securities Clearing Company Limited. The Global Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holders; Modification

(A) *Meetings of Holders*. Notices for convening meetings to consider any matter affecting the Holders' interests will be given to the Holders in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by the Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holders) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holders) being or representing Holders whatever the number of CBBCs so held or represented.

"**Extraordinary Resolution**" means a resolution passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

Where the Holder is a clearing house recognised by the laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised

will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder.

(B) *Modification*. The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holders will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to dispatch copies of the notice to the Holders.

10 Termination or Liquidation of Fund or Trust

In the event of a Termination or the liquidation or dissolution of the trustee of the Fund or Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Fund or Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. The unexercised CBBCs will lapse and shall cease to be valid (i) in the case of a Termination, on the effective date of the Termination; (ii) in the case of a voluntary liquidation, on the effective date of the resolution; (iii) in the case of an involuntary liquidation or dissolution, on the date of the relevant court order; or (iv) in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 10, "**Termination**" means (i) the Fund or Trust is terminated, or the Trustee or the manager of the Fund or Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Fund or Trust under the trust deed ("**Trust Deed**") constituting the Fund or Trust or applicable law, or the termination of the Fund or Trust commences; (ii) the Fund or Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Fund or Trust to hold the property of the Fund or Trust in its name and perform its obligations under the Trust Deed; or (iv) the Fund or Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

11 Delisting of Fund or Trust

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these terms and conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its sole and absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the

Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holders or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 11(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these terms and conditions may, in the sole and absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of the Holders on exercise or upon the occurrence of a Mandatory Call Event (including, if appropriate, by converting foreign currency amounts at prevailing market rates into amounts in the relevant currency) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 11 shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 9 as soon as practicable after they are determined.

12 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

13 Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 9.

14 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these terms and conditions will be made in good faith and in a commercially reasonable manner.

15 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

In the event of any inconsistency between the English version and Chinese translation of these terms and conditions, the English version shall govern and prevail.

Sponsor
Standard Chartered Bank (Hong Kong) Limited
32/F, 4-4A Des Voeux Road Central
Hong Kong

ANNEX 3

PURCHASE AND SALE

General

No action has been or will be taken by the Issuer that would permit a public offering (other than Hong Kong) of any series of structured products or possession or distribution of any offering material in relation to any structured products in any jurisdiction where action for that purpose is required. No offers, sales, re-sales, transfers or deliveries of any structured products, or distribution of any offering material relating to structured products, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Issuer.

The offer and sale of structured products will also be subject to such other restrictions and requirements as may be set out in the relevant supplemental listing document.

Persons interested in acquiring structured products should inform themselves and obtain appropriate professional advice as to (i) the legal requirements within the countries of their nationality, residence, ordinary residence or domicile for such acquisition; (ii) any foreign exchange restrictions or exchange control requirements which they might encounter on the acquisition of structured products or their redemption; or (iii) the acquisition, holding or disposal of structured products.

United States of America

The structured products have not been, and will not be, registered under the Securities Act. Structured products, or interests therein, may not at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of structured products, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. The structured products will not be offered, sold or delivered within the United States or to U.S. persons. As used herein, "**United States**" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and "**U.S. person**" means any national or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other U.S. person as such term is defined in Regulation S under the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not

make an offer of structured products which are the subject of the offering contemplated by this base listing document as completed by the relevant supplemental listing document in relation thereto to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of structured products shall require the Issuer or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of structured products to the public**" in relation to any structured products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the structured products to be offered so as to enable an investor to decide to purchase or subscribe the structured products, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

The Issuer represents, warrants and agrees that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any structured products in circumstances in which Section 21(1) of the FSMA does not or where applicable would not, if the Issuer was not an authorised person, apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any structured products in, from or otherwise involving the United Kingdom.

ANNEX 4

A BRIEF GUIDE TO CREDIT RATINGS

Information set out in this Annex 4 is based on, extracted or reproduced from the website of S&P at https://ratings.standardandpoors.com and the website of Moody's at https://www.moodys.com, as of 17 April 2014. Information appearing on those websites does not form part of this document, and we accept no responsibility for the accuracy or completeness of the information appearing on those websites, except that we have accurately extracted and reproduced such information in this Annex and take responsibility for such extraction and reproduction. We have not separately verified such information. There can be no assurance that such information will not be revised by the relevant rating agency in the future and we have no responsibility to notify you of such change. If you are unsure about any information provided in this Annex and/or what a credit rating means, you should seek independent professional advice.

What is a credit rating?

A credit rating is a forward looking opinion by a credit rating agency of a company's overall ability to meet its financial obligations. The focus is on the company's capacity to pay its debts as they become due. The issuer rating does not necessarily apply to any specific obligation.

What do the credit ratings mean?

Below are guidelines issued by S&P and Moody's on what each of their investment-grade ratings means as of 17 April 2014.

S&P long-term issuer credit ratings

AAA

An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by S&P.

AA

An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.

A

An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB

An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

Plus (+) or minus (-)

The above ratings (except for 'AAA') may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Please refer to https://ratings.standardandpoors.com/about/about-credit-ratings for further details.

Moody's long-term ratings definitions

Aaa

Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

Aa

Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A

Obligations rated A are considered upper-medium grade and are subject to low credit risk.

Baa

Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Modifiers "1", "2" and "3"

Moody's appends numerical modifiers 1, 2 and 3 to each of the above generic rating classifications (except for Aaa). The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Please refer to https://www.moodys.com/Pages/amr002002.aspx for further details.

Rating Outlooks

A rating outlook indicates the potential direction of a long-term credit rating over the intermediate term (for example, this is typically six months to two years for S&P). A rating outlook issued by S&P or Moody's will usually indicate whether the potential direction is likely to be "positive", "negative", "stable" or "developing". Please refer to the abovementioned websites of the relevant credit rating agencies for further details regarding rating outlooks published by the relevant credit rating agencies.

ANNEX 5

FINANCIAL INFORMATION RELATING TO SCB

The information in this Annex 5 has been extracted from the Standard Chartered Bank Directors' Report and Financial Statements 31 December 2013. The page numbers of such document appear on the bottom of the pages in this Annex. Page references within the Standard Chartered Bank Directors' Report and Financial Statements 31 December 2013 are to the page numbers within such document.

Standard Chartered Bank

Reference Number ZC18

Strategic Report, Directors' Report and Financial Statements

31 December 2013

Incorporated in England with limited liability by Royal Charter 1853
Principal Office: 1 Basinghall Avenue, London, EC2V 5DD, England

Standard Chartered Bank

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Standard Chartered Bank

Strategic report

Principal activities

The activities of the Group are banking and providing other financial services. The Group has operated for over 150 years in some of the world's most dynamic market and earns around 90 per cent its income and profits in Asia, Africa and the Middle East

This geographic focus and commitment to developing deep relationships with clients and customers has driven the Group's growth in recent years.

It is committed to building a sustainable business over the long term and upholding high standards of corporate governance, social responsibility, environmental protection and employee diversity. The following diagram illustrates the Group's business model.

The Group's business model

The Group's business model develops on the Group's strategy which banks people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East.

Our geographies

We operate in 70 markets with a focus on Asia, Africa and the Middle East.

Our Activities

We manage savings and cash and facilitate transactions whilst supplying funds for productive uses, facilitating trade and providing advice. We organise the Group into two main business areas namely Consumer Banking and Wholesale Banking.

Consumer Banking

Consumer banking seeks to build banking relationships with individuals and Small and Medium Sized Enterprises (SME's). To enable the Group to provide the best possible service to Individuals it organises itself into three main areas to serve personal and preferred banking customers, priority and international banking customers and private banking customers.

Individuals

We help customers to store their savings and cash and make transactions (our Deposits product segment). Our wealth management business helps people to grow and protect their wealth to meet long term needs. We help customer to finance their needs by offering various products such as cards, personal loans and unsecured lending. We supply credit to help people buy homes and vehicle via our mortgage and auto finance business.

SME Banking

We help SMEs to set up, trade and expand by supplying funds whilst enabling SMEs to do business by managing their cash, payments and collections (our SME Banking segment).

Wholesale Banking

Wholesale banking aims to create and deepen relationships with Corporates. To direct our focus and the relevance of products and services offered the Group organises Wholesale banking into Global Corporates this comprises large multinational corporations, Local corporates (corporations that operate mainly in their home market), Financial institutions (banks and other financial institutions) and Commodity traders & Agribusiness (commodity traders, producers and processors).

The Group helps companies do business by managing their cash, transactions and security holdings.

We supply funds for productive uses, facilitate trade and provide advice across the following services:

- Our Lending and Portfolio Management segment facilitates growth of businesses by providing finance;
- Our Transaction Banking – Trade business focuses on facilitating cross-border trade, by providing companies with finance and transactional services.
- Our Financial Markets business helps clients to invest, manage risks and raise debt capital;
- We support clients by providing strategic advice and solutions, including for mergers and acquisition and raising equity finance through our Corporate Finance business;
- We make equity investments to supply business with capital they need to grow through our Principal Finance business.

Under our "Saadiq brand", we offer Islamic banking services in a number of our markets that helps people and business to make the choice to bank in accordance with their faith by giving them access to a wide range of Shariah – compliant banking products and services.

Authority

The strategic report up to page 14 has been issued:

By order of the Court

Peter Sands
Director
5 March 2014
Company Reference Number: ZC18

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Our enablers

The following enablers sustain our activities by providing support and encouraging discipline to ensure the Group can be a responsible partner to Regulators through its exemplary governance and ethics:

1. Finance - measuring and managing financial performance;
2. Human Resources - acquiring, developing and retaining talent;
3. Technology and Operations - providing the infrastructure and support for the Group to effectively and efficiently carry out its activities;
4. Risk: monitoring and mitigating the Group's credit, market and operational risk
5. Compliance: ensuring the bank's activities and conduct comply with legal and regulatory requirements
6. Treasury: managing the Group's capital and liquidity, including:
   - Capital Management; ensuring we meet regulatory requirements and have sufficient capacity to absorb losses in case of loan default
   - Asset and Liability Management (ALM): ensuring optimum liquidity levels are maintained across the Group and sufficient funds are maintained to fund our assets (e.g loans)
7. Other central support functions:
   - Corporate Real Estate
   - Strategy
   - Corporate Development
   - Corporate Affairs
   - Legal
   - Audit
   - Corporate Secretariat
   - Research

Key performance indicators

- We aim to sustain organic momentum, growing profits in a disciplined way
- Key driver for performance is the operating income. Although our profits was down by 11 per cent (down 7 per cent excluding own credit adjustment (OCA), good will and the US settlements).
- We continued to support client and customers and we controlled costs tightly in both business to mitigate lower income in WB and increased impairment in CB

The key performance indicators for the Group are closely aligned with that of its ultimate parent Standard Chartered PLC and focus on performance, the markets the Group operates in, building trusted relationships with clients whilst focusing on conservative balance sheet management.

Remuneration of directors

The remuneration of directors is covered in the Remuneration of Directors on page 163 -164.

Overview of risk

Standard Chartered has a defined risk appetite, approved by the Court, which is an expression of the amount of risk we are prepared to take. This plays a central role in the development of our strategic plans and policies. We have a well-established risk governance structure and we closely manage our risks to build a sustainable franchise in the interests of all our stakeholders.

Our risk profile is aligned to our business strategy and risk appetite. We have low exposure to asset classes and segments outside our core markets and target customer base. Our balance sheet is highly liquid and diversified across a wide range of products, industries, geographies and customer segments, which serves to mitigate risk. 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.

This section provides a high level overview of our risk management framework. Further details of our risk profile and our approach to risk management are set out in the Financial Risk Management section on pages 28 to 37.

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.

Risk governance

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

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 pages that follow

- 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 of Standard Chartered PLC.

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 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 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.

Risks inherent in our business

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.

Our primary risk types are set out in the table below, with an explanation of how they arise from our business. While we recognise that a single transaction or activity may give rise to multiple types of risk exposure, we use risk types to ensure comprehensive and consistent identification and control of risks, wherever they may arise.

Risk type	Risk type definition	Where the risk principally arises	How this relates to our business model
Credit	Potential for loss due to failure of counterparty to meet its obligations to pay the Group in accordance with agreed terms	Activities involving lending or other financial commitments from clients or third parties	Lending and helping clients and customers manage risks is core to our banking service
Country Cross Border	Potential for loss due to the inability to obtain payment from customers/ 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	Activities involving lending or transactions across borders or in a currency other than the currency in which the transaction is booked	Providing funds across borders and currencies facilitates trade and cross-border investment
Market	Potential for loss of earnings or economic value due to adverse changes in financial market rates or prices	Financial markets exposures (to support client-driven transactions) and exposures in the loan book affected by interest rate and cross-currency fluctuations	Providing clients and customers with ready access to financial markets can give rise to short-term market- making positions. Providing funding choices to clients can give rise to a mismatch between funding and lending currencies.
Liquidity	Potential that the Group does not have sufficient financial resources in the short-term to meet its obligations as they fall due, or can access these financial resources only at excessive cost	All activities of the Group	We balance the needs of depositors who require ready access to their cash and savings, while providing longer-term loans to clients and customers who need the financial stability to invest in longer term projects such as housing or infrastructure
Operational	Potential for loss arising from the failure of people, processes or technology, or from external events	All activities of the Group	Operational risks are inherent in our business. While these risks are actively managed, they cannot be entirely avoided
Reputational	Potential for damage to our franchise, resulting in loss of earnings or adverse impact on market capitalisation resulting from stakeholders taking a negative view of the Group or its actions	All activities of the Group	Our reputation is a function of how we are perceived by our stakeholders, including clients and customers, investors, regulators, staff and the communities in which we operate
Pension	Potential for loss due to the meeting of an actuarially assessed shortfall in the Group's pension schemes	Defined benefit pension schemes provided to the Group's employees in some markets	These do not arise from our current business but principally as a legacy of pension commitments made to staff in previous years
Capital	Potential for actual or opportunity loss from sub-optimal allocation of capital or increase in cost of capital	All activities of the Group	We are committed to growth underpinned by the diversity of our business across clients and customers, products and geographies

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.

Risk	Description	Mitigants
Deteriorating macroeconomic conditions in footprint countries	• Deteriorating macroeconomic conditions can have an impact on our performance via their influence on personal expenditure and consumption patterns; 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	• We balance risk and return, taking account of changing conditions through the economic cycle • We monitor economic trends in our markets very closely and continuously review the suitability of our risk policies and controls
Regulatory changes	• The nature and impact of future changes in economic policies, laws and regulations are not predictable and may run counter to our strategic interests. These changes could also affect the volatility and liquidity of financial markets, and more generally the way we conduct business and manage capital and liquidity	• We review key regulatory developments in order to anticipate changes and their potential impact on our performance • Both unilaterally and through our participation in industry groups we respond to consultation papers and discussions initiated by regulators and governments. The focus of these activities is to develop the framework for a stable and sustainable financial sector and global economy
Regulatory compliance	• Although we seek to comply with all applicable laws and regulations, we may be subject to regulatory actions and investigations across our markets, the outcome of which are generally difficult to predict and could be material to the Group • Regulators and other agencies in certain markets are conducting investigations into a number of areas of market conduct involving a range of financial products, including sales and trading conduct, and submissions made to set various market interest rates and other financial benchmarks, such as foreign exchange	• We have established a Financial Crime Risk Mitigation Programme, which is a comprehensive, multi-year programme designed to review many aspects of our existing approach to anti-money laundering and sanctions compliance and to enhance these as appropriate • We are contributing to industry proposals to strengthen financial benchmark processes in certain markets and continue to review our practices and processes in the light of the investigations, reviews and industry proposals
Financial markets dislocation	• Financial markets volatility or a sudden dislocation could affect our performance, through its impact on the mark-to-market valuations of assets in our available-for-sale and trading portfolios or the availability of capital or liquidity • Financial markets instability also increases the likelihood of default by our corporate customers and financial institution counterparties	• We assess carefully the performance of our financial institution counterparties, rate them internally according to their systemic importance, adjusting our exposure accordingly • We maintain robust processes to assess the suitability and appropriateness of products and services we provide to our clients and customers
Geopolitical events	• We face a risk that geo-political tensions or conflict in our footprint could impact trade flows, our customers' ability to pay, and our ability to manage capital across borders	• We actively monitor the political situation in all of our principal markets and conduct regular stress tests of the impact of such events on our portfolios, which inform assessments of risk appetite and any need to take mitigating action
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 co-ordinated, and is 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 risk. Controls are embedded in our policies and procedures across a wide range of Group's activities, such as origination, recruitment, physical and information security • We have a broad 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
Exchange rate movements	• Changes in exchange rates affect 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 actively monitor exchange rate movements and adjust our exposure 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

Business environment

2013 marked a year of resilience for the global economy. The European Central Bank's supportive actions at the end of 2012 to stem the turmoil in the euro area helped stabilise world growth after two consecutive years of deceleration. Standard Chartered's biggest markets in Asia, Africa and the Middle East once again proved to be the main engines of global growth, helping offset a sharp slowdown in the US (caused by severe government budget cuts) and continued recession in the euro area. Economies in Asia, excluding Japan, expanded by 6.4 per cent, Africa grew by 5.1 per cent and the Middle East by 3.9 per cent. As a result, global growth accelerated marginally to 2.8 per cent in 2013 from 2.5 per cent in 2012.

Emerging markets accounted for over half of global growth last year, continuing a pattern seen since the 2008 financial crisis. Economies across Asia, Africa, the Middle East and Latin America have grown much bigger over the past decade, so much so that even slowing growth rates in these economies now result in a sizeable expansion of the global economy. For instance, China, the world's second-largest economy, grew by 7.7 per cent last year, following a 7.7 per cent expansion in 2012. While this pace is decidedly slower than growth rates in excess of 10 per cent witnessed in the past decade, at the current rate, China is 'creating' an economy the size of India – the world's tenth-largest economy – every three years.

Another trend has become apparent since the financial crisis: growth in emerging markets is increasingly becoming self-sustaining, though countries are still not immune to the state of developed economies. Rising consumerism among a growing middleclass is being fuelled by higher incomes, rising aspirations and increased urbanisation. As a result, local demand, besides increased spending on industrialisation and infrastructure development, is powering growth in many of these markets. Emerging economies are also trading more among themselves and investing more in each other's economies. These trends have shielded them from the troubled developed world since the onset of the financial crisis.

2014 outlook

2014 should be a better year for the global economy than 2013. We expect growth to accelerate to 3.5 per cent from 2.8 per cent thanks to marked improvements in the US and Europe. The US economy is likely to expand by 2.6 per cent, up from 1.9 per cent last year, while the euro area should return to growth – expanding by 1.3 per cent – after two years of contraction. We forecast that growth in the second half of 2014 will be stronger than in the first half, and that inflation will remain benign.

However, the way growth plays out will depend largely on policy changes in the US and China, the world's two largest economies. Two key questions come to the fore: will the US Federal Reserve (Fed) be able to manage a gradual tightening of monetary conditions without hurting the fragile recovery? Can China execute the boldest set of reforms in three decades to become a more sustainable, consumer-driven economy?

The Fed has started unwinding its quantitative easing (QE) programme as, on balance, it reckons the US economy has significantly recovered from the 2008 to 2009 recession. The unwinding of QE is likely to be gradual because inflation remains low. The US recovery and Fed's cautious stance should support the emerging markets, although those with weak current accounts or facing elections could see some volatility. Meanwhile, China has outlined impressive reforms, its exports are likely to benefit from the upswing in the US and Europe, and its housing sector should remain an important growth driver.

Asia

The acceleration in US activity and Europe's return to growth are welcome changes for Asia, which for the past five years has been relying mostly on domestic demand and trade with other emerging markets to power the global recovery.

The US and the European Union are each almost twice the size of China in terms of nominal gross domestic output, making them vital determinants of global growth despite China's emergence as the world's main growth engine in recent years. A recent Standard Chartered research report, which examined the linkages between Asia, China and the US, found that the US featured as one of the top-three export destinations for seven of the 10 Asian economies studied. Moreover, an estimated 50 per cent of China's imports from the rest of Asia are processed and re-exported to the US and other Western markets.

As a result of these close trade linkages, the recovery in the West is expected to boost economic growth in Asia, excluding Japan, to 6.6 per cent in 2014 from 6.4 per cent in 2013.

China is likely to be one of the biggest beneficiaries of the upturn in the West as the country gets the external support needed to usher in the most ambitious package of reforms since it opened up to the world in the 1980s. In fact, reform and rebalancing will be in focus across Asia in the coming year. China's economic rebalancing, with consumption growing in importance relative to investment, is likely to move along steadily. The recently concluded Third Plenary Session provided the clearest sign that the all-powerful Politburo of the Chinese Communist Party is leading the ambitious agenda for economic and social reform.

We expect a stronger push for land and state-owned enterprise reform, a further opening up of the capital account and less intervention in the currency markets. These reforms are necessary for the sustainability of China's growth, but short-term volatility cannot be ruled out, especially as the central bank is likely to continue to restrain credit growth. As the reforms take effect, China's economy is likely to slow, marginally, to 7.4 per cent in 2014 from 7.7 per cent in 2013.

China's growing prominence in the world economy is being reflected in growing global recognition of its currency, the renminbi (RMB). The RMB should become increasingly accepted as a unit for making cross-border payments and settling international trade,

as a currency for raising capital, and as a store of wealth as it continues its inexorable rise to become one of the world's leading reserve currencies. Standard Chartered's Renminbi Globalisation Index, which tracks the internationalisation of the currency, has risen more than 13-fold since December 2010. We expect the RMB to displace the Japanese yen as the fourth-largest payment currency by 2020.

Meanwhile, economies in Southeast Asia are likely to benefit from their growing competitiveness with respect to China as a manufacturing centre, enabling them to attract increased foreign direct investment. Since 2000, growth in the 10-nation ASEAN region has exceeded that in the rest of the world by an average of 1.5 percentage points. This outperformance is likely to continue in the coming years.

In South Asia, India faces a key general election in 2014 whose outcome will determine the next stage of economic reforms that are vital for returning economic growth to its potential of around 8 per cent. A strong mandate for a stable government, even if it is a coalition, will be key to pushing through wide-ranging reforms that have stalled in recent years, affecting growth.

India, Indonesia and some other emerging economies running wide current account deficits saw sharp declines in their currencies during mid-2013 following the Fed's talk of starting to unwind its QE programme as investors fretted about the ability of these economies to fund their deficits. However, with currencies already lower and central banks now better prepared, further volatility (as US long-term rates gradually normalise) is likely to be limited. Tighter monetary policies and a string of other policy measures used to shore up economic defences are likely to keep growth in these economies below trend in 2014, although better than in 2013.

The Middle East and Africa
The resource-rich Gulf Cooperation Council (GCC) countries in the Middle East should see a year of strong growth. Oil prices are likely to remain at levels that will boost the coffers of GCC governments, giving them the fiscal strength to drive growth and diversify their economies away from energy industries.

Saudi Arabia's and the UAE's infrastructure investment is set to continue at a fast pace. We expect infrastructure building in Qatar to pick up by the end of 2014 and early 2015 as the country starts preparing for the 2022 FIFA World Cup.

However, job creation is a challenge across large parts of the region and especially in the oil-importing economies that face slower economic activity, rising fiscal pressure and increasing youth unemployment. In the oil-rich GCC region, job creation per se is not that big a problem, as its economies are booming, but the challenge is to encourage greater participation of the local labour force in the private sector, moving away from its over-reliance on the government sector. Thus, the Middle East remains a tale of two worlds.

Meanwhile, Africa is likely to outperform world growth in 2014, as it has for the past decade. Resource exploration remains important and commodity output gains should compensate for weaker prices to boost growth. However, domestic demand remains the fundamental growth driver across the continent.

The rise of the African middle-class – spurred by an improved policy environment, stable inflation, greater savings and a more open embrace of the private sector – is being reinforced by large-scale infrastructure and resource investment, as seen most recently in eastern Africa, where governments are keen to commercialise new oil and gas discoveries. Meanwhile, the continent is leveraging the digital revolution to leapfrog other emerging economies. The rapid pick-up in the use of mobile payments across Africa is a good example of such innovation.

Overall, we expect economies across Sub-Saharan Africa to expand by 5.5 per cent in 2014, up from 5.1 per cent in 2013. As many as seven of the region's biggest economies – Angola, Cote d'Ivoire, Ghana, Nigeria, Sierra Leone and Tanzania – are forecast to grow by around 7 per cent or faster. At this rate, these economies will double in size in 10 years.

What is even more encouraging is that many of the region's economies are making significant progress in terms of sustainable development. Ghana, Uganda and Nigeria ranked among the 'Top Ten' best performers in the Standard Chartered Development Index that measures the change in a broad range of indicators over a period of 12 years to 2012. Most of these economies have shown progress across four key factors determining sustainable growth – GDP per capita, years of education, life expectancy and environmental health (including air pollution and availability of water). However, the fifth factor, ecosystem vitality (or the long-term sustainability of the environment, including climate change), remains a challenge for most emerging economies.

Africa needs to continue expanding at this strong and sustainable pace to overcome its challenges, including still-widespread poverty, income inequality, a dearth of educational and healthcare facilities and an infrastructure deficit. Despite rapid growth in recent years, job creation has fallen behind population growth across the continent. These challenges, in turn, provide enormous opportunities for local and international businesses.

Urbanisation as a growth driver

Urbanisation will be an important theme driving growth not only in Africa but also across the Group's other markets in Asia and the Middle East over the coming decades.

The benefits of urbanisation come from the economics of agglomeration. Urbanisation helps to improve the well-being of citizens by improving access to services, housing and other infrastructure. This can boost productivity and efficiency as distances are

shortened, business costs are lowered, and jobs and labour supply are concentrated rather than dispersed. The benefits are clear – a nation's economy is typically concentrated in and around its cities. For example, Jakarta accounts for about 17 per cent of Indonesia's GDP but only 0.04 per cent of its land mass and 4.2 per cent of its population.

Urbanisation is also associated with growing wealth. A recent Standard Chartered study that categorised ASEAN into three tiers based on the countries' level of urbanisation, assuming that Tier 3 economies reach the current Tier 2 urbanisation rate (50 per cent) and Tier 2 economies reach the current Tier 1 rate (75 per cent), found that ASEAN's GDP per capita could almost triple to $10,290 from $3,509 in 2011. Urbanisation grows slower than the overall economy, but per capita GDP typically rises at an exponential rate as urbanisation increases.

Urbanisation has a long way to go across our markets, as economies in South and Southeast Asia and Africa are largely rural and will need to play catch-up with their more developed neighbours in Northeast Asia. According to the World Bank, while the world passed the 50 per cent urbanisation mark in 2007, six ASEAN countries – Cambodia, Laos, Myanmar, the Philippines, Thailand and Vietnam – have not yet passed this point (as of 2012). Indonesia just crossed the mid-point, at 51.4 per cent, while Singapore, Malaysia and Brunei are largely urbanised. Meanwhile, China's urbanisation level stands at 52 per cent, and India's is still below 30 per cent. The region as a whole still has enormous catch-up potential to sustain high economic growth rates.

Policy challenges and other risks

The Fed's unwinding of its QE programme is possibly the biggest risk facing the global economy in the coming year. QE helped the Fed manage interest-rate expectations. A central bank that is implementing QE is highly unlikely to hike interest rates soon. As a result, long-term market interest rates remained low, and this helped some parts of the economy, particularly the housing market, to recover.

The Fed's most important action under its new Chair Janet Yellen should be to orchestrate a smooth unwinding of QE without causing a sharp rise in long-term interest rates. Fed policy makers will need to see strong evidence that the economy is accelerating as it proceeds with tapering. We expect the US economy to show enough resilience for the Fed to end QE by the end of 2014.

With QE coming to a close, the Fed is likely to rely mostly on forward guidance to influence market rates, which may not be as effective. As a result, market interest rates could move higher in 2014, causing volatility in equities and currency markets. Inflation remains benign, with the exception of a few emerging markets. Among the Bank's biggest markets, we expect policy rates to go up marginally – by 25-50 basis points – in Indonesia, the Philippines, Thailand, Taiwan, South Korea, Malaysia and Nigeria, with no change in other key markets. Commodity prices are stable; and labour markets, both in the US and Europe, remain substantially slack. Meanwhile, the Fed is likely to raise its policy rate only in the second half of 2015.

China's rebalancing is the other concern facing the global economy. Policymakers in Beijing will need to deftly steer the economy's drivers away from exports and investments to consumptions, and at the same time maintain growth on an even keel. Debt levels in China's corporate and local government sectors have expanded rapidly in recent years as the government has sought to counter the effects of the 2008 financial crisis by boosting credit growth. The authorities are aware of the pitfalls of rapid credit growth and, in 2013, the central bank moved to tighten short-term funding for banks to wean the economy off ultra-loose liquidity. Tight monetary policies are likely to continue, at least in the first half of 2014. The authorities are coaxing banks and businesses to be more aware of risks when making borrowing and lending decisions and curbing lending to industries facing overcapacity. In the event of a significant deterioration in the economy, problem loans are likely to surface and some banks may have to be recapitalised but, unlike most other major economies today, China has sufficient financial means to inject capital and restructure its problem lenders.

Rising debt levels across the rest of Asia in recent years are also causing concern. A Standard Chartered study concluded that an analysis of this issue needs to be carefully nuanced. Differentiation is vital, as painting all of Asia with the same brush could lead to wrong conclusions.

After years of rapid economic growth, Asia's, excluding Japan's, overall debt-to-GDP ratio has just reached the world average. However, on a more granular scale, the study of debt and solvency across the corporate, household and government sectors in Asia found that current leverage levels are broadly manageable, with pockets of concern and areas of opportunity – areas where leverage can still rise to generate faster growth.

South Korea's high leverage spans the economy and continues to be a drag on growth. However South Korea has managed to avoid a hard landing since 2003 and has proactively used macro-prudential measures to limit overall leverage, particularly its external debt vulnerability.

There is also a longer-term positive story that should help the global economy to rebalance. Household leverage across most of Asia, particularly in China, India and Indonesia, remains low and has the potential for growth. Indonesia's credit expansion has recently accelerated, but it still has a relatively low level of aggregate debt to GDP, giving it room to use leverage to boost growth. While high debt levels of the government and certain companies in India are a concern (which the authorities are addressing), household debt is relatively low. Taiwan's total leverage is relatively benign – its household debt-service ratio is low, and a legally mandated ceiling on the total government debt-to-GDP ratio enforces fiscal discipline.

In ASEAN, stresses are confined to household credit in some economies. Malaysia's household leverage is high, as is Singapore's on some metrics. However, both countries' household sectors have accumulated high liquid assets through mandatory savings. In Thailand, relatively fast recent credit growth has led to a rise in solvency stress indicators. However, levels of debt and debt-service indicators do not raise immediate concern. The Philippine economy, an outperformer in Asia, has plenty of room to expand its private-sector leverage to boost domestic consumption and sustain growth.

While there are pockets of emerging concern, Asia's fundamentals remain robust. Strong government and household balance sheets, high foreign exchange reserves, flexible exchange rates, currency swap agreements between central banks and still-high economic growth across most of the region provide sufficient flexibility for authorities to counter inevitable bumps as the economic cycle turns. Learning from Asia's financial crisis in 1997-98, governments in the region have been using macro-prudential policies since before they were considered to be best practice. Hong Kong and Singapore are prime examples of how such measures are used to curb property price increases. There is scope for several Asian economies to increase borrowing to maximise their growth potential.

In light of this assessment, concern over Asia's debt levels appears exaggerated. It does provide a timely opportunity for cleaning up stressed balance sheets in parts of the region, but it also sets the stage for the next phase of more durable and sustainable growth. The recovery in the US, combined with the revival in Europe and Japan, should be seen as an added bonus, not a detraction, for emerging markets and the wider global economy.

Among other risk factors, elections in India, Indonesia, Thailand and Brazil are likely to be the focus of emerging-market companies and investors in 2014. A strong mandate for reforms is critical for the next stage of growth in these economies.

The Middle East, the South and East China Sea and North Korea remain potential flashpoints, although experience in recent years suggests that pragmatism should prevail to prevent these issues from escalating. There is also a need for better global policy co-ordination, especially progress on trade liberalisation and clarification on bank regulation.

Conclusion

All in all, 2014 should see a marked improvement in the global economy. The recovery, so far shouldered by the emerging economies, is likely to broaden with the West joining in. However, the growth gap between the G7 countries and the emerging markets is unlikely to close anytime soon. Challenges lurk as the Fed tries to manage interest-rate expectations.
Meanwhile, China is about to enter its most decisive phase of reform as it strives to become a consumer-driven, middle-income economy.

People

The deep commitment of our people to our brand promise, Here for good, continues to make our culture a great strength. Here for good sums up what we stand for, unifying our people to uphold the highest standards of conduct and integrity. Along with our track record of standing by our clients and customers, these deep-rooted values set us apart from many of our competitors.

Reinforcing the importance of conduct within our culture has been a key focus in 2013. We refreshed our Group Code of Conduct (the 'Code'), making it more relevant to our people and the changing requirements they face every day. The refreshed Code clarifies our expectations and provides employees with a new tool to help them make effective decisions. As part of a communication cascade, led by our executives and supported by our business and country leadership teams, managers held dedicated team discussions to clarify the responsibilities of their team members under the Code. This was reinforced by revised guidelines and fact sheets, a new mandatory training module and the introduction of a new annual recommitment process.

At the end of 2013, 98 per cent of our employees had completed the new mandatory training and 97 per cent had reconfirmed their commitment to the Code. These results, together with a high usage of our dedicated intranet site, demonstrate our people's commitment to help strengthen our compliance culture.

Alongside a refresh of the Code, we introduced six Fair Accountability Principles to guide the way we act and make decisions when something goes wrong. The principles represent a shift to a fairer, more judgement-based approach to potential disciplinary cases, and work to embed them across the organisation has begun. We have already incorporated the principles into our guides on values and behaviours, and reflected them in our refreshed disciplinary and grievance policies. A country-by-country implementation plan is underway to help build understanding and bring about the necessary change in markets where cultural challenges may exist to this more judgment-based approach.

We continue to reinforce the importance placed on how conduct and behaviour are reflected in the assessment of objectives and the reward of performance. For more than 10 years, the extent to which employees live our values has been an integral part of our performance management process. We focus review conversations on 'how' results have been achieved as well as 'what' has been delivered. Compliance and risk awareness are essential elements of these conversations.

In 2013, managers received additional guidance to ensure that performance and reward decisions reflected the conduct and behaviour demonstrated by individual employees. We introduced a new Effective Supervision Guide, clarified expectations for managers on how to create an appropriate control environment and set out the required responsibilities and accountabilities when things go wrong. As part of their performance review conversations, managers must now ensure that each employee understands their risk and control role and responsibilities in line with the Code and explain how the employee's conduct and approach to risk and control matters has been assessed during the performance year.

Within Consumer Banking (CB), we began a series of changes to ensure that we manage employee sales incentive schemes. We have improved the balance between sales targets and key non-financial measures such as adherence to conduct and compliance requirements.

In addition, more than 600 branch managers will have started to move from quarterly sales plans, which are focused on business targets, to an annual discretionary award that will include an assessment of broader leadership objectives and behaviours. These changes will help us to place conduct at the heart of our sales incentive arrangements.

Building Capability

In 2013, our programme of learning focused on supporting our refreshed Code and other regulatory requirements. In addition to the development and roll-out of new mandatory training for the Code, we aligned our learning curriculum to ensure its requirements are reinforced at every opportunity. This included our flagship 'Day One Readiness' and 'Wholesale Bank Ready' induction programmes for 8,500 CB and Wholesale Bank (WB) employees; Client Due Diligence training for 2,100 W B Client Coverage Relationship Managers and staff; and Foreign Account Tax Compliance Act training for nearly 20,000 C B front-line, support and operations employees across our footprint. US Sanctions training has also been implemented, achieving 99 per cent completion of the Office of Foreign Assets Control modules.

As part of improvements made to our new joiner process, we began to refresh our global Right Start induction programme, raising the importance of culture, conduct and values. We created a new online version with enhanced conversation guides and dedicated in-country points of contact for managers. Pilots in India and China have shown an improved understanding of our culture and values, enabling new joiners to know what it means to be an employee in Standard Chartered and what it takes to be successful in their role.

While the Code provides guidance on how to make the right judgements, we recognise the need to help managers apply this guidance in practice. In response, we refreshed our Operational Risk Framework to ensure effective risk management in respect of our critical processes. We have begun to roll out the refreshed framework across both businesses and functions, including Finance, Legal & Compliance, HR and Risk. Initially, the focus is to embed the framework in nine countries including the UAE, China, Hong Kong, Korea, US, UK, India, Singapore and Pakistan. This work will be completed in 2014.

In 2013, we made good progress in building our risk and compliance capability, delivering our highest number of employee learning events for three years. However, we recognise that our learning and development framework will need a sharper focus on all aspects of the conduct agenda in 2014. Work has already begun to ensure that we can support leaders who need to 'set the tone

from the top', relentlessly communicating the importance of conduct and helping managers to be vigilant on maintaining our standards.

More broadly, we have continued to strengthen our leadership capability, ensuring we develop our leadership cadre, now and in the future, through a number of initiatives:

- Launch of a new market-specific Emerging Leaders programme in China and Africa, aimed at accelerating the development and readiness of leaders in these key growth markets to assume senior management roles. The programme involves building the capability and capacity of participants to influence the local agenda within the context of the wider Group
- Continuation of our Women in Leadership and Women's Development Programmes across 15 countries, enabling nearly 400 talented female employees each year to develop the skills and knowledge needed to take on more senior leadership roles within the Group
- A focus on developing local talent, through our Future Leaders' Network, which provides junior employees in markets such as Ghana with the opportunity to build strong work relationships and explore relevant development opportunities. Similarly, in Hong Kong, we launched a local mentoring programme for our women employees, connecting them with senior leaders within the Group to help them develop their careers
- Work with two local non-government organisations in Chennai, v-shesh and Ability Foundation, to develop a talent pool of people with disabilities in core operations roles. At the end of 2013 we had recruited 106 employees, representing 1 per cent of the almost 10,000 staff employed locally, to provide operational support to a number of Group functions and business teams.

We have also developed a more robust and efficient approach to our succession planning, better aligned to global processes. This enables us to make the most of our existing talent and strengthen our business continuity.

Creating a strong talent pipeline that meets our future needs remains a priority. In 2013, we hired almost 400 graduates to our two flagship programmes, the International Graduate Programme and the CB Fast Track Programme. We continue to help graduates take a longer-term view on their career and build the right foundations to set them up for future success. In 2014, we will look to strengthen our global internship programme and make it the main path to our full-time graduate programmes.

For more than a decade, The Gallup Organisation's Q^{12} employee engagement survey, conducted annually, has been a consistent measure of the health of our organisation and an important way of gathering feedback. It has helped our leaders and managers understand what is going well and what they can improve upon. As a result, we have built a highly engaged and productive global workforce and created a distinctive culture.

Building on this sustained success, 2013 was the right time to begin developing a new approach, more closely aligned to our future business priorities. We conducted thorough research on best practices and trends enabling us to raise the bar on how we manage and measure the links between engagement and performance. Our new approach, which will be launched in 2014, will allow us to seek views on a wider variety of topics. It will give us more flexibility in gathering feedback, including deep dives with targeted groups of employees, and provide better data that is easier for managers and teams to act upon.

Getting fitter and more flexible

The macroeconomic environment remains turbulent and the pace of regulatory change continues to increase. In order to stay agile and continue to deliver performance excellence, as well as a compelling experience for our clients, customers and employees, we have to adapt and change, sharpen our focus, and operate more as one bank. In 2013, we continued to focus on improving the operational effectiveness and efficiency of our organisation, and on removing unnecessary complexity. As part of this, in collaboration with the businesses, we have looked to simplify aspects of our organisation design, committees and management groups, and policies and processes.

We have revised our regional structure so that, globally, the Group aligns to the same eight regions and the new business structures announced in January 2014 outlines how we will organise ourselves to deliver our strategic aspirations. We have also taken steps to reduce our approval layers and speed up our decision making, consultation and collaboration, minimising the risk of diffused accountability on decision making. As part of a review of organisational effectiveness within our businesses and functions, we have revisited accountabilities at regional levels and simplified decision making, adopting the 'RACI' model – defining who is Responsible, Accountable, to be Consulted and Informed – as our standard approach.

We have completed a mapping exercise of more than 200 meetings and committees across the Group to understand their purpose, core activities and authorities, driving greater consistency and alignment. We have introduced consistent definitions of our committees, meetings and management groups, reviewed the related delegated authorities and created a central repository.

In 2013, we also completed a number of end-to-end global process reviews, including the work to improve our on-boarding approach. This work will continue in 2014. In addition, we commenced a systematic review of our global policies, revoking over 20 as a result and created a Google search facility to help employees find the relevant policies and procedures more easily.

We have continued to improve our internal organisational and analytics capability and begun an investment programme in our core global HR platforms. In 2013, we further enhanced our PeopleSoft Portal, a global HR one-stop shop for the majority of our

workforce across nearly 70 markets. We have simplified the way in which managers input and review performance management information, and streamlined the look and feel of the Portal, making it cleaner and more intuitive for employees.

Our approach to recruitment is aligned to our business strategy. In 2013, we hired over 18,500 people to support our business priorities in Asia, Africa and the Middle East. Overall our headcount reduced to more than 86,000, reflecting the difficult global market conditions and our focus on maximising our existing talent. We continued to streamline our recruitment processes to support the needs of our CB business, providing a more agile, scalable approach for volume hiring. We also re-aligned a number of specialists from our dedicated recruitment team with the geographical and functional priorities of our Wholesale Banking business.

We strive to create an inclusive environment for all our employees, 47 per cent (more than 40,000), of whom are women, and to improve work-life balance for our people, representing 132 nationalities worldwide. Our diversity and inclusion philosophy emphasises inclusion, with nationality, sexual orientation, gender, and disability as the main focus areas. This approach helps us to attract, retain and develop the best talent, both at Board level and across the wider Group, getting the best out of the broadest spectrum of people in order to sustain strong business performance.

In 2013, we have made strong progress in identifying and agreeing targets to increase our gender diversity for each of our businesses, functions and countries.

We believe that our inclusive approach enables us to understand the needs of our clients and customers better. Many of our products and services are localised and reflective of the society and customer base that we support. We work hard to ensure that the differences in others are valued and respected. We have made strong progress in identifying and agreeing targets to increase our gender diversity at specific levels for each of our businesses, functions and countries. More broadly, in 2013 we have undertaken a number of initiatives, including:

- Our first Global Inclusion Day, raising awareness of the importance of inclusion to our clients, customers and employees. This was supported by a guide to Inclusive Meetings and delivery of inclusion awareness training tackling unconscious bias in a number of markets including Turkey, Colombia, Italy, the US, Ghana and Zambia

- Disability Listening Groups in countries such as Thailand, Singapore, Malaysia and Oman, making us more able to meet the needs of employees with disabilities

- Disability mentoring days in the US, providing opportunities to challenge existing employees' misconceptions about disabilities. This led to the Bank being awarded the New York State Education Department's National Disability Award in October

- The launch of a Flexibility Charter, encouraging leaders to commit to a broad definition of flexibility, with the aim of improving the productivity, retention and engagement of local employees

- A reaffirmation of our commitment to enable employees with disabilities to participate fully in our business activities, by providing them with accessible technology solutions. This includes speech software allowing colleagues with visual impairments to hear what is written in a document, talking ATMs and a range of customised work tools, such as variable computer font size and telephone volume, and adjustable automated system response times

Summary

In 2013, we reinforced the importance of conduct within our culture, gaining significant momentum across the organisation through the successful refresh of the Code and launch of the Fair Accountability Principles. In doing so, we have helped employees to understand how they can prove, through their everyday actions and decisions, that we are Here for good.

We have strengthened our performance management practices, ensuring that employees understand their risk and control roles and responsibilities, and enabled managers to make more informed judgements. We have focused on developing our current and future leadership capability and improving organisational agility, by removing complexity, simplifying structures and enhancing a number of global processes. This enabled us to deliver sustainable performance, despite the volatile external environment.

We do not take our distinctive culture for granted. In 2014, we will continue to embed the Code and maintain a systematic approach to reinforcing our culture and values, whilst ensuring that our people have a safe and transparent means of raising issues. We will align our reward practices further in response to continued regulatory change. We will continue to remove unnecessary complexity, simplifying our policies and creating clearer responsibilities and accountabilities as we embed the new business structure. We will also continue to review our selection processes for managers and senior leaders and refresh out training to help our employees understand how all of our policies impact their day-to-day roles.

Our new approach to employee engagement will be more reflective of the different needs and drivers of our diverse, multi-generational workforce. As part of our focus on enhancing our analytics capability across the Group, we will improve the way we anticipate and manage issues, tune our people strategy and demonstrate that our culture remains strong and effective.

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 International Financial Reporting Standards (IFRS) 11 from 1 January 2013 (see page 240 to 244 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, flat compared to 2012 at $18,724 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 213 for further details) for 2013 and the settlements with the US settlements in 2012[1], fell 7 per cent to $6,873 million. The fall in profit is primarily due to lower levels of Transaction Banking income in Wholesale Banking (WB) and higher levels of impairment in the unsecured book in Consumer Banking (CB).

Profit before taxation on a statutory basis fell 12 per cent to $5,979 million.

CB income increased 2 per cent to $7,162 million although operating profit fell 13 per cent to $1,518 million, impacted by a higher impairment charge.

WB income fell 2 per cent to $11,456 million and operating profit was 8 per cent higher at $5,590 million. Excluding the impact of the US settlements in 2012, operating profit fell 5 per cent.

The normalised cost to income ratio was lower at 54.6 per cent compared to 57.4 per cent in 2012. Costs remain tightly controlled and, excluding the impact of the US settlements in 2012, rose 1 per cent.

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 $million	OCA/Goodwill impairment $million	Excluding OCA/Goodwill impairment $million	2012 $million	US settlements $million	Excluding US settlements $million	Better/(Worse) %
Net interest income	**11,138**	**-**	**11,138**	10,776	-	10,776	3
Fees and commissions income, net	**4,106**	**-**	**4,106**	4,075	-	4,075	1
Net trading income	**2,489**	**106**	**2,383**	2,760	-	2,760	(14)
Other operating income	**991**	**-**	**991**	1,094	-	1,094	(9)
Non- interest income	**7,586**	**106**	**7,480**	7,929	-	7,929	(6)
Operating income	**18,724**	**106**	**18,618**	18,705	-	18,705	(0)
Operating expenses	**(10,225)**	**-**	**(10,225)**	(10,734)	(667)	(10,067)	(2)
Operating profit before impairment losses and taxation	**8,499**	**106**	**8,393**	7,971	(667)	8,638	(3)
Impairment losses on loans and advances and other credit risk provisions	**(1,617)**	**-**	**(1,617)**	(1,196)	-	(1,196)	(35)
Other impairment	**(1,129)**	**(1,000)**	**(129)**	(196)	-	(196)	34
Profit from associates and joint ventures	**226**	**-**	**226**	182	-	182	24
Profit before taxation	**5,979**	**(894)**	**6,873**	6,761	(667)	7,428	(7)

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

Group performance

Operating income reduced by $19 million, to $18,724 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 $7,162 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 8 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 $11,456 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 (FX). 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 $362 million, or 3 per cent to $11,138 million. The Group net interest margin of 2.1 per cent was lower compared to 2012. In CB, net interest income grew $157 million, or 4 per cent, to $4,945 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 $205 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 $343 million to $7,586 million.

Net fees and commissions income increased by $31 million, or 1 per cent, to $4,106 million. Fee income in CB grew due to increased sales of equity-linked products in Wealth Management. Fees in WB fell primarily due to lower levels of fee income from Corporate Finance transactions as this business has increasing levels of annuity income.

Net trading income fell $271 million, or 10 per cent, to $2,489 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 $103 million, or 9 per cent, to $991 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.

Operating expenses fell $509 million, or 5 per cent, to $10,225 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 to take the net charge for the year to $235 million.

Pre-provision profit (excluding the impact of the 2012 settlements with the US authorities) was lower by $245 million, or 3 per cent, at $8,393 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 $555 million, or 7 per cent, to $6,873 million. Hong Kong remained our largest profit generator, growing operating profit by 15 per cent, while MESA grew profits 33 per cent. This helped to offset the performance in Korea, which moved from a profit of $515 million in 2012 to a loss of $20 million in 2013.

The Group's effective tax rate (ETR) was 31.3 per cent, up from 27.1 per cent in 2012, primarily due to the impact of non-deductible goodwill impairment and change in profit mix.

Balance Sheet

	2013	2012[1]	Increase/ (decrease)	Increase/ (decrease)
	$million	$million	$million	%
Assets				
Advances and investments				
Cash and balances at central banks	**54,534**	60,537	(6,003)	(10)
Loans and advances to banks	**83,701**	67,796	15,905	23
Loans and advances to customers	**290,584**	279,638	10,946	4
Investment securities held at amortised cost	**2,676**	3,851	(1,175)	(31)
	431,495	411,822	19,673	5
Assets held at fair value				
Investment securities held available-for-sale	**99,703**	95,374	4,329	5
Financial assets held at fair value through profit or loss	**29,176**	27,076	2,100	8
Derivative financial instruments	**62,161**	49,495	12,666	26
	191,040	171,945	19,095	11
Other assets	**51,143**	47,009	4,134	9
Total assets	**673,678**	630,776	42,902	7
Liabilities				
Deposits and debt securities in issue				
Deposits by banks	**43,418**	36,427	6,991	19
Customer accounts	**381,066**	372,874	8,192	2
Debt securities in issue	**45,939**	41,445	4,494	11
	470,423	450,746	19,677	4
Liabilities held at fair value				
Financial liabilities held at fair value through profit or loss	**23,030**	23,064	(34)	-
Derivative financial instruments	**62,289**	48,194	14,095	29
	85,319	71,258	14,061	20
Subordinated liabilities and other borrowed funds	**22,147**	22,873	(726)	(3)
Other liabilities	**49,700**	46,019	3,681	8
Total liabilities	**627,589**	590,896	36,693	6
Equity	**46,089**	39,880	6,209	16
Total liabilities and shareholders' funds	**673,678**	630,776	42,902	7

[1] Amounts have been restated as explained in note 46

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 70 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.

Total assets/liabilities grew by $42.9 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 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.

CB 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 WB 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 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 WB 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 $3.2 billion to $123.8 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 12 months.

Derivatives

Unrealised mark-to-market asset positions were $12.7 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 $12.7 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. Current and savings accounts (CASA) continue 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 13 per cent to $52.8 billion as we continued see strong demand for our paper. This included the issuance of $2 billion 10 year subordinated notes. Subordinated debt decreased by $0.7 billion, or 3 per cent, on the back of redemptions during the year.

Equity

Total shareholders' equity increased by $6.2 billion to $46.1 billion due to profit accretion of $4.1 billion and $5.7 billion capital injection through new share issuance, which were partly offset by foreign exchange translation losses of $1.3 billion and $2 billion dividends paid to shareholders.

Consumer Banking

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

	2013								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Consumer Banking Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Operating income	**1,559**	**979**	**1,043**	**1,616**	**465**	**797**	**529**	**174**	**7,162**
Operating expenses	**(798)**	**(548)**	**(838)**	**(1,188)**	**(305)**	**(495)**	**(331)**	**(144)**	**(4,647)**
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)	**622**	**353**	**(168)**	**160**	**118**	**239**	**176**	**18**	**1,518**

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Consumer Banking Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Operating income	1,411	975	1,184	1,597	440	749	482	183	7,021
Operating expenses	(772)	(554)	(796)	(1,211)	(319)	(490)	(307)	(151)	(4,600)
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	207	94	208	155	14	1,745

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

Operating income by product	2013 $million	2012 $million	2013 vs. 2012 Better/(worse) %
Cards, Personal Loans and Unsecured Lending (CCPL)	**2,795**	2,668	5
Wealth Management	**1,293**	1,268	2
Deposits	**1,411**	1,526	(8)
Mortgages and Auto Finance	**1,422**	1,298	10
Other	**241**	261	(8)
Total operating income	**7,162**	7,021	2

Performance in 2013

Operating income in Consumer Banking (CB) increased $141 million, or 2 per cent, to $7,162 million with pre-provision profit rising 4 per cent. However operating profit fell $227 million, or 13 per cent, to $1,518 million due to higher levels of impairment. Excluding Korea, which generated a loss of $168 million for the year, income rose 5 per cent and operating profit increased 7 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 $182 million, or 4 per cent, to $4,945 million. Higher 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 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 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, offset by good growth in CASA balances in Hong Kong and Singapore.

Non-interest income declined $41 million, or 2 per cent, to $2,217 million. The decrease was primarily due to higher levels of Wealth Management income reflecting an increase in sales of equity-linked products offset as growth slowed markedly in the second half of 2013 due to adverse market conditions across our footprint and the fair value loss of $49 million relating to businesses held for sale in Korea. 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 2 per cent.

Expenses were up $47 million, or 1 per cent, to $4,647 million. While staff costs fell on the back of lower headcount and efficiency initiatives, this was more than offset by the impact of a non-recurring tax cost of $41 million in Korea and continued investments in the franchise, particularly targeted in the growth markets of Hong Kong, India, UAE and Africa.

Loan impairment increased by $360 million, or 53 per cent, to $1,034 million. More than half of the increase related to lower levels of debt sales compared to 2012 coupled with increased provisioning in Korea due to an acceleration in the amount of filings under PDRS. 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 $127 million, or 5 per cent, to $2,795 million. Although period end CCPL balances fell, particularly in Korea and Taiwan, income grew reflecting 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 $1,293 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 $115 million, or 8 per cent, to $1,411 million. CASA balances grew strongly, particularly in Hong Kong and Singapore. This growth was more than offset by the impact of 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 $124 million, or 10 per cent, to $1,422 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 8 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 strong SME revenues across Hong Kong, Malaysia, MESA and India.

Geographic performance

Hong Kong

Income rose $148 million, or 10 per cent, to $1,559 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 $26 million, or 3 per cent, to $798 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 $122 million, or 19 per cent, to $761 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. A series of tightening measures on underwriting criteria for unsecured products were implemented in 2013 for selected higher risk customer segments.

Operating profit rose $78 million, or 14 per cent, to $622 million.

Singapore
Income rose $4 million, to $979 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 $6 million, or 1 per cent, to $548 million, primarily due to lower staff costs as headcount reduced.

Pre-provision profit was 2 per cent higher at $431 million.

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

Operating profit reduced by $6 million to $353 million.

Korea
Income was down $141 million, or 12 per cent, to $1,043 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 $42 million, or 5 per cent, to $838 million. On a constant currency basis expenses fell 1 per cent. Excluding the impact of 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 $183 million at $205 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 $168 million in the current year, compared to a profit of $164 million in 2012.

Other Asia Pacific
Income in the region rose $19 million, or 1 per cent, to $1,616 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 impacted by regulatory cooling measures.

Income in Malaysia rose 5 per cent 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 $23 million, or 2 per cent, lower at $1,188 million. Expenses in China were tightly controlled and broadly flat compared to 2012.

Pre-provision profit was up $42 million, or 11 per cent, to $428 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 while impairment in China increased $9 million to $35 million. Impairment in Thailand also increased due to a specific segment to which sales have now been discontinued.

Operating profit was lower by $47 million, or 23 per cent, at $160 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 $104 million in 2012.

India
Income rose $25 million, or 6 per cent, to $465 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 $305 million. On a constant currency basis, expenses increased by 5 per cent, reflecting increased investment in technology.

Pre-provision profit was up $39 million, or 32 per cent, to $160 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 $24 million, or 26 per cent, at $118 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 $797 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 $495 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 $43 million, or 17 per cent, to $302 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 15 per cent, up $31 million to $239 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 $331 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 $198 million.

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

Operating profit was up $21 million, or 14 per cent, to $176 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 $7 million, or 5 per cent, to $144 million as we continued to tightly manage costs.

Impairment was higher by $3 million to $13 million.

Operating profit rose $4 million, up 29 per cent, to $18 million.

Wholesale Banking

The following tables provide an analysis of operating profit by geographic segment 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]	2,160	1,117	516	1,831	1,224	1,402	1,217	1,989	11,456
Operating expenses	(876)	(584)	(286)	(938)	(396)	(590)	(534)	(1,139)	(5,343)
Loan impairment	4	(10)	(56)	(105)	(157)	(4)	(248)	(7)	(583)
Other impairment	(4)	10	(27)	(2)	(101)	-	-	2	(122)
Profit and associates and joint ventures	-	-	-	181	-	-	-	1	182
Operating profit[1]	1,284	533	147	967	570	808	435	846	5,590

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	1,939	1,230	670	2,078	1,147	1,483	1,112	2,025	11,684
Operating expenses	(802)	(617)	(286)	(1,051)	(435)	(608)	(478)	(1,683)	(5,960)
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	351	1,009	583	578	616	330	5,190

[1] Operating income and operating profit excludes Own credit adjustment of $106 million

Performance in 2013

Operating income fell $228 million, or 2 per cent, to $11,456 million and operating profit rose $400 million, or 8 per cent, to $5,590 million. Excluding the $667 million cost relating to the US settlements in 2012, operating profit fell 5 per cent.

Income remains well diversified across both products and geographies, with Hong Kong growing income by 11 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 26 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 $180 million, or 3 per cent, to $6,193 million as the benefit from higher lending margins and Trade volumes offset margin compression across Trade and Cash products.

Non-interest income fell $302 million, or 5 per cent, to $5,369 million.

Income from Financial Markets (FM) fell by $23 million to $3,638 million, with a strong performance from Foreign Exchange 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 $617 million, or 10 per cent, to $5,343 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 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 $23 million, or 3 per cent, to $815 million as the impact of higher margins was more than offset by lower average balances and increased portfolio management costs.

Transaction Banking income fell $177 million, or 5 per cent, at $3,463 million. Trade income fell 4 per cent despite strong growth in average assets and contingents as margins compressed, down 27 bps compared to 2012, due to surplus liquidity across our markets and a greater proportion of income derived from lower margin financial institution clients. Trade margins did, however, start to stabilise towards the end of the year. Cash Management and Custody income fell 6 per cent and was also impacted by net interest margin compression, down 15 bps, due to the continuing lower interest rate environment. This was partly offset by strong growth in average assets and higher custody income.

Global Markets income was broadly flat at $7,178 million. Within Global Markets, the Financial Markets business, which primarily comprises sales and trading of foreign exchange and interest rate products, is the largest contributor to income and continues to have diverse income streams.

FM income was $23 million lower at $3,638 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 10 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, primarily impacted by challenging market conditions.

ALM income was $86 million, or 10 per cent, lower at $752 million reflecting the continued increase in asset allocation to higher quality, lower yielding liquid assets and from lower reinvestment yields.

Corporate Finance income rose $288 million, or 13 per cent, to $2,512 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 $207 million, or 43 per cent, to $276 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 $221 million, or 11 per cent, to $2,160 million. Client income up 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 $74 million, or 9 per cent, to $876 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 $147 million, or 13 per cent, at $1,284 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 $168 million, or 15 per cent, at $1,284 million.

Singapore
Income fell $113 million, or 9 per cent, to $1,117 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 $584 million, with lower levels of variable compensation and a continued focus on cost discipline.

Pre-provision profit fell $80 million, or 13 per cent, to $533 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 $74 million to $533 million.

Korea

Income fell $154 million, or 23 per cent, to $516 million. On a constant currency basis income fell 25 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 show good momentum, up at a double digit rate, and we opened a further two Korea desks across our footprint.

Operating expenses were held flat at $286 million. On a constant currency expenses fell 3 per cent as we continued to tightly manage costs.

Pre-provision profit fell by $154 million, or 40 per cent, to $230 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 lower levels of recoveries on previously written off Private Equity investments than in 2012.

Operating profit was lower by $204 million, or 58 per cent, at $147 million.

Other Asia Pacific

Income fell $247 million, or 12 per cent, at $1,831 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 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 $264 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 $113 million, or 11 per cent, to $938 million. Expenses in 2012 were impacted by a net charge of $50 million as a result of a legacy commercial legal provision, offset by provision recoveries. Excluding this, expenses fell 6 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 13 per cent at $893 million.

Loan impairment increased by $70 million to $105 million. Impairment in China increased to $23 million reflecting some pockets of stress 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 4 per cent lower at $967 million. China contributed $361 million of operating profit, with Indonesia and Malaysia as the other major profit contributors in this region.

India

Income rose $77 million, or 7 per cent, to $1,224 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 $39 million, or 9 per cent, at $396 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 down $116 million, or 16 per cent, at $828 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 $13 million, or 2 per cent, to $570 million. On a constant currency basis, operating profit rose 6 per cent.

MESA

Income was lower by $81 million, or 5 per cent, to $1,402 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 almost 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 22 per cent primarily driven by Cash. Income fell in Pakistan, down 19 per cent primarily due to lower levels of ALM income, and Qatar, down 37 per cent as a result of lower Commodities income.

Operating expenses in MESA fell $18 million, or 3 per cent, to $590 million, as we managed costs tightly across the region.

Pre-provision profit in MESA was down $63 million, or 7 per cent, to $812 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 40 per cent to $808 million.

Africa

Income rose $105 million, or 9 per cent, to $1,217 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 13 per cent, as income from Corporate Finance, Transaction Banking and Lending rose. Income in Ghana rose 23 per cent from an improved FM performance and income in Kenya rose 21 per cent on the back of Transaction Banking and Corporate Finance. This was partly offset by lower income in South Africa, down 30 per cent, and Uganda, down 17 per cent both primarily due to lower Transaction Banking income.

Operating expenses were up $56 million, or 12 per cent, to $534 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 $49 million, or 8 per cent, to $683 million. Loan impairment increased to $248 million, up $230 million from 2012 driven by new provisions on a small number of accounts.

Operating profit was $181 million lower at $435 million, down 29 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 2 per cent to $1,989 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 $544 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 $508 million, or 149 per cent to $850 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 $516 million to $846 million. Excluding the impact of the settlements with the US authorities in 2012, operating profit fell 15 per cent.

Income by product is set out below:

Operating Income by product	2013 $million	2012 $million	2013 vs. 2012 Better/(worse) %
Lending and Portfolio Management	**815**	838	(3)
Transaction Banking			
Trade	**1,839**	1,917	(4)
Cash management and custody	**1,624**	1,723	(6)
	3,463	3,640	(5)
Global Markets[1]			
Financial Markets[2]	**3,638**	3,661	(1)
Asset and Liability Management (ALM)	**752**	838	(10)
Corporate Finance	**2,512**	2,224	13
Principal Finance	**276**	483	(43)
	7,178	7,206	(0)
Total operating income	**11,456**	11,684	(2)

Financial Markets operating income by desk	2013 $million	2012 $million	2013 vs. 2012 Better/(worse) %
Foreign Exchange	**1,409**	1,278	10
Rates	**914**	966	(5)
Commodities and Equities	**505**	522	(3)
Capital Markets	**556**	592	(6)
Credit and Other[2]	**254**	303	(16)
Total Financial Markets operating income	**3,638**	3,661	(1)

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

[2] Excludes $106 million in respect of Own credit adjustment

The following parts of the Risk Review form part of these financial statements:

- **'Regulatory compliance, review, requests for information and investigations' and 'Risk of fraud and other criminal acts' on pages 30 and 31**
- **From the start of the 'Risk Management' section on page 28 to the end of the 'Pension Risk' section on page 120 excluding:**
    1. **Asset backed securities, page 87**
    2. **Mapping of market risk items to the balance sheet, page 98**
    3. **Encumbered assets, page 103; and**
    4. **Liquidity Coverage Ratio and Net Stable Funding Ratio, page 108**
- **From the start of the 'Capital management' section on page 121 to the end of 'Current compliance with Capital Adequacy Regulations' on page 121**
- **From the start of the 'Capital base' section on page 123 until the end of 'Movement in total capital' on page 124**

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 34.

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 while continuing to support our core clients. Credit risk management is covered in more detail on page 35.

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 (WB), 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 WB 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 93
- 44 per cent of customer loans and advances are in Consumer Banking (CB); 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 CB 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 (GIIPS). Our exposure in these countries is primarily in trade finance and financial markets. Further details of our eurozone exposures are given on page 88. 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 87.

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 94.

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 risk are provided on pages 101 to 117.

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 33, and an experienced senior team. Members of our most senior executive body (the Court) sit on our principal risk executive committees, which ensure 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 118 and 120.

Impairment review

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

In CB, 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 (PIPs) 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 WB, 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 PIP in the Middle East and Other South Asia (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 page 35 to 39

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 11 on page 161.

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 (Fed) 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 88).

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 (RWA), 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 WB 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 IV (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 work streams 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 sanctions regimes.

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 benchmark 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 44 on page 239.

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 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.

Geo-political 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 geo-political 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 geo-political 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 34.

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 incident of cyber crime is rising, becoming more globally co-ordinated, 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 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" on the previous page.

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 44 on page 239.

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 RWA.

The table below sets out the year end and average currency exchange rates per US dollar for India, Korea, Indonesia and Taiwan for the years 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 function (GIA). 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, geo-political 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 section on market risk on page 94 and liquidity risk on page 101.

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, 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. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 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 45.

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 57 for CB and page 68 for WB.

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 WB, 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;
- 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 Banking and Private Banking is covered by a product proposal approved by senior credit officers with the relevant delegated authority. New collateral types have to be vetted through a stringent New Business Approval process and approved by the CB 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 CB to realise the asset without the co-operation 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 not, however, 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 International Accounting Standards (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 39.

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 240 to 244 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 overleaf 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 geographies 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 billion since 2012 due to growth in the secured lending to Banks and broad based growth across several industry sectors in WB. Further details of the loan portfolio are set out on page 41. 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.

Group	2013 Maximum exposure $million	2013 Credit risk management Collateral $million	2013 Credit risk management Master netting agreements $million	2013 Net Exposure $million	2012 Maximum exposure $million	2012 Credit risk management Collateral $million	2012 Credit risk management Master netting agreements $million	2012 Net Exposure $million
On balance sheet								
Total Loans and advances[1]								
As per balance sheet	374,285	-	-	-	347,434	-	-	-
Included within fair value through profit and loss	7,774	-	-	-	5,752	-	-	-
	382,059	152,926		229,133	353,186	139,713		213,473
Investment securities[2]								
As per balance sheet	102,379	-	-	102,379	99,225	-	-	99,225
Included within fair value through profit and loss	21,402	-	-	21,402	21,324	-	-	21,324
Less: Equity securities	(6,454)	-	-	(6,454)	(6,432)	-	-	(6,432)
	117,327	-	-	117,327	114,117	-	-	114,117
Derivative financial instruments[3]	62,161	5,147	46,242	10,772	49,495	3,245	35,073	11,177
Total balance sheet	561,547	158,073	46,242	357,232	516,798	142,958	35,073	338,767
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	7,408	-	-	7,408	7,610	-	-	7,610
Forward asset purchases and forward deposits	459	-	-	459	711	-	-	711
Total off-balance sheet	116,082	-	-	116,082	109,261	-	-	109,261
Total	677,629	158,073	46,242	473,314	626,059	142,958	35,073	448,028

Company	2013 Maximum exposure $million	2013 Credit risk management Collateral $million	2013 Credit risk management Master netting agreements $million	2013 Net Exposure $million	2012 Maximum exposure $million	2012 Credit risk management Collateral $million	2012 Credit risk management Master netting agreements $million	2012 Net Exposure $million
On balance sheet								
Total Loans and advances[1]								
As per balance sheet	179,736	-	-	-	175,232	-	-	-
Included within fair value through profit and loss	7,189	53,710	-	133,215	5,614	-	-	-
	186,925	53,710	-	133,215	180,846	65,149	-	115,697
Investment securities[2]								
As per balance sheet	43,875	-	-	43,875	43,615	-	-	43,615
Included within fair value through profit and loss	11,411	-	-	11,411	11,413	-	-	11,413
Less: Equity securities	(3,387)	-	-	(3,387)	(2,524)	-	-	(2,524)
	51,899	-	-	51,899	52,504	-	-	52,504
Derivative financial instruments[3]	60,146	4,773	42,393	12,980	47,443	2,881	34,633	9,929
Total balance sheet	298,970	58,483	42,393	198,094	280,793	68,030	34,633	178,130
Off balance sheet								
Contingent liabilities	34,657	-	-	34,657	34,248	-	-	34,248
Undrawn irrevocable standby facilities, credit lines and other commitments to lend[4]	32,636	-	-	32,636	33,360	-	-	33,360
Documentary credits and short term trade-related transactions	4,767	-	-	4,767	4,808	-	-	4,808
Forward asset purchases and forward deposits	3	-	-	3	-	-	-	-
Total off-balance sheet	72,063	-	-	72,063	72,416	-	-	72,416
Total	371,033	58,483	42,393	270,157	353,209	68,030	34,633	250,546

1 An analysis of credit quality is set out on page 44. Further details of collateral held by businesses and held for past due and individually impaired loans are set on page 47

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 103.

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.

The Company holds collateral against loans and advances to customer and banks of $54 billion (2012: $65 billion). Further details of collateral held by businesses and held for past due and individually impaired loans are set on pages 47.

The Company 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 $40 million (2012: $54 million). The Company continues to recognise these assets in addition to the proceeds and related liability of $39 million (2012: $52 million) arising from the securitisations. The Company considers the above customer loan assets to be encumbered. Further details of encumbered assets are provided on page 104.

The Company 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). The Company continues to hold the underlying assets referenced in the credit default swaps as it continues to be exposed to related credit and foreign exchange risk on these assets. Further details of the transactions as set out in the structured entities note 24 of the financial statement on page 209.

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.

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.

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 51). In CB, where loans are typically managed on a portfolio basis, delinquency trends are monitored consistently as part of risk management (as discussed on page 50). In both businesses, credit risk is mitigated to some degree through collateral, further details of which are set out on page 47.

Pages 43-45 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.

The following table seeks to illustrate 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 impairment provisions are determined.

Review of key credit risk tables

	Group	Consumer Banking	Wholesale Banking
	Page reference	Page reference	Page reference
Overview	41	57	68
Geographic analysis	41	57	68
Maturity analysis			
• *By business*	41	-	-
• *By category of borrower*	-	58	70
Credit quality analysis			
• *By business, internal credit grades and days past due*	45	-	-
• *By product and geography*	-	60	72
Credit risk mitigation			
• *Collateral by business and credit quality*	47	-	-
• *Analysis of secured / unsecured loans by category of business*	-	62	-
• *Collateral held by type*	-	-	76
• *Geographic analysis of mortgage and commercial real estate loan to value ratios*	-	63	77
Problem credit management and provisioning			
• *Policies on credit management and provisioning*	48	50	51
• *Non-performing loans*			
o *Definition*			
o *By business*	49	-	-
o *By geography*	-	67	83
o *Movement in non-performing loans and total impaired loans by business*	-	N/A	N/A
• *Loan impairment*			
o *Movement in total impairment provisions*	52	-	-
o *Movement in individual impairment provision by geography*	53	-	-
o *Loan impairment charge – by geography*	-	65	79
o *Loan impairment movement – by category of borrower*	-	66	81
Renegotiated and forborne loans			
• *Definition*	55	-	-
• *By business*	-	56	56

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 CB on pages 57 to 67 and WB on pages 68 to 84.

Geographic analysis

Loans and advances to customers grew by $11.3 billion since 31 December 2012 to $296.0 billion. The CB 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 WB portfolio has continued to grow in 2013, increasing by $12 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.

Geographic analysis - Group

	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	50,128	166,785
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	55,028	295,891
Total loans and advances to banks[1,2]	17,658	4,501	4,192	14,891	399	2,273	742	41,512	86,168

	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	26,122	68,570

1 Amounts net of impairment provision include financial instruments held at fair value through profit or loss (see note 15 on page 165)

2 Loans and advances to customers in the above table are presented on the basis of the booking location of the loan. The analysis of loans and advances by geography presented on page 152 in note 2 of the financial statements

Maturity analysis

Approximately half of our loans and advances to customers are short-term having a contractual maturity of one year or less. The WB 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 CB, 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. While "Other" and "SME loans" in CB have short contractual maturities, typically they may be renewed and repaid over longer terms in the normal course of business.

	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	106,827	48,449	11,509	166,785
Portfolio impairment provision				(696)
Total loans and advances to customers				295,891

	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

Geographic analysis - Company

Loans and advances to customers have dropped by $8.3 billion since 2012 to $134.5 billion. Compared to 2012, the Consumer Banking Portfolio has dropped by $17.2 billion or 41 per cent, mainly due to restructuring in organisation resulting in a transfer from Company to Group in Singapore. Growth in the Wholesale Banking customer portfolio was $8.8 billion or 9 per cent, since 2012. Exposure to bank counterparties has grown by $14.4 billion since 2012 to $52.4 billion. We remain highly liquid and a net lender to the interbank money market.

	2013						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Consumer Banking	7,960	1,435	4,953	5,991	10	4,492	24,841
Wholesale Banking	33,451	5,900	6,508	13,361	1,146	49,570	109,936
Portfolio impairment provision	(31)	(30)	(36)	(87)	(2)	(84)	(270)
Total loans and advances to customers[1]	41,380	7,305	11,425	19,265	1,154	53,978	134,507
Total loans and advances to banks[1]	4,451	3,864	381	2,237	241	41,244	52,418

	2012						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Consumer Banking	27,567	1,579	5,062	4,955	15	2,857	42,035
Wholesale Banking	28,321	4,793	6,590	13,648	1,641	46,100	101,093
Portfolio impairment provision	(47)	(31)	(37)	(125)	(3)	(63)	(306)
Total loans and advances to customers[1]	55,841	6,341	11,615	18,478	1,653	48,894	142,822
Total loans and advances to banks[1]	6,205	2,246	560	3,131	115	25,767	38,024

[1]Amounts include financial instruments held at fair value through profit or loss (see Note 15 on page 167)

Maturity Analysis – Company

Approximately 63 per cent of the Company's 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 63 per cent (2012: 59 per cent) of loans and advances having a contractual maturity of one year or less. In Consumer Banking 22 per cent (2012: 45 per cent) of the portfolio is in the mortgage book, which is traditionally well secured. Whilst the "Other" and "SME loans" in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer term in the normal course of business.

	2013			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Consumer Banking	16,395	4,498	3,948	24,841
Wholesale Banking	68,766	32,172	8,998	109,936
Portfolio impairment provision				(270)
Total loans and advances customers				134,507

	2012			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Consumer Banking	16,662	5,318	20,055	42,035
Wholesale Banking	59,254	31,426	10,413	101,093
Portfolio impairment provision				(306)
Total loans and advances customers				142,822

Credit quality loan status	Analysis	Risk management	Impairment provisioning 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	Business/geography within non-performing disclosure	Non-performing	✓	X	✓	X
Over 90 days past due[2]		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 portfolio and also a collective portfolio provisions 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.

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 55.

Loans to banks

Loans to banks form part of the WB 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% 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) of 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 $593 million, 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.

Credit quality analysis - Group 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	73,861	61,617	58,860	120,477	59,117	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
	86,046	160,025	125,268	285,293	68,363	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								
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	86,170	166,785	129,802	296,587	68,572	154,921	130,417	285,338
Portfolio impairment provision	(2)	(300)	(396)	(696)	(2)	(300)	(422)	(722)
Total net loans and advances	86,168	166,485	129,406	295,891	68,570	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.

	Loans to banks	Wholesale Banking	Consumer Banking	Total	Loans to banks	Wholesale Banking	Consumer Banking	Total
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	-	-	-	-
Individual impairment provisions (including forborne loans)	-	319	-	319	-	-	-	-
	2,467	5,307	-	5,307	774	4,978	-	4,978

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

	Loans to banks	Wholesale Banking	Consumer Banking	Total	Loans to banks	Wholesale Banking	Consumer Banking	Total
Performing loans:								
Neither past due nor individually impaired	86,046	160,025	125,268	285,293	68,363	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
	86,063	163,880	129,118	292,998	68,366	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	86,170	166,785	129,802	296,587	68,572	154,921	130,417	285,338
Portfolio impairment provision	(2)	(300)	(396)	(696)	(2)	(300)	(422)	(722)
Total net loans and advances	86,168	166,485	129,406	295,891	68,570	154,621	129,995	284,616

Credit quality analysis - Company

	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	41,189	37,633	6,207	43,840	29,383	40,693	17,665	58,358
Grades 6-8	9,687	45,658	12,764	58,422	7,332	40,360	16,185	56,545
Grades 9-11	1,498	19,646	3,232	22,878	1,162	13,270	4,896	18,166
Grade 12	19	1,044	1,604	2,648	32	949	1,697	2,646
	52,393	103,981	23,807	127,788	37,909	95,272	40,443	135,715
Of which:								
Renegotiated loans	-	3,990	78	4,068	-	773	156	929
Past due but not individually impaired loans								
Up to 30 days past due	13	2,297	698	2,995	1	606	1,227	1,833
31 - 60 days past due	-	254	167	421	-	52	161	213
61 - 90 days past due	-	512	67	579	-	2,921	64	2,985
91 - 150 days past due	-	-	51	51	-	-	67	67
	13	3,063	983	4,046	1	3,579	1,519	5,098
Of which:								
Renegotiated loans	-	583	-	583	-	-	-	-
Individually impaired loans	35	4,321	204	4,525	139	3,383	233	3,616
Individual impairment provisions	(22)	(1,429)	(153)	(1,582)	(24)	(1,141)	(160)	(1,301)
Net individually impaired loans	13	2,892	51	2,943	115	2,242	73	2,315
Of which:								
Forborne loans	-	1,033	60	1,093	-	608	129	737
Total loans and advances	52,419	109,936	24,841	134,777	38,025	101,093	42,035	143,128
Portfolio impairment provision	(1)	(182)	(88)	(270)	(1)	(192)	(114)	(306)
Total net loans and advances	52,418	109,754	24,753	134,507	38,024	100,901	41,921	142,822

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

	Loans to banks	Wholesale Banking	Consumer Banking	Total	Loans to banks	Wholesale Banking	Consumer Banking	Total
Neither past due nor individually impaired								
Grades 1-5	2,271	919	-	919	555	1,166	-	1,166
Grades 6-8	196	2,892	-	2,892	219	3,037	-	3,037
Grades 9-11	-	187	-	187	-	637	-	637
Grade 12	-	-	-	-	-	-	-	-
	2,467	3,998	-	3,998	774	4,840	-	4,840
Past due but not individually impaired loans								
Up to 30 days past due	-	405	-	405	-	-	-	-
Individually impaired loans (including forborne loans)	-	319	-	319	-	-	-	-
	2,467	4,722	-	4,722	774	4,840	-	4,840

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

	Loans to banks	Wholesale Banking	Consumer Banking	Total	Loans to banks	Wholesale Banking	Consumer Banking	Total
Performing loans:								
Neither past due nor individually impaired	52,393	103,981	23,807	127,788	37,909	95,272	40,443	135,715
Past due less than 90 days	13	3,063	932	3,995	1	3,579	1,452	5,031
Performing forborne loans, net of provision	-	489	-	489	-	420	(2)	418
	52,406	107,533	24,739	132,272	37,910	99,271	41,893	141,164
Non-performing loans:								
Non-performing forborne loans	-	544	60	604	-	188	131	319
Other individually impaired loans net of provisions	13	1,859	42	1,901	115	1,634	11	1,645
	13	2,403	102	2,505	115	1,822	142	1,964
Total loans and advances	52,419	109,936	24,841	134,777	38,025	101,093	42,035	143,128
Portfolio impairment provision	(1)	(182)	(88)	(270)	(1)	(192)	(114)	(306)
Total net loans and advances	52,418	109,754	24,753	134,507	38,024	100,901	41,921	142,822

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 36 and for the effect of over-collateralisation.

In CB, 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 WB 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 WB compared to 31 December 2012. The unadjusted market value of collateral, which does not take into consideration over-collateralisation or adjustments outlined on page 76, was $197 billion (2012: $186 billion).

Further details on collateral are explained in the CB and WB sections on page 62 and 76 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**	**252,955**	**3,398**	**5,693**	**382,757**	**7,295**	**6,972**
Of which:									
Loans to customers	**129,802**	**3,897**	**1,279**	**166,785**	**3,381**	**5,486**	**296,587**	**7,278**	**6,765**
Loans to banks	**-**	**-**	**-**	**86,170**	**17**	**207**	**86,170**	**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	223,493	4,609	4,709	353,910	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	-	-	-	68,572	3	309	68,572	3	309

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

Collateral – Company

	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	**8,322**	**1,106**	**143**	**45,388**	**532**	**416**	**53,710**	**1,638**	**559**
Amount outstanding[1]	**24,841**	**983**	**204**	**162,355**	**3,076**	**4,356**	**187,196**	**4,059**	**4,560**
Of which:									
Loans to customers	**24,841**	**983**	**204**	**109,936**	**3,063**	**4,321**	**134,777**	**4,046**	**4,525**
Loans to banks	**-**	**-**	**-**	**52,419**	**13**	**35**	**52,419**	**13**	**35**
As at 31 December 2012									
Collateral	28,208	947	149	36,941	1,174	476	65,149	2,121	625
Amount outstanding[1]	42,035	1,519	233	139,118	3,580	3,522	181,153	5,099	3,755
Of which:									
Loans to customers	42,035	1,519	233	101,093	3,579	3,383	143,128	5,098	3,616
Loans to banks	-	-	-	38,025	1	139	38,025	1	139

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

Group overview continued

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:

Group

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

Company

	2013			2012		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Property	2	-	2	2	-	2
Other	-	-	-	3	-	3
	2	-	2	5	-	5

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 56.

The gross non-performing loans in CB 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 WB, non-performing loans have increased by $933 million 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 contained on page 50.

The cover ratio for CB remained broadly stable compared to 2012 while the cover ratio for WB was 48 per cent as 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 (IIPs) 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).

Group overview continued

The table below presents a movement of the gross non-performing loans to banks and customers, together with the provisions held for CB and WB and the respective cover ratios. Further details by geography are set out in pages 67 and 83 for CB and WB respectively.

Group

	2013			2012		
	Consumer Banking	Wholesale Banking	Total	Consumer Banking	Wholesale Banking	Total
	$million	$million	$million	$million	$million	$million
Gross Non Performing loans at 1January	1,266	4,272	5,538	1,069	3,043	4,112
Exchange translation differences	(29)	(141)	(170)	4	(43)	(39)
Transfer to Asset held for sale	(111)	-	(111)	-	-	-
Additions	1,053	1,912	2,965	686	1,681	2,367
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
Maturities and disposals	(905)	(838)	(1,743)	(493)	(409)	(902)
Transfers to performing loans	(130)	(86)	(216)	(88)	(175)	(263)
Net repayments	(108)	(613)	(721)	(86)	(163)	(249)
Amounts written off	(578)	(44)	(622)	(265)	(66)	(331)
Disposals of loans	(89)	(95)	(184)	(54)	(5)	(59)
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 180 days. Details on renegotiated and forborne loans are set out on page 54

Company

	2013			2012		
	Consumer Banking	Wholesale Banking	Total	Consumer Banking	Wholesale Banking	Total
	$million	$million	$million	$million	$million	$million
At 1 January	301	3,101	3,402	320	2,034	2,354
Exchange translation difference	(12)	(113)	(125)	(2)	(36)	(38)
Additions	83	1,379	1,462	92	1,333	1,425
Classified as impaired during the year	79	1,379	1,458	82	1,209	1,291
Recoveries on loans and advances previously written off	4	-	4	10	124	134
Maturities and disposals	(117)	(518)	(635)	(109)	(230)	(339)
Transfers to performing loans	(5)	(31)	(36)	(13)	(55)	(68)
Net repayments	(22)	(412)	(434)	9	(68)	(59)
Amounts written off	(34)	(25)	(59)	(49)	(31)	(80)
Disposals of loans	(56)	(50)	(106)	(56)	(76)	(132)
At 31 December	255	3,849	4,104	301	3,101	3,402
Individual impairment provisions[1]	(153)	(1,436)	(1,589)	(159)	(1,164)	(1,323)
Net non-performing loans	102	2,417	2,519	142	1,937	2,079
Portfolio impairment provision	(88)	(183)	(271)	(114)	(193)	(307)
Total	14	2,234	2,248	28	1,744	1,772
Cover ratio (%)	95%	42%	45%	91%	44%	48%

[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 180 days

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 on the following page).

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:

8. 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.
9. 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:
    a. For mortgages after 150 days
    b. For secured wealth management products after 90 days
    c. For unsecured consumer finance loans after 90 days
    d. For all other unsecured loans and loans secured on automobiles, after 150 days

IIP provisions are based on the estimated present values of future cash flows, 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 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.

Group overview continued

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 $1.5bn. 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 for banks and customers by business.

Group

	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)
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 not impaired during the year	(118)	(87)	(205)	(47)	(175)	(222)
Other movement[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

Company

	2013			2012		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Gross impaired loans at 1 January	300	3,522	3,822	307	2,417	2,724
Exchange translation differences	(12)	(113)	(125)	(2)	(36)	(38)
Classified as impaired during the year	79	1,436	1,515	90	1,239	1,329
Transferred to not impaired during the year	(6)	(3)	(9)	(10)	(48)	(58)
Other movement[1]	(107)	(489)	(596)	(85)	(50)	(135)
Gross impaired loans at 31 December	254	4,353	4,607	300	3,522	3,822

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

Group overview continued

Individual and portfolio impairment provisions

IIPs 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 WB exposures and within CB in Korea ($44 million increase) due to higher levels of filings under the PDRS. PIP remained at similar levels as 2012 with the reduction due to the transfer of certain businesses in Korea to as held for sale. The amounts written off primarily related to CB relating to higher levels of write-offs in unsecured lending which are written off after 150 days past due.

The following tables set out the movements in IIPs and PIPs :

Group

	2013			2012		
	Individual impairment provisions $million	Portfolio impairment provision $million	Total $million	Individual impairment provisions $million	Portfolio impairment provision $million	Total $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)
Release of acquisition fair values	(3)	-	(3)	(3)	-	(3)
Recoveries of amounts previously written off	211	-	211	288	-	288
Discount unwind	(93)	-	(93)	(77)	-	(77)
Transfer to asset 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 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

Company

	2013			2012		
	Individual impairment provisions $million	Portfolio impairment provision $million	Total $million	Individual impairment provisions $million	Portfolio impairment provision $million	Total $million
At 1 January	1,325	307	1,632	1,017	348	1,365
Exchange translation differences	(80)	(36)	(116)	(7)	(1)	(8)
Amounts written off	(302)	-	(302)	(324)	-	(324)
Recoveries of amounts previously written off	66	-	66	100	-	100
Discount unwind	(55)	-	(55)	(42)	-	(42)
New provisions	763	62	825	724	39	763
Recoveries/provisions no longer required	(113)	(62)	(175)	(143)	(79)	(222)
Net charge/(release) against profit	650	-	650	581	(40)	541
Provisions held at 31 December	1,604	271	1,875	1,325	307	1,632

Group overview continued

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

Group

	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)
Transferred to assets 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

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Provisions held at 1 January	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

Company

	2013						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Provisions held at 1 January	89	117	270	789	5	55	1,325
Exchange translation differences	(19)	(24)	(38)	3	(2)	-	(80)
Amounts written off	(127)	(74)	(46)	(44)	-	(11)	(302)
Recoveries of amounts previously written off	14	14	7	23	-	8	66
Discount unwind	(4)	(5)	(21)	(22)	-	(3)	(55)
New provisions	77	133	200	132	161	60	763
Recoveries/provisions no longer required	(20)	(15)	(20)	(51)	-	(7)	(113)
Net impairment charge against profit	57	118	180	81	161	53	650
Provisions held at 31 December	10	146	352	830	164	102	1,604

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Provisions held at 1 January	77	119	109	646	4	62	1,017
Exchange translation differences	1	(4)	(6)	-	2	-	(7)
Amounts written off	(102)	(76)	(42)	(73)	(1)	(30)	(324)
Recoveries of amounts previously written off	45	17	9	25	-	4	100
Discount unwind	(3)	(4)	(13)	(22)	-	-	(42)
New provisions	120	82	233	258	1	30	724
Recoveries/provisions no longer required	(49)	(17)	(20)	(45)	(1)	(11)	(143)
Net impairment charge against profit	71	65	213	213	-	19	581
Provisions held at 31 December	89	117	270	789	5	55	1,325

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 CB, 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 CB portfolio as a whole, to recognise the greater degree of inherent risk.

At 31 December 2013, $728 million (2012: $769 million) of CB 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 CB customers. These loans were largely concentrated in countries that have active government sponsored forbearance programmes and arise 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 WB 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 36.

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 IIP.

Group overview continued

The table below shows analysis forborne and other renegotiated 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 or 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 loans:						
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 CB portfolio in 2013 was marginally down compared to 2012. 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 the Americas, 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.

PIPs fell $26 million, largely due to the transfer of the Consumer Finance business in Korea to held for sale. Excluding this, the PIP was broadly flat compared to 2012.

Geographic analysis – Group

	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

Geographic analysis – Company

Compared to 2012, the Consumer Banking Portfolio is down by $17.2 billion or 41 per cent. The proportion of mortgages in the Company Banking Portfolio is lower than the Group proportion at 22 per cent. SME Lending has reduced by $2.9 billion or 46 per cent.

	2013						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Loans to individuals							
Mortgages	-	191	2,117	1,837	10	1,356	5,511
Other	7,960	834	813	3,211	-	3,066	15,884
Small and medium enterprises	-	410	2,023	943	-	70	3,446
	7,960	1,435	4,953	5,991	10	4,492	24,841
Portfolio impairment provision	(1)	(21)	(21)	(42)	-	(3)	(88)
Total loans and advances to customers	7,959	1,414	4,932	5,949	10	4,489	24,753

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Loans to individuals							
Mortgages	14,278	203	2,228	1,585	15	547	18,856
Other	10,038	1,006	761	2,728	-	2,308	16,841
Small and medium enterprises	3,251	370	2,073	642	-	2	6,338
	27,567	1,579	5,062	4,955	15	2,857	42,035
Portfolio impairment provision	(26)	(24)	(20)	(41)	-	(3)	(114)
Total loans and advances to customers	27,541	1,555	5,042	4,914	15	2,854	41,921

Maturity analysis - Group

The proportion of CB 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 which 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	One to five years	Over five years	Total
	$million	$million	$million	$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	One to five years	Over five years	Total
	$million	$million	$million	$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
Maturity Analysis – Company

	2013			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	1,529	1,253	2,729	5,511
Other	12,964	2,697	223	15,884
Small and medium enterprises	1,902	548	996	3,446
	16,395	4,498	3,948	24,841
Portfolio impairment provision				(88)
				24,753

	2012			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Loans to individuals				
Mortgages	611	1,772	16,473	18,856
Other	13,418	2,593	830	16,841
Small and medium enterprises	2,633	953	2,752	6,338
	16,662	5,318	20,055	42,035
Portfolio impairment provision				(114)
				41,921

Consumer Banking loan portfolio continued

Credit quality analysis - Group

The tables below set out the loan portfolio for CB 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 $593 million 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 PIP was flat with an increase in Hong Kong offset by reduced provisions in the other regions.

The PIP declined marginally due to the impact of exchange rates.

	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
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 quality analysis - Company

	2013				2012			
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total
	$million	$million	$million	$million	$million	$million	$million	$million
Loans to individuals								
Mortgages	5,201	293	80	5,574	18,407	418	98	18,923
Other	15,572	291	47	15,910	16,062	759	42	16,863
Small and medium enterprises	3,034	399	77	3,510	5,974	342	93	6,409
	23,807	983	204	24,994	40,443	1,519	233	42,195
Individual impairment provisions				(153)				(160)
Portfolio impairment provision				(88)				(114)
Total loans and advances				24,753				41,921

	2013						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Neither past due nor individually impaired	7,937	1,349	4,464	5,632	9	4,416	23,807
Past due but not individually impaired loans	-	82	464	351	1	85	983
Individually impaired loans	23	9	57	114	1	-	204
Individual impairment provisions	-	(5)	(32)	(106)	(1)	(9)	(153)
Portfolio impairment provision	(1)	(21)	(21)	(42)	-	(3)	(88)
Total loans and advances	7,959	1,414	4,932	5,949	10	4,489	24,753

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Neither past due nor individually impaired	26,955	1,544	4,710	4,428	13	2,793	40,443
Past due but not individually impaired loans	569	34	331	519	1	65	1,519
Individually impaired loans	58	6	50	117	2	-	233
Individual impairment provisions	(15)	(5)	(29)	(109)	(2)	-	(160)
Portfolio impairment provision	(26)	(24)	(20)	(41)	1	(4)	(114)
Total loans and advances	27,541	1,555	5,042	4,914	15	2,854	41,921

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 CB, 73 per cent of lending is fully secured and 9 per cent is partially secured. The following tables present an analysis of CB loans by product split between fully secured, partially secured and unsecured.

Secured and unsecured loans

Group

	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

Company

	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	5,511	-	-	5,511	18,856	-	-	18,856
Other	12,383	-	3,501	15,884	11,529	-	5,312	16,841
Small and medium enterprises	392	2,681	373	3,446	2,219	3,283	836	6,338
	18,286	2,681	3,874	24,841	32,604	3,283	6,148	42,035
Percentage of total loans	73%	11%	16%		78%	8%	14%	

[1] Amounts net of individual impairment provisions

Consumer Banking loan portfolio continued

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 LTVs increased reflecting an increased focus on first time buyers in 2013.

Group

	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

Mortgage loans to value ratios by geography continued

Company

	2013						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	%	%	%	%	%	%	%
Less than 50 per cent	-	46.9	65.8	35.4	27.0	21.6	54.9
50 per cent to 59 per cent	-	18.6	12.9	16.7	13.6	38.3	17.6
60 per cent to 69 per cent	-	16.9	10.5	18.4	21.3	25.6	13.7
70 per cent to 79 per cent	-	10.3	7.7	14.3	22.4	14.5	8.2
80 per cent to 89 per cent	-	5.9	2.7	6.6	15.1	-	3.7
90 per cent to 99 per cent	-	1.1	0.2	3.0	0.2	-	1.6
100 per cent and greater	-	0.1	0.2	5.6	0.4	-	0.3
Average Portfolio loan to value	-	51.3	40.6	59.8	64.3	52.3	47.7
Loans to individuals - Mortgages ($million)	-	191	2,117	1,837	10	1,356	5,511

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	%	%	%	%	%	%	%
Less than 50 per cent	52.5	37.9	55.8	24.1	30.0	25.4	54.3
50 per cent to 59 per cent	18.4	19.1	15.4	15.9	13.6	32.8	18.2
60 per cent to 69 per cent	13.8	21.0	12.7	17.3	20.0	21.1	14.3
70 per cent to 79 per cent	12.7	14.5	10.5	13.3	17.7	20.7	8.5
80 per cent to 89 per cent	2.6	5.9	4.7	8.0	16.7	-	3.5
90 per cent to 99 per cent	-	1.3	0.9	5.2	1.2	-	0.8
100 per cent and greater	-	0.3	-	16.2	0.8	-	0.5
Average Portfolio loan to value	46.1	54.1	45.6	72.1	50.1	53.9	47.8
Loans to individuals - Mortgages ($million)	14,278	203	2,228	1,585	15	547	18,856

Consumer Banking loan portfolio continued
Loan impairment
The total net impairment charge in CB 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.

Group

	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 $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 tables below set out the individual impairment charge by geography.
Company

	2013						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	76	74	52	88	-	16	306
Recoveries/provisions no longer required	(18)	(15)	(17)	(42)	-	(4)	(96)
Net individual impairment charge	58	59	35	46	-	12	210
Portfolio impairment provision charge	2	-	3	1	-	-	6
Net impairment charge	60	59	38	47	-	12	216

	2012						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	108	76	40	92	-	6	322
Recoveries/provisions no longer required	(49)	(17)	(18)	(43)	(1)	(3)	(131)
Net individual impairment charge	59	59	22	49	(1)	3	191
Portfolio impairment provision charge/ (release)	2	(1)	3	(19)	-	-	(15)
Net impairment charge	61	58	25	30	(1)	3	176

Consumer Banking loan portfolio continued

Impairment provisions on loans and advances

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

Group

	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
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/(release) 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

Company

	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
Loans to individuals				
Mortgages	67	1	(5)	63
Other	72	187	(183)	76
Small and medium enterprises	71	22	(29)	64
	210	210	(217)	203
Portfolio impairment provision	114	6	(32)	88
	324	216	(249)	291

	Impairment provision held as at 1 January 2012 $million	Net impairment charge/(release) 2012 $million	Amounts written off/ other movements 2012 $million	Impairment provision held as at 31 December 2012 $million
Loans to individuals				
Mortgages	64	2	1	67
Other	19	177	(174)	22
Small and medium enterprises	74	12	(15)	71
	157	191	(188)	160
Portfolio impairment provision	131	(15)	(2)	114
	288	176	(190)	274

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 CB by geography:

Group

	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%**

	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%

Company

	2013						
	Singapore $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	**23**	**23**	**68**	**140**	**1**	**-**	**255**
Individual impairment provisions[1]	**-**	**(5)**	**(32)**	**(106)**	**(1)**	**(9)**	**(153)**
Non-performing loans net of individual impairment provisions	**23**	**18**	**36**	**34**	**-**	**(9)**	**102**
Portfolio impairment provision							**(88)**
Net non-performing loans and advances							**14**
Cover ratio							**95%**

	2012						
	Singapore $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	70	24	63	142	2	-	301
Individual impairment provisions[1]	(14)	(5)	(29)	(109)	(2)	-	(159)
Non-performing loans net of individual impairment provisions	56	19	34	33	-	-	142
Portfolio impairment provision							(114)
Net non-performing loans and advances							28
Cover ratio							91%

1 The difference to total individual impairment provision at 31 December 2013 and 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 50

Wholesale Banking loan portfolio

The WB 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 the 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 WB 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' (see note 27 on page 214) and income generated recognised within 'other operating 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 the Americas, UK & Europe. The Group continues to be a net lender in the interbank money markets.

Geographic analysis - Group

The following tables show loans and advances to customers by industry and by geography split:

	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	4,828	14,029
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	50,128	166,785
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	50,047	166,485
Total loans and advances to banks	17,658	4,501	4,192	14,891	399	2,273	742	41,512	86,168

	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	26,122	68,570

Wholesale Banking loan portfolio continued

Geographic analysis - Company

	2013						
	Singapore $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	755	88	31	158	226	782	2,040
Construction	171	88	616	1,520	6	434	2,835
Commerce	16,693	397	846	4,822	98	9,753	32,609
Electricity, gas and water	711	514	31	252	37	2,481	4,026
Financing, insurance and business services	854	1,035	359	1,793	65	9,847	13,953
Governments	339	525	-	313	-	249	1,426
Mining and quarrying	2,605	889	13	539	385	9,819	14,250
Manufacturing	4,136	1,503	2,864	1,957	324	10,227	21,011
Commercial real estate	2,959	357	1,234	1,006	-	1,327	6,883
Transport, storage and communication	3,260	504	494	913	5	4,360	9,536
Other	968	-	20	88	-	291	1,367
Wholesale Banking	33,451	5,900	6,508	13,361	1,146	49,570	109,936
Portfolio impairment provision	(30)	(9)	(15)	(45)	(2)	(81)	(182)
Total loans and advances to customers	33,421	5,891	6,493	13,316	1,144	49,489	109,754
Total loans and advances to banks	4,451	3,864	381	2,237	241	41,244	52,418

	2012						
	Singapore $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	806	178	13	221	512	2,079	3,809
Construction	484	137	617	1,183	36	659	3,116
Commerce	11,773	304	788	4,459	182	6,304	23,810
Electricity, gas and water	407	284	7	144	-	2,723	3,565
Financing, insurance and business services	2,184	1,195	342	2,346	40	10,074	16,181
Governments	790	60	-	318	-	630	1,798
Mining and quarrying	1,938	641	394	759	319	9,495	13,546
Manufacturing	3,845	1,426	2,759	2,178	457	8,755	19,420
Commercial real estate	2,296	253	1,229	1,082	64	540	5,464
Transport, storage and communication	3,330	313	435	860	31	4,674	9,643
Other	468	2	6	98	-	167	741
Wholesale Banking	28,321	4,793	6,590	13,648	1,641	46,100	101,093
Portfolio impairment provision	(21)	(7)	(17)	(84)	(3)	(60)	(192)
Total loans and advances to customers	28,300	4,786	6,573	13,564	1,638	46,040	100,901
Total loans and advances to banks	6,205	2,246	560	3,131	115	25,767	38,024

Wholesale Banking loan portfolio continued
Maturity analysis - Group
The WB 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	4,953	5,599	3,477	14,029
Other	968	927	103	1,998
Wholesale Banking	106,827	48,449	11,509	166,785
Portfolio impairment provision				(300)
Total loans and advances to customers				166,485

	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
Wholesale Banking	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
Maturity Analysis – Company
The Wholesale Banking portfolio remains predominantly short-term, with 63 per cent (2012: 59 per cent) of loans and advances having a contractual maturity of one year or less.

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	1,322	611	107	2,040
Construction	1,949	740	146	2,835
Commerce	29,313	2,941	355	32,609
Electricity, gas and water	992	1,013	2,021	4,026
Financing, insurance and business services	7,717	5,830	406	13,953
Governments	1,069	272	85	1,426
Mining and quarrying	6,689	5,772	1,789	14,250
Manufacturing	13,728	5,935	1,348	21,011
Commercial real estate	1,975	4,567	341	6,883
Transport, storage and communication	3,425	3,796	2,315	9,536
Other	587	696	84	1,367
Wholesale Banking	68,766	32,173	8,997	109,936
Portfolio impairment provision				(182)
				109,754

	2012			
	One year or less $million	One to five years $million	Over five years $million	Total $million
Agriculture, forestry and fishing	2,751	903	155	3,809
Construction	2,161	790	165	3,116
Commerce	20,783	2,713	314	23,810
Electricity, gas and water	1,065	615	1,885	3,565
Financing, insurance and business services	9,010	6,127	1,044	16,181
Governments	1,538	182	78	1,798
Mining and quarrying	5,853	5,065	2,628	13,546
Manufacturing	11,874	6,431	1,115	19,420
Commercial real estate	1,831	3,402	231	5,464
Transport, storage and communication	2,094	4,761	2,788	9,643
Other	294	437	10	741
Wholesale Banking	59,254	31,426	10,413	101,093
Portfolio impairment provision				(192)
				100,901

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 WB, 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 $12.3 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, the Americas, UK & Europe. No impairment was recognised following these negotiations. Past due exposure in the mining and quarrying sector increased $500 million 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 $343 million. PIP 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 held as neither past due nor individually impaired.

Group

	2013				2012			
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total
	$million	$million	$million	$million	$million	$million	$million	$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	13,410	297	518	14,225	14,105	25	543	14,673
Other	1,956	18	63	2,037	1,280	12	33	1,325
Wholesale Banking	160,025	3,381	5,486	168,892	147,679	4,606	4,400	156,685
Individual impairment provisions				(2,107)				(1,764)
Portfolio impairment provision				(300)				(300)
Total loans and advances to customers				166,485				154,621
Loans and advances to banks	86,046	17	207	86,270	68,363	3	309	68,675
Individual impairment provisions				(100)				(103)
Portfolio impairment provision				(2)				(2)
Total loans and advances to banks				86,168				68,570

Wholesale Banking loan portfolio continued

Credit quality analysis - Company

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

	2013				2012			
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired loans	Total
	$million	$million	$million	$million	$million	$million	$million	$million
Agriculture, forestry and fishing	1,783	39	394	2,216	3,723	53	52	3,828
Construction	2,398	232	253	2,883	2,840	147	176	3,163
Commerce	31,646	524	876	33,046	23,150	251	834	24,235
Electricity, gas and water	3,924	98	4	4,026	3,533	-	38	3,571
Financing, insurance and business services	12,754	236	1,202	14,192	12,814	2,469	1,058	16,341
Governments	1,372	54	-	1,426	1,798	-	-	1,798
Mining and quarrying	13,084	1,071	128	14,283	13,359	186	-	13,545
Manufacturing	19,854	486	984	21,324	18,602	471	640	19,713
Commercial real estate	6,877	8	-	6,885	5,363	-	107	5,470
Transport, storage and communication	8,965	297	439	9,701	9,344	2	476	9,822
Other	1,324	18	41	1,383	746	-	2	748
Wholesale Banking	103,981	3,063	4,321	111,365	95,272	3,579	3,383	102,234
Individual impairment provisions				(1,429)				(1,141)
Portfolio impairment provision				(182)				(192)
Total loans and advances to customers				109,754				100,901
Loans and advances to banks	52,393	13	35	52,441	37,909	1	139	38,049
Individual impairment provisions				(22)				(24)
Portfolio impairment provision				(1)				(1)
Total loans and advances to banks				52,418				38,024

Wholesale Banking loan portfolio continued

Loans to customers

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

Group

	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
Neither past due nor individually impaired	**24,982**	**32,586**	**6,606**	**23,798**	**5,923**	**12,607**	**5,614**	**47,909**	**160,025**
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**	**50,047**	**166,485**

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Neither past due nor individually impaired	20,674	28,036	7,554	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

Company

	2013						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Neither past due nor individually impaired	**32,587**	**5,790**	**5,666**	**11,611**	**926**	**47,401**	**103,981**
Past due but not individually impaired loans	**826**	**9**	**232**	**399**	**-**	**1,597**	**3,063**
Individually impaired loans	**48**	**242**	**930**	**2,075**	**383**	**643**	**4,321**
Individual impairment provisions	**(10)**	**(141)**	**(320)**	**(724)**	**(163)**	**(71)**	**(1,429)**
Portfolio impairment provision	**(30)**	**(9)**	**(15)**	**(45)**	**(2)**	**(81)**	**(182)**
Total loans and advances to customers	**33,421**	**5,891**	**6,493**	**13,316**	**1,144**	**49,489**	**109,754**

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Neither past due nor individually impaired	28,036	4,705	5,950	11,722	1,632	43,227	95,272
Past due but not individually impaired loans	160	3	134	503	-	2,779	3,579
Individually impaired loans	199	197	747	2,103	12	125	3,383
Individual impairment provisions	(74)	(112)	(241)	(680)	(3)	(31)	(1,141)
Portfolio impairment provision	(21)	(7)	(17)	(84)	(3)	(60)	(192)
Total loans and advances to customers	28,300	4,786	6,573	13,564	1,638	46,040	100,901

Wholesale Banking loan portfolio continued

Loans to banks

The table below sets out an analysis of the loans and advances to 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.

Group

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	17,648	4,488	4,192	14,805	399	2,274	742	41,498	86,046
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	41,512	86,168

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	19,349	6,205	4,633	8,048	570	3,076	378	26,104	68,363
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	26,122	68,570

Company

2013	Singapore $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	4,438	3,864	381	2,237	241	41,232	52,393
Past due but not individually impaired loans	13	-	-	-	-	-	13
Individually impaired loans	-	-	-	-	-	35	35
Individual impairment provisions	-	-	-	-	-	(22)	(22)
Portfolio Impairment provision	-	-	-	-	-	(1)	(1)
Total loans and advances to banks	4,451	3,864	381	2,237	241	41,244	52,418

2012	Singapore $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	6,205	2,246	559	3,035	115	25,749	37,909
Past due but not individually impaired loans	-	-	1	-	-	-	1
Individually impaired loans	-	-	-	97	-	42	139
Individual impairment provisions	-	-	-	-	-	(24)	(24)
Portfolio impairment provision	-	-	-	(1)	-	-	(1)
Total loans and advances to banks	6,205	2,246	560	3,131	115	25,767	38,024

Wholesale Banking loan portfolio continued
Credit risk mitigation
Collateral held against WB 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 36) 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 WB loan exposures.

Group	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

Company	2013 $million	2012 $million
Cash	**10,637**	6,439
Property	**8,563**	7,376
Debt securities		
AAA	**1,411**	1,537
AA- to AA+	**6,886**	3,097
BBB- to BBB+	**2,463**	325
Lower than BBB-	**855**	1,285
Unrated	**4,084**	5,063
	15,699	11,307
Other (asset based)	**10,489**	11,819
Total value of collateral	**45,388**	36,941

Wholesale Banking loan portfolio continued
Commercial real estate (CRE)

The Group has lending to commercial real estate (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 LTV ratios for such loans. The average LTV 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	1,264	40	364	6,584

Wholesale Banking loan portfolio continued

Commercial real estate (CRE)

The Company has exposure to CRE of $6,883 million (31 December 2012: $5,464 million). The following table presents a geographical analysis of the loan to value ratios for such loans. Table to be updated for new segmental presentation.

	2013						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	%	%	%	%	%	%	%
Less than 50 per cent	45.9	81.4	57.5	40.4	-	93.0	71.3
50 per cent to 59 per cent	48.0	18.6	22.2	51.0	-	-	20.8
60 per cent to 69 per cent	6.1	-	20.3	4.8	-	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	45.8	38.6	40.9	59.0	-	35.1	41.1
Loans ($million)	1,154	85	1,338	653	-	851	4,081

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	%	%	%	%	%	%	%
Less than 50 per cent	62.4	42.7	48.6	59.5	-	97.3	60.2
50 per cent to 59 per cent	24.1	-	25.5	34.2	-	2.7	24.9
60 per cent to 69 per cent	13.5	57.3	25.9	4.2	-	-	14.4
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	-	-	-	2.1	-	-	0.5
Average Portfolio loan to value	44.3	43.4	48.9	48.5	-	40.1	45.7
Loans ($million)	1,560	98	1,263	1,194	-	364	4,479

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 WB loans and advances and other credit risk provisions by geography.

Group

	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/(credit)	(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/(release)	(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	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

The table below sets out the net impairment charge by geography for Wholesale Banking:

Company

	2013						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	1	59	148	44	161	44	457
Recoveries/provisions no longer required	(2)	-	(3)	(9)	-	(3)	(17)
Net individual impairment charge/(credit)	(1)	59	145	35	161	41	440
Portfolio impairment provision charge/(release)	11	3	1	(1)	(1)	(19)	(6)
Net impairment charge	10	62	146	34	160	22	434
Other credit risk provisions	2	-	1	-	-	2	5
Total impairment	12	62	147	34	160	24	439

	2012						
	Singapore $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas UK & Europe $million	Total $million
Gross impairment charge	12	6	193	166	1	24	402
Recoveries/provisions no longer required	-	-	(2)	(2)	-	(8)	(12)
Net individual impairment charge	12	6	191	164	1	16	390
Portfolio impairment provision charge/(release)	1	3	3	-	1	(34)	(26)
Net loan impairment charge/(release)	13	9	194	164	2	(18)	364
Other credit risk provisions	-	-	-	-	-	-	-
Total impairment	13	9	194	164	2	(18)	364

Wholesale Banking loan portfolio continued
Impairment provisions on loans and advances

Group

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/(release) 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/(release) 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

Impairment provisions on loans and advances

Company

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/(release) 2013 $million	Amounts written off/ other movements 2013 $million	Impairment provision held as at 31 December 2013 $million
Agriculture, forestry and fishing	18	178	(20)	176
Construction	47	6	(5)	48
Commerce	425	29	(17)	437
Electricity, gas and water	6	-	(6)	-
Financing, insurance and business services	160	12	67	239
Mining and quarrying	-	36	(3)	33
Manufacturing	294	167	(148)	313
Commercial real estate	6	(2)	(2)	2
Transport, storage and communication	179	7	(21)	165
Other	6	7	3	16
Individual impairment provision against loans and advances to customers	1,141	440	(152)	1,429
Portfolio impairment provision against loans and advances to customers	192	(6)	(4)	182
Total impairment provisions on loans and advances to customers	1,333	434	(156)	1,611
Individual impairment provision against loans and advances to banks	24	-	(2)	22
Portfolio impairment provision against loans and advances to banks	1	-	-	1
Total impairment provisions on loans and advances to banks	25	-	(2)	23

	Impairment provision held as at 1 January 2012 $million	Net impairment charge /(release) 2012 $million	Amounts written off/ other movements 2012 $million	Impairment provision held as at 31 December 2012 $million
Agriculture, forestry and fishing	15	-	4	19
Construction	44	5	(2)	47
Commerce	294	47	84	425
Electricity, gas and water	4	-	2	6
Financing, insurance and business services	161	81	(82)	160
Mining and quarrying	-	-	-	-
Manufacturing	301	226	(234)	293
Commercial real estate	10	-	(4)	6
Transport, storage and communication	25	7	147	179
Other	2	-	4	6
Individual impairment provision against loans and advances to customers	856	366	(81)	1,141
Portfolio impairment provision against loans and advances to customers	216	(25)	1	192
Total impairment provisions on loans and advances to customers	1,072	341	(80)	1,333
Individual impairment provision against loans and advances to banks	4	24	(4)	24
Portfolio impairment provision against loans and advances to banks	1	-	-	1
Total impairment provisions on loans and advances to banks	5	24	(4)	25

Wholesale Banking loan portfolio continued

Non-performing loans

Gross non-performing loans in WB, the definition of which is set out on page 48, 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 the Americas, UK & Europe regions.

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

Group

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 48

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 reflect 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 48

Wholesale Banking loan portfolio continued
Non-performing loans

Company

	2013						
	Singapore $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	**20**	**242**	**926**	**1,604**	**383**	**678**	**3,853**
Individual impairment provision[1]	**(10)**	**(141)**	**(320)**	**(710)**	**(163)**	**(93)**	**(1,437)**
Non-performing loans net of individual impairment provision	**10**	**101**	**606**	**894**	**220**	**585**	**2,416**
Portfolio impairment provision							**(183)**
Net non-performing loans and advances							**2,233**
Cover ratio							**42%**

	2012						
	Singapore $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	199	115	743	1,865	13	166	3,101
Individual impairment provision[1]	(74)	(79)	(240)	(713)	(3)	(55)	(1,164)
Non-performing loans net of individual impairment provisions	125	36	503	1,152	10	111	1,937
Portfolio impairment provision							(193)
Net non-performing loans and advances							1,744
Cover ratio							44%

[1] The difference to total individual impairment provision reflect 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 48

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

Group

	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	23,771	4,456	28,227	20,755	6,516	27,271
AA- to AA+	23,267	19,228	42,495	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-	3,291	898	4,189	3,027	502	3,529
Unrated	8,101	1,500	9,601	6,471	1,571	8,042
	85,735	31,407	117,142	84,177	29,695	113,872
	85,920	31,407	117,327	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	70,545	26,246	96,791	65,356	26,740	92,096
	83,244	31,407	114,651	80,571	29,695	110,266
Assets at amortised cost[1]						
Loans and receivables	2,676	-	2,676	3,851	-	3,851
	85,920	31,407	117,327	84,422	29,695	114,117

[1] See note 15, 16 and 21 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 35.

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.

Debt securities and treasury bills Continued

Company

	2013			2012		
	Debt securities $million	Treasury bills $million	Total $million	Debt securities $million	Treasury bills $million	Total $million
Net impaired securities						
Impaired securities	123	-	123	137	-	137
Impairment provisions	(121)	-	(121)	(128)	-	(128)
	2	-	2	9	-	9
Securities neither past due nor impaired						
AAA	20,350	2,907	23,257	17,800	6,289	24,089
AA- to AA+	7,472	1,538	9,010	7,619	107	7,726
A- to A+	3,200	-	3,200	3,423	-	3,423
BBB- to BBB+	4,850	2,977	7,827	7,389	2,690	10,079
Lower than BBB-	2,042	408	2,450	1,792	92	1,884
Unrated	5,670	483	6,153	4,946	348	5,294
	43,584	8,313	51,897	42,969	9,526	52,495
	43,586	8,313	51,899	42,978	9,526	52,504
Of which:						
Assets at fair value[1]						
Trading	6,543	2,276	8,819	8,925	721	9,646
Available-for-sale	35,242	6,037	41,279	31,782	8,805	40,587
	41,785	8,313	50,098	40,707	9,526	50,233
Assets at amortised cost[1]						
Loans and receivables	1,801	-	1,801	2,271	-	2,271
	1,801	-	1,801	2,271	-	2,271
	43,586	8,313	51,899	42,978	9,526	52,504

[1] See note 15, 16 and 21 of the financial statements for further details

Using internal credit ratings, $5,684 million (2012: $4,627 million) of these securities are considered to be 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 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 15 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 – Group

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 EBA) to the eurozone countries of 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.

	2013					
Country As 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 – Company

The Company has no direct sovereign exposure to GIIPS and only $0.3 billion direct sovereign exposure to other eurozone countries.

The Company's direct non-sovereign exposures to GIIPS is $3.3 billion ($2.9 billion after collateral and netting). Non-sovereign exposure to other eurozone countries is $0.3 billion after collateral and netting.

	2013					
Country As at 31 December 2013	Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	-	516	-	394	910
Other financial institutions	-	950	5	-	-	955
Other corporate	14	1,337	92	-	15	1,458
Total gross exposure	14	2,287	613	-	409	3,323
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	-	(69)	-	(167)	(236)
Other financial institutions	-	(191)	(5)	-	-	(196)
Other corporate	-	(12)	-	-	(4)	(16)
Total collateral/netting	-	(203)	(74)	-	(171)	(448)
Direct sovereign exposure	-	-	-	-	-	-
Banks	-	-	447	-	227	674
Other financial institutions	-	759[1]	-	-	-	759
Other corporate	14	1,325	92	-	11	1,442
Total net exposure at 31 December 2013	14	2,084	539	-	238	2,875
Total net exposure at 31 December 2012	29	1,339	418	20	179	1,985

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

Selected European country exposures continued

The Group's exposure to GIIPS as at 31 December 2013 is analysed by financial asset as follows:

Country As at 31 December 2013	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 net exposure	9	406	300	-	221	936

At 31 December 2012	Greece	Ireland	Italy	Portugal	Spain	Total
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 International Swaps and Derivatives Association netting

Selected European country exposures continued

The Company's exposure to GIIPS as at 31 December 2013 is analysed by financial asset as follows:

	2013					
Country As at 31 December 2013	Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
Loans and advances						
Loans and receivables	8	1,273	260	-	10	1,551
Held at fair value through profit or loss	-	-	-	-	-	-
Total gross loans and advances	8	1,273	260	-	10	1,551
Collateral held against loans and advances	-	-	(50)	-	(3)	(53)
Total net loans and advances	8	1,273	210	-	7	1,498
Debt securities						
Trading						
Available-for-sale	-	51	-	-	6	57
Loans and receivables	-	-	-	-	-	-
Total gross debt securities	-	51	-	-	6	57
Collateral held against debt securities	-	-	-	-	-	-
Total net debt securities	-	51	-	-	6	57
Derivatives						
Gross exposure	-	212	24	-	168	404
Collateral/netting[1]	(0)	(203)	(24)	-	(168)	(395)
Total derivatives	-	9	-	-	-	9
Contingent liabilities and commitments	6	751	329	-	225	1,311
Total net exposure (on and off balance sheet)[1]	14	2,084	539	-	238	2,875
Total balance sheet net exposure	8	1,536	284	-	184	2,012
At 31 December 2012						
Net loans and advances	18	1	276	20	19	334
Net debt securities	-	51	-	-	84	135
Net derivatives	2	33	4	-	6	45
Contingent liabilities and commitments	9	1,254	138	-	70	1,471
Total net exposure (on and off balance sheet)[1]	29	1,339	418	20	179	1,985

[1] Based on International Swaps and Derivatives Association netting

Selected European country exposures continued

Other selected eurozone countries - Group

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.

Other selected eurozone countries - Company

A summary analysis of the Company'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	-	69	-	-	69
Banks	1,931	4,192	859	1,122	8,104
Other financial institutions	79	72	104	148	403
Other corporate	899	670	4,888	547	7,004
Total net exposure at 31 December 2013	**2,909**	**5,003**	**5,851**	**1,817**	**15,580**
Total net exposure at 31 December 2012	2,378	12,251	10,178	2,502	27,309

This exposure primarily consists of balances with corporates. The substantial majority of total gross GIIPS exposure has a tenor of more than five years, with approximately 21 per cent having a tenor of less than one year.

Country cross-border risk - Group

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 UAE 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 $million	More than one year $million	Total $million	Less than One year $million	More than one year $million	Total $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, foreign exchange 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 chairman of the Federal Reserve on 22 May, 2013 that it 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.

Group

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

	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

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

Market risk continued

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

	2013				2012			
	Average $million	High[4] $million	Low[4] $million	Actual[5] $million	Average $million	High[4] $million	Low[4] $million	Actual[5] $million
Trading and Non-trading [3]	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 Trading & 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 non-trading book	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

Market risk continued

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

[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

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

Company

Daily Value at Risk (VaR at 97.5%, 1 Day)

Trading and Non-trading	2013 $million	2012 $million
Interest rate risk[1]	**14.8**	19.3
Foreign exchange risk	**6.5**	3.3
Commodity risk	**1.5**	1.9
Equity risk	**18.3**	16.4
Total[2]	**30.6**	25.5

Average daily income earned from market risk related activities

Trading	2013 $million	2012 $million
Interest rate risk[1]	**5.9**	7.9
Foreign exchange risk	**6.5**	3.3
Commodity risk	**1.5**	1.0
Equity risk	**1.7**	1.8
Total[2]	**8.7**	7.9

Non-trading		
Interest rate risk[1]	**13.2**	16.3
Equity risk	**17.4**	16.9
Total[2]	**25.0**	25.7

[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.

Market risk continued

Market risk VaR coverage

Interest rate risk from non-trading book portfolios is transferred to Financial Markets where it is managed by local Asset and Liability Management (ALM) desks under the supervision of local Asset and Liability Committees (ALCO). 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 15 to the financial statements.

Mapping of market risk items to the balance sheet

Market risk contributes only 7 per cent of the group's regulatory capital risk-weighted assets (RWA) requirement. As highlighted in the VaR disclosure, the majority of market risk is managed within Financial Markets, which spans both trading book and non-trading book. The non-trading equity market risk is generated by listed private equity holdings within Principal Finance. Group Treasury manages the market risk associated with debt and equity capital issuance. The disclosures below are subject to change. The Group is exploring the possibility of presenting quantitative information on the tables below.

	2013		
	Amounts as per financial statements $million	Exposure to trading risk $million	Exposure to non-trading risk $million
Financial Assets			
Derivative financial instruments	62,161	61,059	1,102
Loans and advances to banks	86,168	13,472	72,696
Loans and advances to customers	295,891	8,643	287,248
Debt securities	85,920	11,638	74,282
Treasury bills	31,407	5,151	26,256
Equities	6,454	1,348	5,106
Other Assets	36,004	10,918	25,086
Total	604,005	112,229	491,776
Financial Liabilities			
Deposits by banks	44,427	-	44,427
Customer accounts	390,971	-	390,971
Debt securities in issue	52,762	-	52,762
Derivative financial instruments	62,289	60,563	1,726
Short positions	5,293	5,139	154
Total	555,742	65,702	490,040

Market risk continued

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 RWA 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.

Market risk continued

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 $22.4 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 as 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 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 (58 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 , 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.

Liquidity risk continued

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 Foreign Exchange 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 $2.7 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 153.

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.

Composition of Liabilities	2013 %
Customer accounts	58.4
Deposits by banks	6.6
Derivatives	9.3
Other liabilities	8.2
Debt securities in issue	7.9
Subordinated liabilities and other borrowed funds	3.3
Shareholders' equity	6.3
Total	100.0

Geographic distribution of customer accounts	2013 %
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

Liquidity risk continued

Encumbered assets - Group

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	62,161	-	-	62,161	49,495	-	-	49,495
Loans and advances to banks[1]	46,917	36,890	2,361	86,168	37,455	30,392	723	68,570
Loans and advances to customers[1]	294,760	-	1,131	295,891	282,238	-	2,378	284,616
Investment securities[1]	48,355	71,910	3,516	123,781	48,910	70,041	1,598	120,549
Other assets	19,809	-	13,685	33,494	19,216	-	9,259	28,475
Current tax assets	234	-	-	234	215	-	-	215
Prepayments and accrued income	2,493	-	-	2,493	2,552	-	-	2,552
Interest in associates and joint ventures	1,767	-	-	1,767	1,684	-	-	1,684
Goodwill and intangible assets	5,694	-	-	5,694	6,787	-	-	6,787
Property, plant and equipment	6,903	-	-	6,903	6,620	-	-	6,620
Deferred tax assets	558	-	-	558	676	-	-	676
Total	499,597	153,388	20,693	673,678	465,184	151,634	13,958	630,776

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

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.

Liquidity assets continued

Encumbered assets - Company

Encumbered assets represent those on balance sheet assets pledged or used as collateral in respect of certain of the Group's liabilities. Cash collateral pledged against derivatives is included within other assets. Taken together these encumbered assets represent 1.9 per cent (2012: 2.0 per cent) of total assets, continuing the Company's historical low level of encumbrance.

The following table provides a reconciliation of the Company'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	4,144	37,128	-	41,272	4,629	45,026	-	49,655
Derivative financial instruments	60,146	-	-	60,146	47,443	-	-	47,443
Loans and advances to banks[1]	30,090	20,076	2,252	52,418	18,132	19,169	723	38,024
Loans and advances to customers[1]	134,115	-	392	134,507	141,711	-	1,111	142,822
Investment securities[1]	9,816	45,470	-	55,286	8,662	45,419	947	55,028
Other assets	16,565	-	5,055	21,620	13,724	-	5,055	18,779
Due from Subsidiary undertakings and other related parties	17,520	-	-	17,520	18,029	-	-	18,029
Current tax assets	29	-	-	29	37	-	-	37
Prepayments and accrued income	1,133	-	-	1,133	1,170	-	-	1,170
Investment in Subsidiary undertakings, Interest in associates and joint ventures	15,307	-	-	15,307	14,105	-	-	14,105
Goodwill and intangible assets	915	-	-	915	1,031	-	-	1,031
Property, plant and equipment	484	-	-	484	626	-	-	626
Deferred tax assets	400	-	-	400	571	-	-	571
Total	290,664	102,674	7,699	401,037	269,870	109,614	7,836	387,320

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 comprise 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
- Assets that cannot be encumbered, such as derivatives, goodwill and intangible and deferred tax assets

Liquidity risk continued

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]	295,891	284,616
Customer accounts[2]	390,971	385,117
	%	%
Advances to deposits ratio	75.7	73.9

[1] see note 19 to the financial statements on page 200
[2] see note 30 to the financial statements on page 217

Company

	2013 $million	2012 $million
Loans and advances to customers[1]	134,507	142,822
Customer accounts[2]	161,431	174,850
	%	%
Advances to deposits ratio	83.3	81.7

[1] see note 19 to the financial statements on page 200
[2] see note 30 to the financial statements on page 217

Liquidity risk continued

Liquid asset ratio

Group

The Liquid Asset Ratio (LAR) ensures that a proportion of 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 bank (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	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
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	41,498	86,061
Deposits by banks	(2,091)	(4,792)	(1,479)	(6,926)	(459)	(1,574)	(566)	(26,540)	(44,427)
Treasury bills	10,247	3,627	6,794	1,618	2,167	1,620	2,777	2,557	31,407
Debt securities	20,273	11,391	5,271	15,179	2,495	4,387	2,803	24,121	85,920
of which :									
Issued by governments	4,256	2,988	3,664	12,590	1,760	3,784	1,307	3,525	33,874
Issued by banks	11,206	3,749	935	1,559	327	265	267	13,856	32,164
Issued by corporate and other entities	4,811	4,654	672	1,030	408	338	1,229	6,740	19,882
Illiquid securities and other assets	(170)	(348)	-	-	(769)	(43)	-	(1,051)	(2,381)
Liquid assets	48,004	14,425	15,123	33,030	4,055	7,511	6,733	72,287	201,168
Total assets	141,261	117,296	62,018	110,753	22,747	41,914	19,346	158,343	673,678
Liquid assets to total asset ratio (%)	34.0	12.3	24.4	29.8	17.8	17.9	34.8	45.7	29.9

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$ million	$million
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	26,104	68,364
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	1,497	366	561	319	11,445	32,261
Issued by corporate and other entities	3,754	3,747	1,022	845	600	190	1,357	6,958	18,473
Illiquid securities and other	(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	65,369	192,747
Total assets	129,821	111,997	69,173	106,406	23,812	40,779	17,495	131,293	630,776
Liquid assets to total asset ratio (%)	35.4	17.1	24.0	24.9	21.8	20.0	33.5	49.8	30.6

Liquidity risk continued

Liquid asset ratio

Company

	2013						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$ million	$ million	$ million	$ million	$ million	$ million	$million
Cash and balances at central banks	1,476	4,994	613	2,122	111	31,956	41,272
Restricted balances	(1,476)	(534)	(463)	(1,327)	(47)	(297)	(4,144)
Loans and advances to banks - net of Non-performing loans	4,451	3,864	381	2,237	241	41,231	52,405
Deposits by banks	(4,792)	(2,574)	(458)	(1,411)	(218)	(26,513)	(35,966)
Treasury bills	2,123	273	2,161	641	559	2,556	8,313
Debt securities	9,049	1,526	2,495	3,973	448	26,095	43,586
of which :							
Issued by governments	2,184	1,456	1,760	3,372	186	3,348	12,306
Issued by banks	2,927	9	327	265	262	13,816	17,606
Issued by corporate and other entities	3,938	61	408	336	-	8,931	13,674
Illiquid securities and other	(348)	-	(769)	-	-	(1,100)	(2,217)
Liquid assets	10,483	7,549	3,960	6,235	1,094	73,928	103,249
Total assets	86,214	23,465	21,947	37,860	3,043	228,508	401,037
Liquid assets to total asset ratio (%)	12.2	32.2	18.0	16.5	36.0	32.4	25.7

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$ million	$ million	$ million	$ million	$ million	$ million	$million
Cash and balances at central banks	1,915	5,116	808	1,808	55	39,953	49,655
Restricted balances	(1,759)	(699)	(553)	(1,213)	(53)	(352)	(4,629)
Loans and advances to banks - Non-performing loans	6,205	2,246	560	3,034	115	25,749	37,909
Deposits by banks	(2,005)	(1,824)	(440)	(1,681)	(58)	(23,335)	(29,343)
Treasury bills	4,102	425	1,906	859	134	2,100	9,526
Debt securities	11,287	1,404	3,617	4,185	337	22,148	42,978
of which :							
Issued by governments	3,086	1,026	2,651	3,437	22	3,959	14,181
Issued by banks	4,453	111	366	561	315	11,465	17,271
Issued by corporate and other entities	3,748	267	600	187	-	6,724	11,526
Illiquid securities and other	(75)	(15)	(808)	-	-	(1,489)	(2,387)
Liquid assets	19,670	6,653	5,090	6,992	530	64,774	103,709
Total assets	111,516	23,462	22,986	36,471	2,565	190,320	387,320
Liquid assets to total asset ratio (%)	17.6	28.4	22.1	19.2	20.7	34.0	26.8

Liquidity risk continued

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 the LCR, well ahead of the required implementation date. As at 31 December 2013 both 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 eight-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 eight-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 eight-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 Group Market Risk (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 two-notch downgrade results in an estimated outflow of $1.2 billion.

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Liquidity risk continued

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	13,633	8,718	62,161
Loans and advances to banks[1]	36,890	21,704	13,349	5,543	5,153	1,647	1,798	84	86,168
Loans and advances to customers[1]	73,036	29,469	23,541	10,772	11,553	22,549	48,297	76,674	295,891
Investment securities[1]	11,496	13,948	12,567	7,252	11,234	21,052	30,355	15,877	123,781
Other assets	14,677	10,964	2,300	44	316	35	201	22,606	51,143
Total assets	187,228	83,725	60,160	28,125	31,868	54,368	94,284	133,920	673,678

	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	177	173	521	716	44,427
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	9,608	4,101	3,472	8,725	13,104	9,051	62,289
Senior debt[1]	478	291	920	430	19	607	2,981	803	6,529
Other debt securities in issue[1]	10,114	13,252	11,516	1,422	1,938	1,141	1,992	4,858	46,233
Other liabilities	12,759	8,665	3,259	960	432	544	1,099	10,911	38,629
Due to Parent companies	16,364	-	-	-	-	-	-	-	16,364
Subordinated liabilities and other borrowed funds	-	-	-	-	-	6	4,785	17,356	22,147
Total liabilities	362,359	83,017	53,265	20,171	16,831	13,770	30,792	47,384	627,589
Net liquidity gap	(175,131)	708	6,895	7,954	15,037	40,598	63,492	86,536	46,089

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 165-166)

Liquidity risk continued

Liquidity analysis of the Group's balance sheet continued

Contractual maturity of assets and liabilities continued

	2012								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$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	16,312	6,275	3,514	9,127	1,635	1,125	190	68,570
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	12,602	1,902	602	277	80	207	21,676	47,009
Total assets	165,509	79,590	47,970	27,393	34,191	44,738	94,400	136,985	630,776

	2012								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$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	6,382	11,925	9,660	48,194
Senior debt[1]	279	1,339	1,732	768	213	1,081	1,305	404	7,121
Other debt securities in issue[1]	7,961	15,862	4,889	2,278	2,723	1,693	1,454	2,725	39,585
Other liabilities	9,671	7,273	3,499	1,360	528	715	889	11,580	35,515
Due to Parent companies	15,096	-	-	-	-	-	-	-	15,096
Subordinated liabilities and other borrowed funds	488	129	-	-	955	-	3,496	17,805	22,873
Total liabilities	336,200	81,605	45,521	18,480	19,360	16,075	24,335	49,320	590,896
Net liquidity gap	(170,691)	(2,015)	2,449	8,913	14,831	28,663	70,065	87,665	39,880

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 165-166)

Liquidity risk continued

Liquidity analysis of the Company's balance sheet

Contractual maturity of assets and liabilities continued

	2013								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Assets									
Cash and balances at central banks	37,128	-	-	-	-	-	-	4,144	41,272
Derivative financial instruments	6,550	7,319	8,189	4,429	3,529	8,706	12,734	8,690	60,146
Loans and advances to banks[1]	20,076	12,627	9,444	3,688	3,514	1,568	1,417	84	52,418
Loans and advances to customers[1]	44,064	17,321	12,236	5,100	6,170	10,278	26,392	12,946	134,507
Investment securities[1]	2,693	3,103	3,747	2,562	3,601	8,963	20,040	10,577	55,286
Investment in subsidiary undertakings	-	-	-	-	-	-	-	14,763	14,763
Other assets	12,155	8,547	1,450	33	106	7	14	2,813	25,125
Due from subsidiary undertakings	17,520	-	-	-	-	-	-	-	17,520
Total assets	140,186	48,917	35,066	15,812	16,920	29,522	60,597	54,017	401,037

	2013								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Liabilities									
Deposits by banks[1]	30,578	3,663	1,149	84	106	31	308	47	35,966
Customer accounts[1]	110,914	25,002	11,456	5,858	3,861	537	3,691	112	161,431
Derivative financial instruments	6,685	7,191	9,404	4,111	3,306	8,318	12,267	8,421	59,703
Senior debt	-	-	-	-	-	-	189	-	189
Other debt securities in issue	9,332	11,667	10,855	1,329	1,835	1,129	1,177	2,836	40,160
Other liabilities	8,360	4,915	2,266	819	61	153	493	2,777	19,844
Due to subsidiary undertakings	33,096	-	-	-	-	-	-	-	33,096
Subordinated liabilities and other borrowed funds	-	-	-	-	-	-	4,691	15,050	19,741
Total liabilities	198,965	52,438	35,130	12,201	9,169	10,168	22,816	29,243	370,130
Net liquidity gap	(58,779)	(3,521)	(64)	3,611	7,751	19,354	37,781	24,774	30,907

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 167-168)

Liquidity risk continued

Liquidity analysis of the Company's balance sheet continued

Contractual maturity of assets and liabilities continued

	2012								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Assets									
Cash and balances at central banks	49,655	-	-	-	-	-	-	-	49,655
Derivative financial instruments	4,751	5,118	4,747	2,711	1,791	7,170	10,747	10,408	47,443
Loans and advances to banks[1]	19,169	7,486	5,178	1,607	1,877	1,503	1,032	172	38,024
Loans and advances to customers[1]	38,083	15,642	11,615	6,540	3,730	12,282	24,462	30,468	142,822
Investment securities[1]	3,317	3,252	5,712	3,388	3,859	6,668	19,079	9,753	55,028
Investment in subsidiary undertakings	-	-	-	-	-	-	-	13,571	13,571
Other assets	8,257	9,816	1,480	100	57	15	14	3,009	22,748
Due from subsidiary undertakings	18,029	-	-	-	-	-	-	-	18,029
Total assets	141,261	41,314	28,732	14,346	11,314	27,638	55,334	67,381	387,320

	2012								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Liabilities									
Deposits by banks[1]	26,996	1,516	319	41	104	15	329	23	29,343
Customer accounts[1]	116,062	26,558	14,056	6,472	4,204	4,980	2,269	249	174,850
Derivative financial instruments	4,555	5,107	4,527	3,360	1,789	5,693	11,460	9,506	45,997
Senior debt	-	-	-	-	-	-	-	232	232
Other debt securities in issue	7,228	14,993	4,450	1,982	2,688	1,478	1,492	1,285	35,596
Other liabilities	6,738	3,518	2,363	980	32	358	203	3,127	17,319
Due to subsidiary undertakings	39,244	-	-	-	-	-	-	-	39,244
Subordinated liabilities and other borrowed funds	585	100	-	501	98	-	337	18,486	20,107
Total liabilities	201,408	51,792	25,715	13,336	8,915	12,524	16,090	32,908	362,688
Net liquidity gap	(60,147)	(10,478)	3,017	1,010	2,399	15,114	39,244	34,473	24,632

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 167-168)

Liquidity risk continued

Behavioural maturity of financial assets and liabilities

The cash flows presented on page 136 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 customers[1]	55,193	27,724	18,204	8,491	17,867	21,239	88,092	59,081	295,891
Loans and advances to banks[1]	36,990	21,855	13,342	5,532	5,072	1,554	1,665	158	86,168
Total loans and advances	92,183	49,579	31,546	14,023	22,939	22,793	89,757	59,239	382,059
Liabilities									
Deposits by banks[1]	35,804	5,063	1,472	427	219	138	597	707	44,427
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	23,791	115,824	59,465	5,539	435,398
Net gap	(75,305)	15,942	13,374	2,541	(852)	(93,031)	30,292	53,700	(53,339)

	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 customers[1]	56,217	25,101	21,296	16,201	12,409	2,093	86,169	65,130	284,616
Loans and advances to banks[1]	36,152	13,238	9,299	3,245	3,359	1,196	1,910	171	68,570
Total loans and advances	92,369	38,339	30,595	19,446	15,768	3,289	88,079	65,301	353,186
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)	(2,381)	2,617	7,589	(10,940)	(103,086)	43,891	56,732	(69,326)

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 165-166)

Liquidity risk continued

Behavioural maturity of financial assets and liabilities continued

Company	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
2013									
Assets									
Loans and advances to banks[1]	39,961	19,322	12,381	5,203	6,450	10,538	27,295	13,357	134,507
Loans and advances to customers[1]	20,174	12,698	9,409	3,674	3,513	1,536	1,270	144	52,418
Total loans and advances	60,135	32,020	21,790	8,877	9,963	12,074	28,565	13,501	186,925
Liabilities									
Deposits by banks[1]	30,319	3,774	1,185	119	150	42	344	33	35,966
Customer accounts[1]	69,509	19,361	11,361	7,194	6,664	4,585	42,746	11	161,431
Total deposits	99,828	23,135	12,546	7,313	6,814	4,627	43,090	44	197,397
Net gap	(39,693)	8,885	9,244	1,564	3,149	7,447	(14,525)	13,457	(10,472)

	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
2012									
Assets									
Loans and advances to banks[1]	33,074	16,320	14,091	7,185	4,552	13,242	24,011	30,347	142,822
Loans and advances to customers[1]	24,803	4,675	3,155	1,233	1,482	1,025	1,484	167	38,024
Total loans and advances	57,877	20,995	17,246	8,418	6,034	14,267	25,495	30,514	180,846
Liabilities									
Deposits by banks[1]	27,030	1,315	436	41	145	160	192	24	29,343
Customer accounts[1]	57,676	23,096	20,234	7,956	8,607	5,101	52,161	19	174,850
Total deposits	84,706	24,411	20,670	7,997	8,752	5,261	52,353	43	204,193
Net gap	(26,829)	(3,416)	(3,424)	421	(2,718)	9,006	(26,858)	30,471	(23,347)

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on pages 167-168)

Liquidity risk continued

Financial liabilities (excluding derivative financial instruments) on an undiscounted basis

The following table analyses the contractual cash flows payable for the Group's financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the table below will not agree to the balances reported in the consolidated balance sheet as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

Within the 'More than five years and undated' maturity band are undated financial liabilities of $3,124 million (2012: $3,241 million), all of which relate to subordinated debt, on which interest payments are not included as this information would not be meaningful given the instruments are undated. Interest payments on these instruments are included within the relevant maturities up to five years

Group

	2013								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Deposits by banks [1]	36,084	4,873	1,489	394	177	269	588	729	44,603
Customer accounts [1]	279,638	48,630	26,473	12,864	10,793	2,820	6,972	4,359	392,549
Debt securities in issue [1]	10,592	13,543	12,436	4,020	2,636	1,749	4,973	5,660	55,609
Subordinated liabilities and other borrowed funds [1]	8	113	295	300	278	933	7,020	31,325	40,272
Other liabilities	12,759	8,665	3,259	960	432	544	1,099	10,911	38,629
Total liabilities	339,081	75,824	43,952	18,538	14,316	6,315	20,652	52,984	571,662

1 Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 166)

	2012								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Deposits by banks [1]	32,869	2,585	1,062	148	187	237	442	94	37,624
Customer accounts [1]	264,949	49,271	29,693	10,605	12,674	7,219	5,002	8,021	387,434
Debt securities in issue [1]	8,334	17,201	6,627	3,046	3,460	4,029	3,665	3,214	49,576
Subordinated liabilities and other borrowed funds [1]	488	292	283	300	1,121	401	5,493	32,424	40,802
Other liabilities	9,671	7,273	3,499	1,360	528	715	889	11,580	35,515
Total liabilities	316,311	76,622	41,164	15,459	17,970	12,601	15,491	55,333	550,951

1 Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 166)

Liquidity risk continued

Financial liabilities (excluding derivative financial instruments) on an undiscounted basis

Company

	2013								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Deposits by banks [1]	**30,578**	**3,663**	**1,149**	**84**	**106**	**98**	**381**	**47**	**36,106**
Customer accounts [1]	**110,914**	**25,002**	**11,641**	**5,858**	**3,861**	**643**	**3,691**	**112**	**161,722**
Debt securities in issue [1]	**9,332**	**11,667**	**10,855**	**1,329**	**1,835**	**1,129**	**1,366**	**3,227**	**40,740**
Subordinated liabilities and other borrowed funds[1]	**2**	**107**	**248**	**271**	**248**	**814**	**6,571**	**28,881**	**37,142**
Other liabilities	**8,360**	**4,915**	**2,266**	**819**	**61**	**153**	**493**	**2,777**	**19,844**
Total liabilities	**159,186**	**45,354**	**26,159**	**8,361**	**6,111**	**2,837**	**12,502**	**35,044**	**295,554**

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 168)

	2012								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Deposits by banks [1]	26,996	1,516	319	41	109	82	392	23	29,478
Customer accounts [1]	116,062	26,558	14,161	6,518	4,204	5,086	2,269	249	175,107
Debt securities in issue [1]	7,228	14,993	4,452	1,982	2,785	1,494	1,547	1,554	36,035
Subordinated liabilities and other borrowed funds [1]	585	278	231	501	437	870	5,506	28,061	36,469
Other liabilities	6,738	3,518	2,363	980	32	358	203	3,127	17,319
Total liabilities	157,609	46,863	21,526	10,022	7,567	7,890	9,917	33,014	294,408

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 168)

Liquidity risk continued

Derivatives financial instruments on an undiscounted basis

Derivative financial instruments include those net settled derivative contracts in a net liability position, together with the pay leg of gross settled contracts regardless of whether the overall contract is in an asset or liability position. The receiving leg is not shown in this table and as a result the derivative amounts in this table are inflated by their exclusion. Derivative financial instruments make up 9 per cent of the Group balance sheet.

Group

	2013								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Derivative financial instruments	**204,012**	**174,783**	**149,101**	**98,972**	**88,696**	**110,913**	**142,221**	**82,249**	**1,050,947**

	2012								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Derivative financial instruments	230,192	215,322	193,576	45,166	35,069	208,875	13,449	46,977	988,626

Company

	2013								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Derivative financial instruments	**325,584**	**266,494**	**203,252**	**122,180**	**105,289**	**119,051**	**146,817**	**80,627**	**1,369,294**

	2012								
	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
Derivative financial instruments	341,415	252,725	136,670	69,463	58,143	38,734	14,611	92	911,853

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 of defence 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.

Operational risk continued

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 and 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 and 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.

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). 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 35 to 37.

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 123 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. While 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 mitigating management 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.

Capital base	2013 $million	2012 $million
Shareholders' equity		
Parent company shareholders' equity per balance sheet	42,089	36,299
Preference share classified as equity included in Tier 1 capital	(1,500)	(1,495)
	40,589	34,804
Non-controlling interests		
Non-controlling interests per balance sheet	4,000	3,581
Non-controlling Tier 1 capital included in other Tier 1 capital	(320)	(320)
	3,680	3,261
Regulatory adjustments		
Unrealised (gains)/losses on available-for-sale debt securities	70	(97)
Unrealised gains on available-for-sale equity shares included in Tier 2	(728)	(495)
Cash flow hedge reserve	(20)	(77)
Other adjustments[1]	357	(35)
	(321)	(704)
Deductions		
Goodwill and other intangible assets	(5,694)	(6,954)
50 per cent of excess of expected losses [2]	(869)	(966)
50 per cent of tax on excess of expected losses[2]	260	238
50 per cent of securitisation positions	(92)	(118)
Other regulatory adjustments	(2)	(42)
	(6,397)	(7,842)
Core Tier 1 capital	37,551	29,519
Other Tier 1 capital		
Preference shares included within shareholder's equity	1,500	1,495
Preference shares included within 'Subordinated debt and other borrowings'	-	925
Innovative Tier 1 securities (excluding non-controlling Tier 1 capital)	2,577	2,553
Non-controlling Tier 1 capital	320	320
	4,397	5,293
Deductions		
50 per cent of tax on excess of expected losses[2]	260	238
50 per cent of material holdings	(537)	(552)
	(277)	(314)
Total Tier 1 capital	41,671	34,498
Tier 2 capital		
Qualifying subordinated liabilities[3]		
Subordinated liabilities and other borrowed funds as per balance sheet	22,147	23,084
Preference shares eligible for Tier 1 capital	-	(925)
Innovative Tier 1 securities eligible for Tier 1 capital	(2,577)	(2,553)
Adjustments relating to fair value hedging and non-eligible securities	(1,640)	(1,890)
	17,930	17,716
Regulatory adjustments		
Reserves arising on revaluation of available-for-sale equity shares	728	495
Portfolio impairment provision	237	248
	965	743
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	17,397	16,823
Deductions from Tier 1 and Tier 2 capital	(6)	(3)
Total capital base	59,062	51,318

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

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

3 Consists of perpetual subordinated debt $3,169 million (2012: $3,147 million) and other eligible subordinated debt $14,761 million (2012: $14,569 million).

4 The amount for 2012 does not agree to note 33 as the prior year was re-stated due to the use of equity accounting for associates and joint ventures

Movement in total capital

	2013 $million	2012 $million
Opening Core Tier 1 capital:	**29,519**	26,176
Ordinary shares issued in the year and share premium	**5,700**	-
Profit attributed to parent company shareholders' for the year	**3,215**	4,275
Dividends, net of scrip	**(1,940)**	(1,473)
Decrease/(increase) in goodwill and other intangible assets	**1,260**	(233)
Foreign currency translation differences	**(1,227)**	499
Increase in unrealised gains on available for sale assets	**(66)**	(379)
Movement in eligible other comprehensive income	**(26)**	878
Net effect of regulatory consolidation and change in non-controlling interests	**1,052**	-
Decrease/(increase) in excess of expected loss, net of tax	**119**	(212)
Decrease/(increase) in securitisation positions	**26**	(12)
Own credit adjustment, net of tax	**(81)**	-
Closing Core Tier 1 capital	**37,551**	29,519
Opening Other Tier 1 capital	**4,979**	4,922
Increase in tax benefit of excess expected loss	**22**	51
Decrease/(increase) in material holdings deducted from capital	**15**	(31)
Redeemed capital	**(925)**	-
Other	**29**	37
Closing Other Tier 1 capital	**4,120**	4,979
Opening Tier 2 capital	**16,823**	13,665
Issuance of subordinated loan capital, net of redemptions and foreign currency translation differences	**214**	3,268
Increase in revaluation reserve	**233**	187
(Increase)/decrease in portfolio impairment provision	**(11)**	9
Decrease/(increase) in excess of expected loss	**97**	(263)
Increase/(decrease) in material holdings deducted from capital	**15**	(31)
Decrease/(increase) in securitisation positions	**26**	(12)
Closing Tier 2 capital	**17,397**	16,823
Deductions from total capital	**(6)**	(3)
Closing total capital	**59,062**	51,318

Report of the Directors

Directors' Report

The directors present their report and the audited financial statements of Standard Chartered Bank and its subsidiaries (the 'Group') and Standard Chartered Bank (the 'Company') for the year ended 31 December 2013.

Activities

The activities of the Group are banking and providing other financial services. The Financial Review on pages 15 to 27 contains a review of the business during 2013.

Post balance sheet events

In addition to the post balance sheet event disclosed in note 45 to the accounts, on 9 January 2014, the Company's ultimate parent Standard Chartered PLC announced that S P Bertamini and R H Meddings would be stepping down from the Board and leaving the Standard Chartered Group on 31 March 2014 and by 30 June 2014 respectively. Both Mr Bertamini and Mr Meddings will resign as Directors of the Company when they step down from the Board of Standard Chartered PLC.

Financial instruments

Details of financial instruments are given in note 15 to the accounts.

Results and dividends

The results for the year are given in the income statement on page 132.

Interim dividends totalling $1,839 million were paid to ordinary shareholders during the year (2012: $1,372 million). The directors do not recommend the payment of a final dividend (2012: $nil).

Share capital

Details of the Company's share capital are given in note 36 to the accounts.

Loan capital

Details of the loan capital are given in note 33 to the accounts.

Property, plant and equipment

Details of the property, plant and equipment of the Company are given in note 27 to the accounts.

Directors and their interests

The directors of the Company at the date of this report are:

Mr P A Sands, Chairman	
Mr S P Bertamini	
Mr J S Bindra	
Mrs T J Clarke	(appointed 14 January 2013)
Mr R F Goulding	(appointed 14 January 2013)
Mr R H Meddings	
Dr T J Miller	(resigned 1 April 2013)
Mr A M G Rees	
Mr V Shankar	
Mr J P M F Verplancke	(appointed 14 January 2013)

None of the directors have a beneficial or non-beneficial interest in the shares of the Company or in any of its subsidiary undertakings.

Details of directors' pay and benefits are disclosed in note 14 to the accounts.

All of the directors as at 31 December 2013, except for Mrs Clarke, Messrs Goulding, and Verplancke are directors of the Company's ultimate holding company, Standard Chartered PLC, and their interests in the share capital of that company are shown in its report and accounts.

Directors' Interests in Standard Chartered PLC Ordinary Shares

Directors	At 1 January 2013 Total interests	At 31 December 2013 Total interests
T J Clarke [1]	50,398	59,202
R F Goulding[1]	57,485	116,886
J P M F Verplancke[1]	70,716	80,000
T J Miller[2]	193,010	198,157

[1] Mrs T J Clarke, Mr R F Goulding and Mr J P M F Verplancke were appointed as directors on 14 January 2013. Their interests represent their holdings on appointment

[2] Mr T J Miller resigned as a director on 1 April 2013. His interests represent his holding on resignation

Share Awards

Standard Chartered PLC operates a number of share based arrangements for its directors and employees. Details of these arrangements are included in note 38 to the accounts.

Scheme interests awarded during the year

Directors	Scheme	Face Value (GBP)	Percentage vesting at threshold	Number of shares	Performance period end date
TJ Clarke	PSA	1,444,266	30%	80,237	31-Dec-15
	DRSA	423,648	100%	23,536	31-Dec-12
RF Goulding	PSA	1,412,172	30%	78,454	31-Dec-15
	DRSA	500,670	100%	27,815	31-Dec-12
JPMF Verplancke	PSA	1,476,360	30%	82,020	31-Dec-15
	DRSA	539,190	100%	29,955	31-Dec-12
T J Miller	DRSA	577,170	100%	32,095	31-Dec-12

Additional shares from unvested awards

Directors	Number of shares	Performance period end date
TJ Clarke	50,115	217,822
RF Goulding	61,855	259,116
JPMF Verplancke	63,995	246,297
T J Miller	87,746	198,105

Sharesave

Directors	Grant Date	As at 1 January 2013	Exercise price (pence)	Awarded during the period	Exercised	Lapsed	As at 31 December 2013	Period of exercise
TJ Clarke	04-Oct-10	1,040	1,463	-	-	-	1,040	2015-2016
RF Goulding	04-Oct-11	1,429	1,065	-	-	-	1,429	2016-2017
T J Miller	04-Oct-10	1,040	1,463	-	-	-	1,040	2015-2016

Conditional share awards in 2011

Directors	No of shares awarded	No. of shares vesting	Value of shares vesting $'000
TJ Clarke	61,312	20,232	453
RF Goulding	85,836	28,325	634
JPMF Verplancke	73,574	24,279	543
T J Miller	95,033	31,360	701

The above table contains details of conditional share awards vesting as a result of a performance period that ended in 2013

Average share price for the last three months of the financial year is GBP14.31

The exchange rate used to convert GBP to $ is 0.6398

Definitions:

2011 Standard Chartered Share Plan (the 2011 Plan)

Approved by shareholders in May 2011 this is the Group's main share plan, applicable to all employees with the flexibility to provide a variety of award types. The 2011 Plan is designed to deliver performance shares, deferred awards and restricted shares, giving us sufficient flexibility to meet the challenges of the changing regulatory and competitive environment. Discretionary share awards are a key part of both executive directors' and senior management's variable compensation and their significance as a proportion of potential total remuneration is one of the strongest indicators of our commitment to pay for sustainable performance ensuring there is an appropriate return for the risk taken and that the measure is aligned with the Group's risk appetite.

Further details regarding the 2011 Plan are included in the Directors' Remuneration Report. The remaining life of the plan is seven years.

Performance shares (PSA)

Performance shares are subject to a combination of three performance measures, Total Shareholder Return (TSR), Earnings Per Share (EPS) and Return on Risk Weighted Assets. The weighting between the three elements is split equally, one third of the award depending on each measure, assessed independently. Performance share awards for executive directors are currently subject to an annual limit of 400 per cent of base salary in face value terms and delivered as nil cost options.

Deferred awards (DRSA)

Deferred awards are used to deliver the deferred portion of annual performance awards, in line with both market practice and the requirements of the PRA. These awards are subject to a three year deferral period, vesting equally one third on each of the first, second and third anniversaries. These awards are not subject to an annual limit to ensure that regulatory requirements relating to deferral levels can be met and in line with market practice of our competitors. Deferred awards will not be subject to any further performance criteria, although the Group's claw-back policy will apply.

Restricted share awards which are made outside of the annual performance process, as additional incentive or retention mechanisms, are provided as restricted shares under the 2011 Plan. These awards vest in equal instalments on the second and the third anniversaries of the award date. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance conditions.
Restricted shares

2001 Performance Share Plan (PSP) – now closed to new grants

The Group's previous plan for delivering performance shares was the PSP. Under the PSP half the award is dependent upon TSR performance and the balance is subject to a target of defined EPS growth. Both measures use the same three-year period and are assessed independently.

1997/2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS)

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There remain unvested and vested awards outstanding under these plans. Awards were generally in the form of nil cost options and do not have any performance conditions. Generally deferred restricted share awards vest equally over three years and for non-deferred awards half vests two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

All Employee Sharesave Plans (2004 International Sharesave, 2004 UK Sharesave and 2013 Sharesave)

Under the Sharesave plans, employees have the choice of opening a savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the Sharesave plans. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based plan to its employees. The remaining life of the 2004 Sharesave plans is one year and no further awards will be granted under these plans.

A new sharesave scheme, the Standard Chartered 2013 Sharesave Plan was approved by Shareholders at the AGM in May 2013 and new sharesave invitations were made under this plan in September 2013. The remaining life of the 2013 Sharesave Plan is nine years.

Community Investment

The Group recognises its responsibility to invest in the communities where it operates and to act as a good corporate citizen. In 2013, the Group made a total investment of $54.1 million (2012: $62.8 million), or the equivalent of 0.79 per cent of its 2012 operating profit, in the communities in which it operates. This included direct financial support of $15.4 million (2012: $21.4 million), and indirect contributions, which comprise employee time; the donation of non-monetary goods and funds raised by our employees of $38.7 million (2012: $41.4 million).

Employees

The employment policies of the Company are designed to meet relevant social, statutory and market conditions and practices in each country where it operates. The Company communicates systematically with its employees on a wide range of issues, through briefings to managers, who are encouraged to hold subsequent meetings with staff and through circulars, publications and videos.

The Company recognises its social and statutory duty to employ disabled people and has followed a policy in the United Kingdom of providing the same employment opportunities for disabled people as for others wherever possible. If employees become disabled, every effort is made to ensure their continued employment with appropriate training where necessary.

Risk management
The risk management objectives of the Group and Company including the policy for hedging risk is set out in note 17. The Group and Company's exposure to market risk, credit risk, liquidity risk and currency risk are set out in Risk review.

Significant contracts
There were no contracts of significance during the year in which any of the directors were materially interested.

Areas of operation
The Company operates through branches and subsidiaries in Asia Pacific, the Middle East, South Asia, Africa, Europe, the United Kingdom and the Americas.

Creditor payment policy
Operating businesses are responsible for agreeing the terms and conditions with their suppliers in the economies where they conduct business. It is the Company's policy to pay creditors when the amounts fall due for payment. For Standard Chartered Bank in the United Kingdom at 31 December 2013 there were 34 days purchases outstanding.

Environmental policy
The Company recognises that it should minimise any adverse impact of the conduct of its business on the environment. It therefore aims to manage its businesses according to best practice with regard to the use of energy and other resources and by disposing of waste responsibly, by encouraging its customers to ensure that their products, processes and businesses do not damage the environment unnecessarily and by taking environmental considerations into account in business decisions.

Qualifying Third Party Indemnities
Standard Chartered PLC, the Company's ultimate holding company has granted qualifying third party indemnities to the directors of the Company. These indemnities remain in force at the time of this report. The Company itself has not granted any qualifying third party indemnities to the directors.

Social, Ethical and Environmental Responsibilities
The Group complies with the guidelines issued by the Association of British Insurers on responsible investment disclosure and is committed to the communities and environments in which it operates. The Court is the equivalent of the Board of Directors for Standard Chartered Bank. The Court is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. The Group has established and maintains policies and procedures in relation to SEE related risks. Through the Group's risk management structure and control framework, the Court receives regular and adequate information to identify and assess significant risks and opportunities arising from SEE matters.

Designated policy owners monitor risks in their area. They also work with line management to assist them in designing procedures to ensure compliance with these requirements. In every country, the Country Management Committee ('MANCO') supported by the Country Operational Risk Group ('CORG') is responsible for ensuring there are risk management frameworks in place to monitor, manage and report SEE risk. The Country Chief Executives chair both the MANCOs and CORGs.

Compliance with these policies and procedures is the responsibility of all managers. In assessing, incentivising and rewarding performance, guidance to managers was published during 2002. This explicitly states that account should be taken of adherence to all relevant Group policies, including those associated with SEE risk. Significant exceptions and emerging risks are escalated to senior management through clearly documented internal reporting procedures such as MANCO.

Key areas of risk are those associated with customers' activities and potential impacts on the natural environment. The Court recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on the Group's business. These risks are recognised in reaching lending decisions explicitly identified in the Group's lending policies. The Group has adopted the revised Equator Principles 2 that set procedures, based on the International Finance Corporation guidelines, for recognising the environmental and social impacts and risks associated with project finance. The Principles have been embedded in the Group's project finance lending policy and procedures.

The Group continues to review and, where appropriate, strengthen its money laundering prevention policies, procedures and training. The Court is not aware of any material exceptions to its policies.

Auditor
KPMG Audit Plc have agreed to continue as the Company's auditor and a resolution for its re-appointment will be proposed at this year's annual general meeting.

The directors have taken all necessary steps to make themselves and KPMG Audit Plc aware of any information needed in performing the audit of the 2013 Annual Report and Accounts and as far as each of the directors is aware, there is no relevant audit information of which KPMG Audit Plc is unaware.

By order of the Court

Annemarie Durbin
Secretary
5 March 2014
Company Reference Number: ZC18

Standard Chartered Bank

Statement of Directors' Responsibilities in respect of the Financial Statements

The directors are responsible for preparing the Report of the Directors and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group and Company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Group and Bank financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Directors' responsibility statement

The directors confirm to the best of their knowledge:

1. the financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation as a whole; and
2. the management reports, which are incorporated into the report of the directors, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with the principal risks and uncertainties they face.

By order of the Court

R H Meddings
Director
5 March 2014

Standard Chartered Bank

Independent Auditor's Report to the members of Standard Chartered Bank

We have audited the financial statements of the Group (Standard Chartered Bank and its subsidiaries) and Bank (Standard Chartered Bank) (together referred to as the "financial statements") for the year ended 31 December 2013 set out on pages 132 to 247. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Bank's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 130, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website www.frc.org.uk/auditscopeukprivate .

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Bank's financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

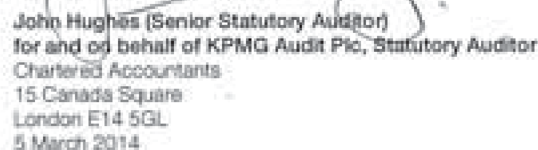
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report which include information presented in the Financial Review that are cross referenced from the Report of Directors, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



John Hughes (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
5 March 2014

Standard Chartered Bank

Consolidated income statement

For the year ended 31 December 2013

	Notes	2013 $million	2012[1] $million
Interest income	3	**17,588**	17,827
Interest expense	4	**(6,450)**	(7,051)
Net interest income		**11,138**	10,776
Fees and commission income	5	**4,594**	4,578
Fees and commission expense	5	**(488)**	(503)
Net trading income	6	**2,489**	2,760
Other operating income	7	**991**	1,094
Non-interest income		**7,586**	7,929
Operating income		**18,724**	18,705
Staff costs	8	**(6,579)**	(6,485)
Premises costs	8	**(877)**	(863)
General administrative expenses	8	**(2,036)**	(2,707)
Depreciation and amortisation	9	**(733)**	(679)
Operating expenses		**(10,225)**	(10,734)
Operating profit before impairment losses and taxation		**8,499**	7,971
Impairment losses on loans and advances and other credit risk provisions	10	**(1,617)**	(1,196)
Other impairment			
Goodwill Impairment	11	**(1,000)**	-
Other	11	**(129)**	(196)
Profit from associates and joint ventures		**226**	182
Profit before taxation		**5,979**	6,761
Taxation	12	**(1,869)**	(1,831)
Profit for the year		**4,110**	4,930
Profit attributable to:			
Non-controlling interests	37	**894**	655
Parent company shareholders		**3,216**	4,275
Profit for the year		**4,110**	4,930

[1] Amounts have been restated as explained in note 46.

The notes on pages 139 to 247 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Notes	2013 $million	2012[1] $million
Profit for the year		**4,110**	4,930
Other comprehensive income:			
Item that will not be reclassified to Income statement:			
Actuarial gains/(losses) on retirement benefit obligations	35	**79**	(76)
Items that may be reclassified subsequently to Income statement:			
Exchange differences on translation of foreign operations:			
Net (losses)/gains taken to equity		**(1,208)**	568
Net losses on net investment hedges		**(35)**	(73)
Share of comprehensive income from associates and joint venture		**(15)**	4
Available-for-sale investments:			
Net valuation gains taken to equity		**187**	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	12	**35**	(132)
Other comprehensive income for the year, net of taxation		**(1,282)**	1,122
Total comprehensive income for the year		**2,828**	6,052
Attributable to:			
Non-controlling interests	37	**807**	684
Parent company shareholders		**2,021**	5,368
		2,828	6,052

[1] Amounts have been restated as explained in note 46.

The notes on pages 139 to 247 form an integral part of these financial statements.

Standard Chartered Bank

Consolidated balance sheet

As at 31 December 2013

	Notes	2013 $million	2012[1] $million
Assets			
Cash and balances at central banks	15, 40	54,534	60,537
Financial assets held at fair value through profit or loss	15, 16	29,176	27,076
Derivative financial instruments	15, 17	62,161	49,495
Loans and advances to banks	15, 18	83,701	67,796
Loans and advances to customers	15, 19	290,584	279,638
Investment securities	15, 21	102,379	99,225
Other assets	15, 22	33,494	28,475
Current tax assets		234	215
Prepayments and accrued income		2,493	2,552
Interests in associates and joint ventures	23	1,767	1,684
Goodwill and intangible assets	26	5,694	6,767
Property, plant and equipment	27	6,903	6,620
Deferred tax assets	28	558	676
Total assets		673,678	630,776
Liabilities			
Deposits by banks	15, 29	43,418	36,427
Customer accounts	15, 30	381,066	372,874
Financial liabilities held at fair value through profit or loss	15, 16	23,030	23,064
Derivative financial instruments	15, 17	62,289	48,194
Debt securities in issue	15, 31	45,939	41,445
Other liabilities	15, 32	27,361	24,289
Due to parent companies		16,364	15,096
Current tax liabilities		1,026	1,205
Accruals and deferred income		4,304	4,562
Subordinated liabilities and other borrowed funds	15, 33	22,147	22,873
Deferred tax liabilities	28	176	161
Provisions for liabilities and charges	34	104	215
Retirement benefit obligations	35	365	491
Total liabilities		627,589	590,896
Equity			
Share capital	36	17,754	12,054
Reserves		24,335	24,245
Total parent company shareholders' equity		42,089	36,299
Non-controlling interests	37	4,000	3,581
Total equity		46,089	39,880
Total equity and liabilities		673,678	630,776

[1] Amounts have been restated as explained in note 46.

The notes on pages 139 to 247 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 5 March 2014 and signed on its behalf by:

P A Sands
Director

R H Meddings
Director

Standard Chartered Bank

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Share capital	Share premium account	Capital and Capital redemption reserve[1]	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
At 1 January 2012	12,054	1,796	40	(39)	(13)	(1,429)	19,896	32,305	3,145	35,450
Profit for the year	-	-	-	-	-	-	4,275	4,275	655	4,930
Other comprehensive income	-	-	-	526	90	495	(18)[2]	1,093	29	1,122
Distributions	-	-	-	-	-	-	-	-	(256)	(256)
Deemed capital contribution[4]	-	-	-	-	-	-	451	451	-	451
Share option expense, net of taxation	-	-	-	-	-	-	22	22	-	22
Dividends	-	-	-	-	-	-	(1,473)	(1,473)	-	(1,473)
Deemed distribution to parent	-	-	-	-	-	-	(374)	(374)	-	(374)
Other increases	-	-	-	-	-	-	-	-	8	8
At 31 December 2012	**12,054**	**1,796**	**40**	**487**	**77**	**(934)**	**22,779**	**36,299**	**3,581**	**39,880**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**3,216**	**3,216**	**894**	**4,110**
Other comprehensive income	**-**	**-**	**-**	**(27)**	**(60)**	**(1,227)**	**119**[3]	**(1,195)**	**(87)**	**(1,282)**
Distributions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(273)**	**(273)**
Shares issued, net of expenses	**5,700**	**-**	**-**	**-**	**-**	**-**	**-**	**5,700**	**-**	**5,700**
Deemed capital contribution[4]	**-**	**-**	**-**	**-**	**-**	**-**	**282**	**282**	**-**	**282**
Share option expense, net of taxation	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**	**-**	**2**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(1,940)**	**(1,940)**	**-**	**(1,940)**
Deemed distribution to parent	**-**	**-**	**-**	**-**	**-**	**-**	**(263)**	**(263)**	**-**	**(263)**
Other decreases[5]	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**(12)**	**(115)**	**(127)**
At 31 December 2013	**17,754**	**1,796**	**40**	**460**	**17**	**(2,161)**	**24,183**	**42,089**	**4,000**	**46,089**

[1] Includes capital reserve of $5 million, capital redemption reserve of $35 million

[2] Includes actuarial losses, net of taxation and non-controlling interest share, of $61 million

[3] Includes actuarial gains, net of taxation and non-controlling interest share, of $58 million

[4] Comprises deemed capital contribution from parent arising from share based payment of $282 million (2012: $374 million) and debt waiver of $nil million (2012: $77 million)

[5] Other decreases in non controlling interests relate mainly to the impact of losing controlling interest in a subsidiary after divesting from the company

Note 36 includes a description of each reserve.

The notes on pages 139 to 247 form an integral part of these financial statements.

Standard Chartered Bank
Cash flow statement

For the year ended 31 December 2013

	Notes	Group 2013 $million	Group 2012[1] $million	Company 2013 $million	Company 2012 $million
Cash flows from operating activities					
Profit before taxation		**5,979**	6,761	**4,233**	3,564
Adjustments for:					
Non-cash items included within income statement	39	**4,215**	2,530	**486**	33
Change in operating assets	39	**(44,532)**	(8,552)	**(23,683)**	(13,526)
Change in operating liabilities	39	**45,498**	19,289	**14,250**	25,585
Contributions to defined benefit schemes		**(168)**	(203)	**(98)**	(83)
UK and overseas taxes paid		**(1,886)**	(1,676)	**(979)**	(811)
Net cash from/(used in) operating activities		**9,106**	18,149	**(5,791)**	14,762
Net cash flows from investing activities					
Purchase of property, plant and equipment		**(205)**	(162)	**(69)**	(61)
Disposal of property, plant and equipment		**156**	195	**89**	30
Acquisition of investment in subsidiaries, associates and joint ventures, net of cash acquired		**(46)**	(63)	**(1,425)**	(131)
Disposal and redemption of investment in subsidiaries		**-**	-	**205**	830
Purchase of investment securities	21	**(142,321)**	(156,883)	**(49,668)**	(40,006)
Disposal and maturity of investment securities	21	**136,928**	145,327	**48,448**	35,714
Dividends received from investment in subsidiaries and associates		**5**	14	**991**	1,237
Net cash used in investing activities		**(5,483)**	(11,572)	**(1,429)**	(2,387)
Net cash flows from financing activities					
Issue of ordinary and preference share capital, net of expenses		**5,700**	-	**5,700**	-
Interest paid on subordinated liabilities		**(1,115)**	(857)	**(1,009)**	(651)
Gross proceeds from issue of subordinated liabilities		**2,500**	4,978	**2,500**	4,810
Repayment of subordinated liabilities		**(2,616)**	(1,667)	**(2,366)**	(1,173)
Interest paid on senior debts		**(124)**	(61)	**(16)**	4
Gross proceeds from issue of senior debts		**3,762**	8,542	**-**	-
Repayment of senior debts		**(3,730)**	(5,938)	**-**	-
Dividends paid to non-controlling interests and preference shareholders		**(374)**	(357)	**(101)**	(101)
Dividends paid to ordinary shareholders		**(1,839)**	(1,372)	**(1,839)**	(1,372)
Net cash from financing activities		**2,164**	3,268	**2,869**	1,517
Net increase in cash and cash equivalents		**5,787**	9,845	**(4,351)**	13,892
Cash and cash equivalents at beginning of the year		**79,518**	69,566	**60,665**	46,866
Effect of exchange rate movements on cash and cash equivalents		**(1,149)**	107	**(821)**	(93)
Cash and cash equivalents at end of the year	40	**84,156**	79,518	**55,493**	60,665

[1] Amounts have been restated as explained in note 46.

The notes on pages 139 to 247 form an integral part of these financial statements.

Standard Chartered Bank

Company balance sheet

As at 31 December 2013

	Notes	2013 $million	2012 $million
Assets			
Cash and balances at central banks	15, 40	**41,272**	49,655
Financial assets held at fair value through profit or loss	15, 16	**18,600**	17,027
Derivative financial instruments	15, 17	**60,146**	47,443
Loans and advances to banks	15, 18	**49,951**	37,250
Loans and advances to customers	15, 19	**129,785**	137,962
Investment securities	15, 21	**43,875**	43,615
Other assets	15, 22	**21,620**	18,779
Due from subsidiary undertakings and other related parties		**17,520**	18,029
Current tax assets		**29**	37
Prepayments and accrued income		**1,133**	1,170
Investment in subsidiary undertakings	23	**14,763**	13,571
Investment in joint ventures	23	**492**	489
Investment in associates	23	**52**	45
Goodwill and intangible assets	26	**915**	1,031
Property, plant and equipment	27	**484**	626
Deferred tax assets	28	**400**	571
Total assets		**401,037**	387,320
Liabilities			
Deposits by banks	15, 29	**35,602**	28,375
Customer accounts	15, 30	**157,499**	169,882
Financial liabilities held at fair value through profit or loss	15, 16	**10,184**	11,501
Derivative financial instruments	15, 17	**59,703**	45,997
Debt securities in issue	15, 31	**36,685**	31,959
Other liabilities	15, 32	**14,061**	11,738
Due to subsidiary undertakings and other related parties		**33,096**	39,244
Current tax liabilities		**715**	812
Accruals and deferred income		**2,379**	2,501
Subordinated liabilities and other borrowed funds	15, 33	**19,741**	20,107
Deferred tax liabilities	28	**59**	74
Provisions for liabilities and charges	34	**130**	133
Retirement benefit obligations	35	**276**	365
Total liabilities		**370,130**	362,688
Equity			
Share capital	36	**17,754**	12,054
Reserves		**13,153**	12,578
Total parent company shareholders' equity		**30,907**	24,632
Total equity and liabilities		**401,037**	387,320

The notes on pages 139 to 247 form an integral part of these financial statements.

These financial statements were approved by the Court of Directors and authorised for issue on 5 March 2014 and signed on its behalf by:

P A Sands
Director

R H Meddings
Director

Standard Chartered Bank

Company statement of changes in equity

For the year ended 31 December 2013

	Share capital	Share premium account	Capital and Capital redemption reserve[1]	Available-for-sale reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Total
	$million	$million	$million	$million	$million	$million	$million	$million
At 1 January 2012	12,054	1,796	40	(68)	(17)	(207)	9,456	23,054
Profit for the year	-	-	-	-	-	-	2,754	2,754
Other comprehensive income	-	-	-	237	90	(80)	(58)	189
Taxation on share option expense	-	-	-	-	-	-	22	22
Deemed capital contribution[2]	-	-	-	-	-	-	353	353
Deemed distribution to parent	-	-	-	-	-	-	(275)	(275)
Dividends	-	-	-	-	-	-	(1,473)	(1,473)
Other movement	-	-	-	-	-	-	8	8
At 31 December 2012	**12,054**	**1,796**	**40**	**169**	**73**	**(287)**	**10,787**	**24,632**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**3,199**	**3,199**
Other comprehensive income	**-**	**-**	**-**	**(84)**	**(50)**	**(603)**	**37**	**(700)**
Shares issued, net of expenses	**5,700**	**-**	**-**	**-**	**-**	**-**	**-**	**5,700**
Share option expense, net of taxation	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Deemed capital contribution[2]	**-**	**-**	**-**	**-**	**-**	**-**	**213**	**213**
Deemed distribution to parent	**-**	**-**	**-**	**-**	**-**	**-**	**(203)**	**(203)**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**(1,940)**	**(1,940)**
Other movement	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**4**
At 31 December 2013	**17,754**	**1,796**	**40**	**85**	**23**	**(890)**	**12,099**	**30,907**

1 Includes capital reserve of $5 million, capital redemption reserve of $35 million

2 Comprises deemed capital distribution from parent arising from share based payments of $213 million (2012: $276 million) and debt waiver of $nil million (2012: $77 million)

Note 36 includes a description of each reserve

The notes on pages 139 to 247 form an integral part of these financial statements.

1. Accounting policies

(a) Statement of compliance

The Group financial statements consolidate those of Standard Chartered Bank (the Company) and its subsidiaries (together referred to as the Group) and equity account the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as endorsed by the European Union (EU). EU endorsed IFRS may differ from IFRS published by the International Accounting Standards Board (IASB) if a standard has not been endorsed by the EU.

In publishing the parent company financial statements together with the Group financial statements, the Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

The following parts of the Financial risk management section form part of these financial statements: : 'Regulatory compliance, review, requests for information and investigations' and 'Risk of fraud and other criminal acts' on pages 30 and 31, from the start of the 'Risk Management' section on page 32 to the end of the 'Pension Risk' section on page 120, excluding: 'Asset backed securities', page 87, 'Mapping of market risk items to the balance sheet, page 98. "Encumbered assets", page 103; and 'Liquidity Coverage Ratio' and 'Net Stable Funding Ratio, page 108, from the start of the 'Capital Management' section on page 121 to the end of 'Movement in total capital' on page 124 and from the start of the 'Capital Base' section on page 123 to the end of 'Movement in total capital' on page 124

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of cash-settled share-based payments, available-for-sale assets, and financial assets and liabilities (including derivatives) at fair value through profit or loss. The Company financial statements have been prepared on a historical cost basis, as modified by cash-settled share-based payments and the revaluation of financial assets and liabilities (including derivatives) at fair value through profit or loss.

(c) Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the relevant disclosure notes for the following areas:

- Loan loss provisioning (refer to page 50 of the Financial risk management section)
- Taxation (refer to note 12)
- Fair value of financial instruments (refer to note 15)
- Goodwill impairment (refer to note 26)
- Provisions for liabilities and charges (refer to note 34)
- Retirement benefit obligations (refer to note 35)
- Share based payments (refer to note 38)

(d) Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets and income of the Group.

(e) New accounting standards adopted by the Group

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 6), and the approach for determining these fair values, along with the enhanced disclosures, are set out in note 15.

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. Disclosures on Retirement benefit obligations are presented in note 35.

On 1 January 2013 the Group 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.

1. Accounting policies continued

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 23.

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 has presented disclosures in notes 23 and 24.

On 1 January 2013, the Group adopted Amendments to IFRS 7 *Financial Instruments: Disclosure*, these amendments require disclosure of the effect or potential effect of netting financial assets and financial liabilities on an entity's financial position. This includes financial instruments transacted under enforceable master netting arrangements or other similar agreements. The amendments are required to be applied retrospectively and have been endorsed by the EU. The Group's disclosures relating to netting benefits are presented in note 15.

(f) Accounting standards effective 1 January 2014
Amendment to IAS 32 *Financial Instruments: Presentation* clarifies the requirements for offsetting financial assets and liabilities and addresses inconsistencies noted in current practice when applying the offsetting criteria in IAS 32. These amendments require retrospective application, can be early adopted and have been endorsed by the EU.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27), requires entities meeting the definition of an investment entity to not consolidate its subsidiaries or apply IFRS 3 *Business Combinations* when it obtains control of another entity. An investment entity is defined as an entity that:

- Obtains funds from one or more investor for the purpose of providing those investor(s) with investment management services;
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both,
- Measures and evaluates the performance of substantially all of its investments on a fair value basis

Entities not meeting the definition of an investment entity, including the parent company of an eligible investment entity, will continue to consolidate all subsidiaries. These amendments have been endorsed by EU and are not expected to have a material impact on the Group.

IFRIC 21 *Levies* provides guidance when to recognise a liability for a levy imposed by a Government. IFRIC 21 identifies the obligating event for the recognition of a liability. If that obligating event occurs over a period of time, the levy is recognised proportionately. If it is a triggered by a minimum threshold, the liability is recognised when that threshold is reached. This interpretation was endorsed by the EU in February 2014. The impact of this Interpretation on the Group is not expected to be significant.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting* clarifies that there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendments are not expected to have a significant impact on the Group's financial statements. The amendment has been endorsed by the EU.

Accounting standards mandatorily effective after 1 January 2015
IFRS 9 Financial instruments
When a completed IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and introduce new requirements for the classification and measurement of financial assets and financial liabilities, a new model for recognising loan loss provisions based on expected losses and provide for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology. As at 31 December 2013, the classification and measurement and general hedge accounting phases of IFRS 9 had been published and the standard is expected to be finalised as a whole by the end of June 2014. In February 2014, the IASB tentatively concluded that the effective date for IFRS 9 would be 1 January 2018.

The EU has indicated that it would not endorse IFRS 9 (which is required before the Group is permitted to apply the standard) until all components have been completed. Given the uncertainty which continues to surround the final form of IFRS 9, the Group is not yet in a position to quantify the impact of this accounting standard.

Classification and measurement

The classification and measurement phase, as published operates a binary classification model whereby financial assets and liabilities are classified either at amortised cost or at fair value. Amortised cost classification is only permitted where the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and where these contractual cash flows are solely payment of principal and interest. In all other cases the financial asset is classified and measured at fair value through profit or loss. Fair value movements on non-trading equity instruments may be presented in other comprehensive income, though these cannot be recycled to the income statement upon disposal of the equity instrument.

Financial liabilities are required to be measured at fair value or amortised cost as is the case under IAS 39, except that the change in fair value relating to own credit is reported within other comprehensive income and not the income statement. In November 2013, the IASB amended the transition requirements of IFRS 9 to permit early adoption of the own credit element without requiring early adoption of all of the requirements of IFRS 9.

In November 2012, the IASB issued an exposure draft of limited amendments to the classification and measurement requirements of IFRS 9 which proposed introducing a third classification category where, subject to qualifying criteria, fair value changes on debt instruments would be measured through reserves and will be eligible for recycling. The IASB is expected to issue the final standard by the end of June 2014.

Impairment

Based on its most recent deliberations, the IASB will proceed with an expected loss approach for recognising credit losses. Under the proposed approach expected losses or lifetime expected losses for all amortised cost debt instruments would be recognised depending on whether or not significant credit deterioration has occurred since origination or acquisition. Where significant deterioration has not occurred, a provision equating to 12 months of expected losses would be recognised whereas if there is a significant deterioration in credit risk,

lifetime expected losses would be recognised. The IASB is expected to issue the final standard by the end of June 2014.

Hedge accounting

The IASB has split the hedge accounting phase into two parts: general hedging and macro hedging. The Board issued the general hedging phase of IFRS 9 in November 2013, which seeks to deliver a more principles based standard that aligns hedge accounting more closely with risk management. This includes, amongst others, assessing hedge effectiveness through qualitative, forward looking assessments rather than using bright lines, and hedging risk components of non-financial items. A discussion paper on macro hedging is expected in the first half of 2014.

(g) IFRS and Hong Kong accounting requirements
As required by the Hong Kong 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.

(h) Prior year restatements
Details of prior year restatements are set out in note 46.

The accounting policies set out below have been applied consistently across the Group and to all periods presented in these financial statements.

(i) Consolidation
Subsidiaries
Subsidiaries are all entities, including structured entities, which the Group controls. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases, and where any interest in the subsidiary remains, this is remeasured to its fair value and the change in carrying amount is recognised in the income statement. Details of the Group's principal subsidiaries are given in note 23.

Structured entities are consolidated when the substance of the relationship between the Group and the structured entity indicates the Group's power over the structured entity. Details of the Group's use of structured entities are set out in note 24.

Associates and joint arrangements
Joint arrangements are where two or more parties either have rights to the assets, and obligations of the joint arrangement (joint operations) or have rights to the net assets of the joint arrangement (joint venture). The Group evaluates the contractual terms of joint arrangements to determine whether a joint arrangement is a joint operation or a joint venture. At 31 December 2013 the Group did not have any contractual interest in joint operations.

Investments in associates are and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition (net of any accumulated impairment loss). The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures.

At each balance sheet date the Group assesses whether there is any objective evidence of impairment in the investment in associates and joint ventures, evidence of objective evidence is a significant or prolonged decline in the fair value of the Group's investment in an associate or joint venture below its cost is considered, amongst other factors in assessing objective evidence of impairment for associates or joint ventures.

Details of the Group's interest in associates and joint ventures are provided in note 23.

Investment in subsidiaries, associates and joint ventures
In the Company's financial statements, investment in subsidiaries, associates and joint ventures are held at cost less impairment and dividends from pre-acquisition profits received prior to 1 January 2009, if any.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group accounts.

Business combinations
The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Note 25 provide details on business combinations entered into by the Group during 2013.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill (see note 26 for details on goodwill recognised by the Group). If the cost of acquisition is less than the fair value of the net assets and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the income statement if (i) they arise within 12 months of the acquisition date and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period adjustments). Such adjustments are applied as at the date of acquisition and if applicable, prior period amounts are restated. All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not remeasured.

Changes in ownership interest in a subsidiary which do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Where a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition-date fair value with the resulting gain or loss recognised in the income statement.

Details of the Group's interest in associates and joint ventures are provided in note 23.

1. **Accounting policies** continued

(j) Foreign currencies

Items included in the Group financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency of that entity). Both the Company and Group financial statements are presented in US dollars, which is the functional and presentation currency of the Company and the presentation currency of the Group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost, or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the income statement or shareholders' equity depending on the treatment of the gain or loss on the asset or liability.

Foreign currency translation

The results and financial position of all the entities included in the Group financial statements that have a functional currency different from the Group's presentation currency are accounted for as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly; and
- All resulting exchange differences arising since 1 January 2004 are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold or capital repatriated they are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(k) Income recognition

Income from financial instruments

Gains and losses arising from changes in the fair value of financial instruments held at fair value through profit or loss are included in the income statement in the period in which they arise. Contractual interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

If the financial asset has been reclassified, subsequent increases in the estimates of future cash receipts as a result of increased recoverability are recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Dividends on equity instruments are recognised in the income statement within other income when the Group's right to receive payment is established.

Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided or significant act performed. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself, or retained a part at the same effective interest rate as for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportionment basis.

(l) 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.

(m) Financial assets and liabilities classification (excluding derivatives)

The Group classifies its financial assets into the following measurement categories: a) financial assets held at fair value through profit or loss; b) loans and receivables; c) held-to-maturity; and d) available-for-sale. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of its financial assets and liabilities at initial recognition or, where applicable, at the time of reclassification. Details of financial assets and liabilities held by the Group are provided in Notes 15, 16 and 17.

Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term.

1. **Accounting policies** continued
Financial assets and liabilities may be designated at fair value through profit or loss when:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis
- A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis
- The assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately

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. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these loans and advances and debt securities have been designated at fair value through profit or loss. Details of financial assets designated at fair value are disclosed in notes 15 and 16.

The Group has also designated 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
- Are exposed to foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes
- 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

Designation of certain liabilities at fair value through profit or loss significantly reduces the accounting mismatch between fair value and amortised cost expense recognition. Details of financial liabilities designated at fair value are disclosed in note 15 and 16.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substationally all of the initial investment will be recovered, other than because of credit deterioration.

Held-to-maturity
Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

Available-for-sale
Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

Further details on the application of these policies are set out in note 15.

Financial liabilities held at amortised cost
Financial liabilities, which include borrowings, not classified held at fair value through profit or loss are classified as amortised cost instruments.

Preference shares which carry a mandatory coupon that represents a market rate of interest at the issue date, or which are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Fair value of financial assets and liabilities
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in the absence the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market date.

Equity investments that do not have an observable market price are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering, after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

Initial recognition
Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and financial assets classified as held-to-maturity and available-for-sale are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans are recognised when cash is advanced to the borrowers.

All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement.

The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement
Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income line in the income statement.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until

1. Accounting policies continued

The asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Financial liabilities are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group considers the following factors in assessing objective evidence of impairment:

- Whether the counterparty is in default of principal or interest payments
- When a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation
- Where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation
- Where the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments
- Where the Group sells a credit obligation at a material credit-related economic loss
- Where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets

Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan and receivable or a held-to-maturity asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan and receivable or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Further details on collateral held by the Group is discussed in the Risk review on page 47. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process which considers asset type, industry, geographic location, collateral type, past-due status and other relevant factors). These characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are based on the probability of default inherent within the portfolio of impaired loans or receivables and the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Further details on the application of these policies is set out in the Risk review on pages 35 to 36.

Available-for-sale assets

Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is reclassified from equity and recognised in the income statement. A significant or prolonged decline in the fair value of an equity security below its cost is considered, amongst other factors in assessing objective evidence of impairment for equity securities.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

1. Accounting policies continued

Renegotiated loans

Loans whose original terms have been modified including those subject to forbearance strategies are considered renegotiated loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Further details on offsetting are set out in note 15.

Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets can only be transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets must be reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.

Details of reclassifications are set out in note 15.

Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) remain on the balance sheet; the counterparty liability is included in deposits by banks, or customer accounts, as appropriate. Securities purchased under agreements to resell (reverse-repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

Details of repo and reverse-repo transactions entered into by the Group are provided in note 15.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income'.

(n) Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains recognised in profit and loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or (3) hedges of the net investment of a foreign operation (net investment hedges).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group and Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

1. Accounting policies continued

Details of the derivative financial instruments held by the Group, including those held for hedge accounting are provided in note 17.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity or derecognition.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are reclassified to the income statement when the foreign operation is disposed of.

Further details on the application of these policies are set out in note 17.

Derivatives that do not qualify for hedge accounting
Changes in the fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in the income statement.

(o) Leases

Where a Group company is the lessee
The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Group is a lessee under finance leases, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in Other liabilities. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a constant periodic rate of return.

Where a Group company is the lessor
When assets are leased to customers under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return ignoring tax cash flows.

Assets leased to customers under operating leases are included within Property, plant and equipment and depreciated over their useful lives. Rental income on these leased assets is recognised in the income statement on a straight-line basis unless another systematic basis is more representative.

(p) Intangible and tangible fixed assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in Intangible assets. Goodwill on acquisitions of associates is included in Investments in associates. Goodwill included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. Goodwill is allocated to cash generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments (as set out in note 2) as the Group views its reportable segments on a global basis. Note 26 sets out the major cash generating units to which goodwill has been allocated.

Acquired intangibles
At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised on the basis of expected useful life (three to five years). Costs associated with maintaining software are recognised as an expense as incurred. At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

1. Accounting policies continued

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated although it is subject to impairment testing. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	up to 50 years
Leasehold improvements	life of lease, up to 50 years
Equipment and motor vehicles	three to 15 years
Aircraft and Ships	up to 25 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. At each balance sheet date, assets are also assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately to the recoverable amount.

Gains and losses on disposals are included in the income statement.

(q) Taxation

Income tax payable on profits is based on the applicable tax law in each jurisdiction and is recognised as an expense in the period in which profits arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted as at the balance sheet date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

Details of the income statement tax charge is produced in note 12 and of deferred taxation in note 28.

(r) Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where a liability arises based on participation in a market at a specified date (such as the UK bank levy), the obligation is recognised in the financial statements on that date and is not accrued over the period.

(s) Employee benefits

Retirement benefit obligations

The Group operates a number of pension and other post-retirement benefit plans around the world, including defined contribution plans and defined benefit plans.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Group has no further payment obligations once the contributions have been paid.

For funded defined benefit plans, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. For unfunded defined benefit plans the liability recognised at the balance sheet date is the present value of the defined benefit obligation. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The Group determines the net interest expense on the net defined liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payment. Net interest expense and other expense related to defined benefit plans are recognised in the income statement.

Details of the Group's retirement benefit obligations are provided in note 35.

Share-based compensation

The ultimate parent company of the Group and Company, Standard Chartered PLC, operates share based compensation schemes for employees of the Group and Company. All share options granted by the parent are accounted for on an equity settled basis regardless of how the parent ultimately settles with the employees of the Group and Company. The Group and Company receive the fair value of the employee services in exchange for grant of options by the parent. The services received from the employees are recognised as expenses with a corresponding credit to equity, which represents a deemed contribution from Standard Chartered PLC.

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date of grant, which excludes the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at

1. Accounting policies continued

the time of cancellation.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled awards are revalued at each balance sheet date and a liability recognised on the balance sheet for all unpaid amounts, with any changes in fair value charged or credited to staff costs in the income statement until the awards are exercised. Where forfeitures occur prior to vesting that are attributable to factors other than a failure to satisfy market-based performance conditions, the cumulative charge incurred up to the date of forfeiture is credited to the income statement.

The Company records the value of the equity settled awards as a deemed investment in subsidiaries. Any revaluation related to cash-settled awards is recorded as an amount due from subsidiary undertakings.

Details of the Group's share based compensation scheme are set out in note 38.

(t) Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares and preference shares classified as equity are recognised in equity in the period in which they are declared.

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

Details of the Group's share capital is set out in note 36.

(u) Assets held for sale

Non-current assets (such as property) and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when: (i) their carrying amounts will be recovered principally through sale; (ii) they are available for sale in their present condition; and (iii) their sale is highly probable. Immediately before the initial classification as held for sale, the carrying amounts of the assets (or assets and liabilities in the disposal group) are measured in accordance with the applicable accounting policies described above.

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 clients 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 45, the Group will adopt a new segmental disclosure in 2014 following a reorganisation of its business.

By class of business

	2013					2012 [5]				
	Consumer Banking	Wholesale Banking[1]	Total reportable segments	Corporate items not allocated[2]	Total	Consumer Banking	Wholesale Banking	Total reportable segments	Corporate items not allocated[3]	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million	$million
Internal income	9	(9)	-	-	-	(16)	16	-	-	-
Net interest income	4,936	6,202	11,138	-	11,138	4,779	5,997	10,776	-	10,776
Non interest income	2,217	5,369	7,586	-	7,586	2,258	5,671	7,929	-	7,929
Operating income	7,162	11,562	18,724	-	18,724	7,021	11,684	18,705	-	18,705
Operating expenses	(4,647)	(5,343)	(9,990)	(235)	(10,225)	(4,600)	(5,960)	(10,560)	(174)	(10,734)
Operating profit before impairment losses and taxation	2,515	6,219	8,734	(235)	8,499	2,421	5,724	8,145	(174)	7,971
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	(7)	(122)	(129)	(1,000)	(1,129)	(45)	(151)	(196)	-	(196)
Profit from associates and joint ventures	44	182	226	-	226	43	139	182	-	182
Profit before taxation	1,518	5,696	7,214	(1,235)	5,979	1,745	5,190	6,935	(174)	6,761
Total assets employed	138,864	528,328	667,192	6,486	673,678	138,680	484,418	623,098	7,678	630,776
Total liabilities employed	191,501	434,886	626,387	1,202	627,589	187,729	401,801	589,530	1,366	590,896
Other segment items:										
Capital expenditure[4]	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	88	212	300	-	300	100	173	273	-	273

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 UK bank levy

4 Includes capital expenditure in Wholesale Banking of $874 million in respect of operating lease assets (2012: $1,788 million)

5 Amounts have been restated as explained in note 46

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	2,795	2,668
Wealth Management	1,293	1,268
Deposits	1,411	1,526
Mortgage and Auto Finance	1,422	1,298
Other	241	261
	7,162	7,021
Wholesale Banking		
Lending and Portfolio Management	815	838
Transaction Banking		
Trade	1,839	1,917
Cash management and custody	1,624	1,723
	3,463	3,640
Global Markets		
Financial Markets[1]	3,744	3,661
Asset and Liability Management (ALM)	752	838
Corporate Finance	2,512	2,224
Principal Finance	276	483
	7,284	7,206
	11,562	11,684

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

2. Segmental Information continued

Entity-wide information

By geography

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

	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	1,679	1,146	1,266	2,250	1,028	1,183	990	1,596	11,138
Fees and commissions income, net	911	581	237	633	269	473	417	585	4,106
Net trading income	719	308	71	368	162	394	182	285	2,489
Underlying	719	279	70	352	162	394	182	225	2,383
Own credit adjustment	-	29	1	16	-	-	-	60	106
Other operating income	291	168	55	89	146	80	28	134	991
Operating income	3,719	2,125	1,560	3,463	1,689	2,199	1,746	2,223	18,724
Operating expenses	(1,674)	(1,132)	(1,124)	(2,126)	(701)	(1,085)	(865)	(1,518)	(10,225)
Operating profit before impairment losses and taxation	2,045	993	436	1,337	988	1,114	881	705	8,499
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	1,906	915	(1,020)	1,143	688	1,047	611	689	5,979
Capital expenditure[2]	905	320	27	27	26	53	45	48	1,451

1 Americas UK & Europe includes operating income of $1,109 million in respect of the UK, the Company's country of domicile

2 Includes capital expenditure in Hong Kong of $874 million in respect of operating lease assets. Other capital expenditure comprises additions to property, plant and equipment (note 27) and software related intangibles (note 26) including any post-acquisition additions made by the acquired entities

	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	1,563	1,251	1,421	2,167	919	1,142	917	1,396	10,776
Fees and commissions income, net	829	551	210	676	304	470	416	619	4,075
Net trading income	657	379	149	580	160	448	158	229	2,760
Other operating income	190	131	159	159	75	88	43	249	1,094
Operating income	3,350	2,205	1,854	3,675	1,587	2,232	1,594	2,208	18,705
Operating expenses	(1,574)	(1,171)	(1,082)	(2,262)	(754)	(1,098)	(785)	(2,008)	(10,734)
Operating profit before impairment losses and taxation	1,776	1,034	772	1,413	833	1,134	809	200	7,971
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	515	1,216	677	786	771	170	6,761
Capital expenditure [2]	1,825	232	22	18	22	55	31	41	2,246

1 Americas UK & Europe includes operating income of $1,113 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, plant and equipment (note 27) and software related intangibles (note 26) 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 (%)	2.0	2.1
Average interest earning assets	521,270	483,481
Average interest bearing liabilities	464,787	434,552

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	149,358	115,417	55,933	118,362	34,969	47,176	24,897	193,159	(65,593)	673,678
Of which : Loans to customers[2]	61,173	57,540	29,760	54,843	23,019	26,124	13,122	30,310	-	295,891
Average interest-earning assets	114,713	86,070	49,219	101,459	30,111	39,193	20,061	131,665	(51,221)	521,270
Net interest income	1,833	1,070	1,198	2,348	1,114	1,254	1,121	1,200	-	11,138
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 $121,840 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	130,543	107,925	62,863	112,400	36,879	46,155	20,856	179,457	(66,302)	630,776
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	114,756	(52,936)	483,481
Net interest income	1,716	1,144	1,335	2,232	1,050	1,230	976	1,093	-	10,776
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 $108,352 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

Structure of deposits

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

Group

	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
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	34,646	181,060
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	91,864	435,398
Deposits by banks	2,091	4,792	1,479	6,926	459	1,574	566	26,540	44,427
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	-	92,374
Other accounts	88,238	67,896	5,285	35,763	1,261	24,007	10,823	65,324	298,597
	108,204	79,007	31,844	71,344	13,185	27,864	12,086	91,864	435,398
Debt securities in issue:									
Senior debt	144	-	4,094	2,043	-	53	6	189	6,529
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	19,741	22,147
Total	111,874	81,628	39,788	77,599	13,231	27,941	12,357	145,889	510,307

The above table includes financial instruments held at fair value (see note 15).

	2012								
	Hong Kong	Singapore	Korea	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas, UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million	$million	$million
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	232	7,121
Other debt securities	5	1,903	1,999	3,617	47	-	294	31,720	39,585
Subordinated liabilities and other borrowed funds	1,454	-	871	349	-	29	62	20,108	22,873
Total	102,612	78,351	45,909	78,972	13,978	26,302	10,615	135,352	492,091

The above table includes financial instruments held at fair value (see note 15).

2. Segmental Information continued

Structure of deposits continued

Company

	2013						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Non-interest bearing current and demand accounts	6,378	1,353	2,003	9,003	979	5,993	25,709
Interest bearing current accounts and savings deposits	16,365	3,649	1,604	3,213	425	34,622	59,878
Time deposits	30,594	6,238	7,606	12,237	348	48,073	105,096
Other deposits	1,446	589	1,552	277	-	2,850	6,714
Total	54,783	11,829	12,765	24,730	1,752	91,538	197,397
Deposits by banks	4,792	2,574	458	1,411	218	26,513	35,966
Customer accounts	49,991	9,255	12,307	23,319	1,534	65,025	161,431
Of which:							
Protected under government insurance schemes	200	4,043	11,314	2,283	-	-	17,840
Other accounts	49,791	5,212	993	21,036	1,534	65,025	143,591
	54,783	11,829	12,765	24,730	1,752	91,538	197,397
Debt securities in issue:							
Senior debt	-	-	-	-	-	189	189
Other debt securities	2,621	2,854	-	-	202	34,483	40,160
Subordinated liabilities and other borrowed funds	-	-	-	-	-	19,741	19,741
Total	57,404	14,683	12,765	24,730	1,954	145,951	257,487

The above table includes financial instruments held at fair value (note 15).

	2012						
	Singapore	Other Asia Pacific	India	Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	$million	$million	$million	$million	$million	$million	$million
Non-interest bearing current and demand accounts	9,260	1,171	2,532	8,019	156	4,864	26,002
Interest bearing current accounts and savings deposits	28,978	3,937	1,665	2,835	694	25,360	63,469
Time deposits	37,968	7,391	7,341	11,811	486	45,523	110,520
Other deposits	242	94	1,629	385	-	1,852	4,202
Total	76,448	12,593	13,167	23,050	1,336	77,599	204,193
Deposits by banks	2,005	1,824	440	1,681	58	23,335	29,343
Customer accounts	74,443	10,769	12,727	21,369	1,278	54,264	174,850
Of which:							
Protected under government insurance schemes	6,279	3,835	11,248	1,383	-	-	22,745
Other accounts	68,164	6,934	1,479	19,986	1,278	54,264	152,105
	76,448	12,593	13,167	23,050	1,336	77,599	204,193
Debt securities in issue:							
Senior debt	-	-	-	-	-	232	232
Other debt securities	1,903	2,009	-	-	261	31,423	35,596
Subordinated liabilities and other borrowed funds	-	-	-	-	-	20,107	20,107
Total	78,351	14,602	13,167	23,050	1,597	129,361	260,128

The above table includes financial instruments held at fair value (note 15).

2. Segmental Information continued

Entity-wide information

By region

	2013						
	China $million	Malaysia $million	Indonesia $million	Taiwan $million	Thailand $million	Others $million	Other Asia Pacific $million
Operating income[1]	931	698	428	537	393	476	3,463
Operating expenses	(756)	(346)	(243)	(354)	(188)	(239)	(2,126)
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	267	248	154	135	123	216	1,143
Total assets employed	35,123	19,484	7,871	25,502	9,541	20,841	118,362
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 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	1,000	744	525	568	391	447	3,675
Operating expenses	(759)	(339)	(223)	(367)	(192)	(382)	(2,262)
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	(47)	1,216
Total assets employed	29,710	18,665	8,761	25,831	9,417	20,016	112,400
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

Entity-wide information continued

By region continued

	2013				
	UAE	Pakistan	Bangladesh	Others	Middle East & Other S Asia
	$million	$million	$million	$million	$million
Operating income	1,219	233	275	472	2,199
Operating expenses	(574)	(154)	(91)	(266)	(1,085)
Impairment losses on loans and advances and other credit risk provisions	(52)	(26)	(20)	31	(67)
Profit before taxation	593	53	164	237	1,047
Total assets employed	27,897	4,033	3,824	11,422	47,176
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	Pakistan	Bangladesh	Others	Middle East & Other S Asia
	$million	$million	$million	$million	$million
Operating income	1,231	287	225	489	2,232
Operating expenses	(570)	(170)	(87)	(271)	(1,098)
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	12,460	46,155
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. Interest income

	2013	2012
	$million	$million
Balances at central banks	153	159
Treasury bills	881	905
Loans and advances to banks	1,082	1,202
Loans and advances to customers	13,105	13,182
Listed debt securities	715	781
Unlisted debt securities	1,559	1,521
Accrued on impaired assets (discount unwind)	93	77
	17,588	17,827
Of which from financial instruments held at :		
Amortised cost	14,898	14,361
Available-for-sale	2,132	2,411
Held at fair value through profit or loss	558	1,055

4. Interest expense

	2013 $million	2012 $million
Deposits by banks	**383**	532
Customer accounts:		
Interest bearing current accounts and savings deposits	**1,008**	1,270
Time deposits	**3,369**	3,529
Debt securities in issue	**663**	818
Subordinated liabilities and other borrowed funds:		
Wholly repayable within five years	**73**	48
Other	**954**	854
	6,450	7,051
Of which interest expense on financial instruments held at :		
Amortised cost	**5,856**	6,336
Held at fair value through profit or loss	**594**	715

5. Fees and commissions

	2013 $million	2012 $million
Consumer Banking		
Cards, Personal Loans and Unsecured Lending	**412**	378
Wealth Management	**1,047**	875
Deposits	**221**	223
Mortgages and Auto Finance	**117**	91
Others	**1**	80
	1,798	1,647
Wholesale Banking		
Lending and Portfolio Management	**80**	87
Transaction Banking	**1,409**	1,439
Financial Markets	**316**	230
Corporate Finance	**503**	670
Others	**-**	2
	2,308	2,428
Net fee and commission income	**4,106**	4,075

Total fee income arising from financial instruments that are not fair valued through profit or loss $1,584 million (2012: $1,584 million) and arising from trust and other fiduciary activities $162 million (2012: $118 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss $98 million (2012: $83 million) and arising from trust and other fiduciary activities $21 million (2012: $21 million).

6. Net trading income

	2013 $million	2012[2] $million
Gains less losses on instruments held for trading:		
Foreign currency [1]	1,126	1,508
Trading securities	(206)	648
Interest rate derivatives	889	428
Credit and other derivatives	633	28
	2,442	2,612
Gains less losses from fair value hedging:		
Gains less losses from fair value hedged items	371	163
Gains less losses from fair value hedged instruments	(417)	(156)
	(46)	7
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	(282)	168
	93	141
	2,489	2,760

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.

7. 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
Rental income from operating lease assets	485	347
Gain on disposal of property, plant and equipment	102	100
Gain on sale of business	-	15
Fair value loss on business classified as held for sale	(49)	-

8. Operating expenses

	2013 $million	2012 $million
Staff costs:		
Wages and salaries	**4,976**	4,872
Social security costs	**160**	148
Other pension costs (note 35)	**336**	299
Share based payment costs (note 38)	**282**	373
Other staff costs	**825**	793
	6,579	6,485

Variable compensation is included within wages and salaries. Further details are disclosed in note 14 on page 163. Other staff costs include training and travel costs.

The following tables summarise the number of employees as at 31 December 2013 and 31 December 2012 respectively.

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	53,613	19,752	14,066	87,431
Average for the year	52,970	19,565	13,351	85,886

Company

	2013			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	**12,244**	**8,930**	**4,010**	**25,184**
Average for the year	**13,788**	**8,832**	**4,059**	**26,679**

	2012			
	Consumer Banking	Wholesale Banking	Support Services	Total
At 31 December	14,524	8,673	4,009	27,206
Average for the year	14,517	8,582	3,911	27,010

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	**235**	174
Settlements with the US authorities	**-**	667
Other general administrative expenses	**1,801**	1,866
	2,036	2,707

8. **Operating expenses** continued

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.

During 2012, the Group reached settlements with the US authorities regarding US sanctions compliance in the period from 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.

Auditor's remuneration

Auditor's remuneration in relation to the Group statutory audit amounts to $3.7 million (2012: $3.8 million) and is included within other general administration expenses. The following fees were payable by the Group to their principal auditor, KPMG Audit Plc and its associates (together KPMG):

	2013 $million	2012 $million
Audit fees for the Group statutory audit:		
Fees relating to the current year	**3.7**	3.8
Fees payable to KPMG for other services provided to the Group:		
Audit of Standard Chartered PLC subsidiaries, pursuant to legislation		
Fees relating to the current year	**10.5**	10.7
Total audit and audit related fees	**14.2**	14.5
Other services pursuant to legislation	**2.6**	2.6
Tax services	**1.1**	0.9
Services relating to corporate finance transactions	**-**	0.3
All other services	**0.7**	0.4
Total fees payable	**18.6**	18.7

The following is a description of the type of services included within the categories listed above:

- Audit fees are in respect of fees payable to KPMG Audit Plc for the statutory audit of the consolidated financial statements of the Group and the separate financial statements of Standard Chartered Bank. It excludes amounts payable for the audit of Standard Chartered Bank's subsidiaries and amounts payable to KPMG Audit Plc's associates. These amounts have been included in 'Fees payable to KPMG for other services provided to the Group'
- Other services pursuant to legislation include services for assurance and other services that are in relation to statutory and regulatory filings, including comfort letters and interim reviews
- Tax services include tax compliance services and tax advisory services
- Services related to corporate finance transactions include fees payable to KPMG for transaction related work irrespective of whether the Group is vendor or purchaser, such as acquisition due diligence and long-form reports
- All other services include other assurance and advisory services such as translation services, ad-hoc accounting advice, reporting accountants work on capital raising and review of financial models

Expenses incurred during the provision of services and which have been reimbursed by the Group are included within auditor's remuneration.

In addition to the above, KPMG estimate they have been paid fees less than $0.1 million (2012: less than $0.1 million) by parties other than the Group but where the Group is connected with the contracting party and therefore may be involved in appointing KPMG. These fees arise from services such as the audit of the Group's pension schemes.

Fees payable to KPMG for non-audit services for Standard Chartered Bank are not separately disclosed because such fees are disclosed on a consolidated basis for the Group.

9. Depreciation and amortisation

	2013 $million	2012 $million
Premises	**108**	126
Equipment:		
Operating lease assets	**206**	148
Other equipment	**119**	132
Intangibles:		
Software	**228**	189
Acquired on business combinations	**72**	84
	733	679

10. 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	**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 Financial Risk Management.

11. 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

12. 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	137	84
Adjustments in respect of prior periods (including double taxation relief)	2	1
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)
	1,687	1,759
Deferred tax:		
Origination/reversal of temporary differences	167	64
Adjustments in respect of prior periods	15	8
	182	72
Tax on profits on ordinary activities	1,869	1,831
Effective tax rate	31.3%	27.1%

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.

The taxation charge for the year is higher than the blended rate of corporation tax in the United Kingdom, 23.25 per cent. The differences are explained below:

	2013 $million	2012 $million
Profit on ordinary activities before taxation	5,979	6,761
Tax at 23.25 per cent (2012: 24.5 per cent)	1,390	1,657
Effects of:		
Tax free income	(244)	(279)
Lower tax rates on overseas earnings	(329)	(338)
Higher tax rates on overseas earnings	480	386
Adjustments to tax charge in respect of previous periods	(20)	5
Goodwill impairment	232	-
Non-deductible expenses	429	432
Other items	(69)	(32)
Tax on profits on ordinary activities	1,869	1,831

	2013			2012		
	Current Tax $million	Deferred Tax $million	Total $million	Current Tax $million	Deferred Tax $million	Total $million
Tax recognised in other comprehensive income						
Available-for-sale assets	6	39	45	(40)	(87)	(127)
Cash flow hedges	-	11	11	-	(19)	(19)
Retirement benefit obligations	-	(21)	(21)	-	14	14
	6	29	35	(40)	(92)	(132)
Other tax recognised in equity						
Share based payments	3	(1)	2	14	8	22
	3	(1)	2	14	8	22
Total tax credit/(charge) recognised in equity	9	28	37	(26)	(84)	(110)

13. Dividends

Ordinary equity shares	2013	2012
Interim dividend per ordinary share (cents)	**14.00**	11.38
Interim dividends declared and paid during the year ($million)	**1,839**	1,372

Preference shares	2013 $million	2012 $million
Non-cumulative redeemable preference shares:		
- 8.125 per cent preference shares of $5 each[1,2]	**75**	75
- 7.014 per cent preference shares of $5 each[3]	**53**	53
- 6.409 per cent preference shares of $5 each[3]	**48**	48

1 Dividends on these preference shares are treated as interest expense and accrued accordingly
2 On 27 November 2013 these preference shares were redeemed (see note 33)
3 Dividends on these preference shares classified as equity are recorded in the period in which they are declared

14. Remuneration of Directors

Remuneration of directors is shown below:

	Salary $ '000		Benefits $' 000		Annual performance award $ '000		Performance share award $ '000		Pension $ '000		Total $ '000	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
P A Sands	**1,680**	1,703	**225**	385	**2,500**	3,150	**1,561**	4,984	**874**	792	**6,840**	11,014
R H Meddings	**1,250**	1,268	**104**	96	**1,725**	2,160	**1,063**	3,067	**638**	536	**4,780**	7,127
S P Bertamini	**1,000**	1,000	**1,242**	1,500	**1,250**	1,750	**837**	2,585	**400**	387	**4,729**	7,222
A M G Rees	**1,149**	1,165	**101**	85	**6,500**	9,000	**1,244**	3,680	**516**	736	**9,510**	14,666
J S Bindra	**835**	832	**987**	1,067	**1,400**	1,750	**747**	2,300	**482**	450	**4,451**	6,399
V Shankar	**871**	871	**525**	477	**1,490**	1,950	**566**	1,533	**348**	348	**3,800**	5,179
T J Clarke	**733**	713	**33**	34	**925**	1,100	**453**	1,150	**363**	207	**2,507**	3,204
J P M F Verplancke	**809**	799	**726**	332	**1,150**	1,400	**543**	1,533	**243**	240	**3,471**	4,304
R F Goulding	**860**	871	**34**	48	**975**	1,300	**634**	1,917	**258**	276	**2,761**	4,412
T J Miller	**821**	832	**83**	82	**375**	1,500	**701**	2,300	**418**	370	**2,398**	5,084

Salary

Peter Sands' salary for 2013 was £1.075 million. Richard Meddings' salary for 2013 was £0.8 million. Steve Bertamini's salary for 2013 was $1 million. Mike Rees' salary for 2013 was £0.735 million. Jaspal Bindra was issued with a new contract of employment in May 2013; this included a Hong Kong dollar base salary (as disclosed last year) of HKD 6.5 million. V Shankar's salary for 2013 was AED 3.2 million.

Benefits

Peter Sands', Richard Meddings' and Mike Rees' benefits include private medical cover, life insurance, ill-health income protection, a car allowance, an allowance in respect of taxation advice and the use of a company vehicle and driver where required for business purposes. Peter, Richard and Mike are not tax equalised. Steve Bertamini carries out his executive duties in a host country location so in addition to private medical cover, life insurance, ill-health income protection, a car allowance, an allowance in respect of taxation financial advice and the use of a company vehicle and driver where required for business purposes. Steve also received allowances to cover the cost of accommodation ($336,731) and education of dependent children ($55,170). Steve is entitled to tax equalisation ($313,475). Jaspal Bindra's benefits include private medical cover, life insurance, ill-health income protection, a car allowance, an allowance in respect of taxation financial advice and the use of a company vehicle and driver where required for business purposes . Since migrating to a Hong Kong base contract of employment in May 2013, Jaspal is no longer tax equalised. V Shankar's benefits include private medical cover, life insurance, ill-health income protection, an accommodation allowance ($380,479), a car allowance, an allowance in respect of taxation financial advice and the use of a company vehicle and driver where required for business purposes . Shankar is not tax equalised.

Annual performance award (APA)

60 per cent of the APA will be deferred in shares over a period of three years subject to claw back. Non-deferred variable compensation was delivered 50 per cent in up-front shares and 50 per cent in cash.

14. Remuneration of Directors continued

Performance share award (PSA)

The value of the PSA vesting as a result of a performance period that ended in 2013 is estimated based on projected Group performance and the average share price for the final three months of 2013 (GBP14.31).

Pension

Peter Sands, Richard Meddings and Mike Rees are contractually entitled to participate in a Defined benefit pension plan, with a headline entitlement of 1/30th of base salary for each year of service, with the Committee continuing to take into account the value of such benefits as part of total compensation. Steve Bertamini received a cash allowance of 40 per cent of his base salary. He elected to receive a proportion of this in a US defined contribution pension plan with the balance payable in cash. Under his old contract, Jaspal Bindra had been building up pension benefits on a defined benefit basis. Since 1 January 2012, executive directors with a defined benefit promise have had the option to give up part or all of their future pension accrual and have it replaced with an individually costed pension allowance. Jaspal took up the option in 2013 and therefore now receives an allowance of 49 per cent of base salary, which has been determined on a cost-neutral basis to the Group, reflecting the level of benefit forfeited and the individual executive director's age as at 1 January 2012. Of Jaspal's $482,830 pension benefit, $333,646 relates to his defined contribution pension. Jaspal receives part of the allowance in a defined contribution pension plan with the balance payable in cash. V Shankar received a cash allowance of 40 per cent of his base salary.

Sign-on awards

In recognition of the substantial elements of deferred compensation and share awards forfeited when he left his previous employer in 2008, Steve Bertamini participates in a deferred compensation arrangement under which a total of $6.5 million was initially allocated into an interest-bearing account with the option for all or part of the value to be invested in alternative assets at his discretion. The original allocation in September 2008 (together with the accrued interest and investment returns) vests in three tranches: $3 million after the second, $2 million after the fourth and $1.5 million after the sixth anniversary of joining. No further awards are planned.

Total pension entitlements

The Group's approved defined benefit scheme is not open to new joiners. Peter Sands, Richard Meddings and Mike Rees participated in this pension scheme up to their lifetime limits. The balance of their pensions is payable from the Group's unapproved plan. Jaspal Bindra moved to a defined contribution arrangement with effect from 1 March 2013. Neither Steve Bertamini nor V Shankar are members of the defined benefit scheme. There is no retirement age for executive directors, but the normal retirement age for UK employees is 60.

Notes to the financial statements continued

15. 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.

Group

		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	16	**5,161**	**-**	**-**	**-**	**-**	**-**	**5,161**
Debt securities	16	**12,407**	**-**	**292**	**-**	**-**	**-**	**12,699**
Equity shares	16	**2,773**	**-**	**769**	**-**	**-**	**-**	**3,542**
		26,973	**-**	**2,203**	**-**	**-**	**-**	**29,176**
Derivative financial instruments	17	**60,124**	**2,037**	**-**	**-**	**-**	**-**	**62,161**
Loans and advances to banks[1]	18	**-**	**-**	**-**	**-**	**83,701**	**-**	**83,701**
Loans and advances to customers[1]	19	**-**	**-**	**-**	**-**	**290,584**	**-**	**290,584**
Investment securities								
Treasury bills and other eligible bills	21	**-**	**-**	**-**	**26,246**	**-**	**-**	**26,246**
Debt securities	21	**-**	**-**	**-**	**70,545**	**2,676**	**-**	**73,221**
Equity shares	21	**-**	**-**	**-**	**2,912**	**-**	**-**	**2,912**
		-	**-**	**-**	**99,703**	**2,676**	**-**	**102,379**
Other assets	22	**-**	**-**	**-**	**-**	**26,350**	**7,144**	**33,494**
Total at 31 December 2013		**87,097**	**2,037**	**2,203**	**99,703**	**457,845**	**7,144**	**656,029**
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	16	2,955	-	-	-	-	-	2,955
Debt securities	16	14,882	-	333	-	-	-	15,215
Equity shares	16	2,140	-	1,014	-	-	-	3,154
		25,447	-	1,629	-	-	-	27,076
Derivative financial instruments	17	48,135	1,360	-	-	-	-	49,495
Loans and advances to banks[1]	18	-	-	-	-	67,796	-	67,796
Loans and advances to customers[1]	19	-	-	-	-	279,638	-	279,638
Investment securities								
Treasury bills and other eligible bills	21	-	-	-	26,740	-	-	26,740
Debt securities	21	-	-	-	65,356	3,851	-	69,207
Equity shares	21	-	-	-	3,278	-	-	3,278
		-	-	-	95,374	3,851	-	99,225
Other assets	22	-	-	-	-	21,406	7,069	28,475
Total at 31 December 2012		73,582	1,360	1,629	95,374	433,228	7,069	612,242

1 Further analysed in Financial risk management on pages 28 to 120.

15. Financial instruments continued

Classification continued

Group

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	17	**61,375**	**914**	**-**	**-**	**-**	**62,289**
Deposits by banks	29	**-**	**-**	**-**	**43,418**	**-**	**43,418**
Customer accounts	30	**-**	**-**	**-**	**381,066**	**-**	**381,066**
Debt securities in issue	31	**-**	**-**	**-**	**45,939**	**-**	**45,939**
Other liabilities	32	**-**	**-**	**-**	**21,897**	**5,464**	**27,361**
Subordinated liabilities and other borrowed funds	33	**-**	**-**	**-**	**22,147**	**-**	**22,147**
Total at 31 December 2013		**66,668**	**914**	**17,737**	**514,467**	**5,464**	**605,250**
Financial liabilities held at fair value through profit or loss							
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	17	47,461	733	-	-	-	48,194
Deposits by banks	29	-	-	-	36,427	-	36,427
Customer accounts	30	-	-	-	372,874	-	372,874
Debt securities in issue	31	-	-	-	41,445	-	41,445
Other liabilities	32	-	-	-	19,547	4,742	24,289
Subordinated liabilities and other borrowed funds	33	-	-	-	22,873	-	22,873
Total at 31 December 2012		52,053	733	18,472	493,166	4,742	569,166

15. Financial instruments continued

Classification continued

Company

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
		Assets at fair value				Assets at amortised cost		
Cash and balances at central banks		-	-	-	-	41,272	-	41,272
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]		3,897	-	825	-	-	-	4,722
Treasury bills and other eligible bills	16	2,276	-	-	-	-	-	2,276
Debt securities	16	6,543	-	-	-	-	-	6,543
Equity shares	16	2,544	-	48	-	-	-	2,592
		17,481	-	1,119	-	-	-	18,600
Derivative financial instruments	17	58,401	1,745	-	-	-	-	60,146
Loans and advances to banks[1]	18	-	-	-	-	49,951	-	49,951
Loans and advances to customers[1]	19	-	-	-	-	129,785	-	129,785
Investment securities								
Treasury bills and other eligible bills	21	-	-	-	6,037	-	-	6,037
Debt securities	21	-	-	-	35,242	1,801	-	37,043
Equity shares	21	-	-	-	795	-	-	795
		-	-	-	42,074	1,801	-	43,875
Other assets	22	-	-	-	-	17,369	4,251	21,620
Total at 31 December 2013		75,882	1,745	1,119	42,074	240,178	4,251	365,249
Cash and balances at central banks		-	-	-	-	49,655	-	49,655
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]		4,769	-	71	-	-	-	4,840
Treasury bills and other eligible bills	16	721	-	-	-	-	-	721
Debt securities	16	8,925	-	-	-	-	-	8,925
Equity shares	16	1,767	-	-	-	-	-	1,767
		16,859	-	168	-	-	-	17,027
Derivative financial instruments	17	46,121	1,322	-	-	-	-	47,443
Loans and advances to banks[1]	18	-	-	-	-	37,250	-	37,250
Loans and advances to customers[1]	19	-	-	-	-	137,982	-	137,982
Investment securities								
Treasury bills and other eligible bills	21	-	-	-	8,805	-	-	8,805
Debt securities	21	-	-	-	31,782	2,271	-	34,053
Equity shares	21	-	-	-	757	-	-	757
		-	-	-	41,344	2,271	-	43,615
Other assets	22	-	-	-	-	12,715	6,064	18,779
Total at 31 December 2012		62,980	1,322	168	41,344	239,873	6,064	351,751

[1] Further analysed in Financial risk management on pages 28 to 120.

15. **Financial instruments** continued

Classification continued

Company

Liabilities	Notes	Liabilities at fair value Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Amortised cost $million	Non-financial liabilities $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		**-**	**-**	**364**	**-**	**-**	**364**
Customer accounts		**-**	**-**	**3,932**	**-**	**-**	**3,932**
Debt securities in issue		**-**	**-**	**3,664**	**-**	**-**	**3,664**
Short positions		**2,224**	**-**	**-**	**-**	**-**	**2,224**
		2,224	**-**	**7,960**	**-**	**-**	**10,184**
Derivative financial instruments	17	**59,090**	**613**	**-**	**-**	**-**	**59,703**
Deposits by banks	29	**-**	**-**	**-**	**35,602**	**-**	**35,602**
Customer accounts	30	**-**	**-**	**-**	**157,499**	**-**	**157,499**
Debt securities in issue	31	**-**	**-**	**-**	**36,685**	**-**	**36,685**
Other liabilities	32	**-**	**-**	**-**	**11,833**	**2,228**	**14,061**
Subordinated liabilities and other borrowed funds	33	**-**	**-**	**-**	**19,741**	**-**	**19,741**
Total at 31 December 2013		**61,314**	**613**	**7,960**	**261,360**	**2,228**	**333,475**
Financial liabilities held at fair value through profit or loss							
Deposits by banks		-	-	968	-	-	968
Customer accounts		-	-	4,968	-	-	4,968
Debt securities in issue		-	-	3,869	-	-	3,869
Short positions		1,696	-	-	-	-	1,696
		10,256	-	1,245	-	-	11,501
Derivative financial instruments	17	45,315	682	-	-	-	45,997
Deposits by banks	29	-	-	-	28,375	-	28,375
Customer accounts	30	-	-	-	169,882	-	169,882
Debt securities in issue	31	-	-	-	31,959	-	31,959
Other liabilities	32	-	-	-	9,318	2,420	11,738
Subordinated liabilities and other borrowed funds	33	-	-	-	20,107	-	20,107
Total at 31 December 2012		55,571	682	1,245	259,641	2,420	319,559

Valuation of financial instruments

Valuation of financial assets and liabilities held at fair value are subject to a review independent of the Business by Valuation Control. Valuation Control is primarily responsible for calculating valuation adjustments and performing independent price verification. Valuation Control performs price testing by comparing external and independent market data (e.g. consensus data, traded prices and broker quotes) against internal data. Financial instruments held at fair value in the balance sheet have been classified into a three level valuation hierarchy (see below for how each level is defined and the types of instruments included within them) that reflects the significance of the observability of the inputs used in fair value measurement. The Group uses the portfolio exemption in IFRS 13 to measure the fair value of a group of financial assets and financial liabilities.

A Product Valuation Committee (PVC) exists for each asset class where there is a material valuation risk. The committees meet monthly and comprise representatives from Group Market Risk, Product Control, Valuation Control and the Business. The committees are responsible for reviewing the results of the valuation control process. The committees report to the Financial Markets Valuation Committee and the Principal Finance Valuation Committee with oversight from the Principal Finance Investment Committee.

Use of third party information

Valuation Control performs a semi-annual review of the suitability of the market data used for price testing. The market data used for price testing may include those sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. The market data used should be representative of the market as much as possible, which can evolve over time as markets and financial instruments develop. To determine the quality of the market data inputs, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are taken into consideration.

15. Financial instruments continued

For instruments classified as level 2 or level 3 fair value adjustments are also made to system valuations to arrive at fair value in accordance with accounting requirements. The main adjustments are described below:

Bid Offer Valuation Adjustments
Where market parameters are marked on a mid market basis in the revaluation systems, a bid offer valuation adjustment is required to quantify the expected cost of neutralising the Business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. The methodology to calculate the bid-offer adjustment for a derivative portfolio involves netting between long and short positions and the bucketing of risk by strike and tenor based on the hedging strategy. Where long positions are marked to bid and short positions marked to offer in the systems, e.g. for cash securities, no bid offer valuation adjustments are required.

Credit Adjustments
The Group makes a credit adjustment (CA) against derivative products. CA is an estimate of the adjustment to fair value to account for the possibility that the counterparty may default and the Group would not receive the full market value of the transactions. AIRB models are used to calculate the PD and LGD which, together with the results of the exposure simulation engine, generates a view of expected losses. The Group assesses actual losses against the provisions incurred against expected losses on a portfolio basis. Collateral positions are taken in to account for the calculation of CA.

In addition to periodic reassessment of the counterparties, credit exposures and external trends which may impact risk management outcomes are closely monitored. Accounts or portfolios are placed on early alert when they display signs of weakness or financial deterioration. Some examples of such signs of weakness are decline in the customer's position within the industry, a breach of covenants, or non-performance of an obligation, or there are issues relating to ownership or management.

Own Credit Adjustments
With the adoption of IFRS 13, the Group calculates own credit adjustments to reflect changes in its own credit standing. The Group's own credit adjustments are calculated on its derivative liabilities and issued debt designated at fair value, including structured notes. The Group's own credit adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. The Group's own credit adjustments will reverse over time as its liabilities mature.

For derivative liabilities, an own credit adjustment is determined by applying the Group's probability of default to the Group's negative expected exposure against the counterparty. The Group's probability of default and loss expected in the event of default is derived based on internally assessed credit ratings and market standard recovery levels. The expected exposure is modelled based on simulation methodology and is generated through simulation of underlying risk factors over the life of the deal booked against the particular counterparty. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements. The methodology used to determine an own credit adjustment on derivative liabilities is consistent with the methodology used to determine counterparty credit adjustment (CA) on derivative assets.

For issued debt and structured notes designated at fair value, an own credit adjustment is determined by discounting the contractual cash flows using a yield curve adjusted for market observed secondary senior debt issuance spreads above average interbank rates.

Model Valuation Adjustments
Certain models may have pricing deficiencies or limitations that require a valuation adjustment. These pricing deficiencies or limitations arise due to the choice, implementation and calibration of the pricing model, amongst other reasons.

Day One Profit and Loss
A financial instrument is initially recognized at fair value, which is generally its transaction price. In cases where the value obtained from the relevant valuation model differs from the transaction price, we record the asset or liability based on our valuation model, but do not recognize that initial difference in profit and loss unless the valuation model used is widely accepted and all inputs to the model are observable.

Funding Valuation Adjustments
Funding Valuation Adjustment is an adjustment taken to account for the cost of funding future cash flows of derivatives. This adjustment applies to derivative transactions which are not collateralised. In general, derivatives are discounted on the assumption that the bank is able to fund at Libor. However, bank's funding costs are over and above Libor by a funding spread. Funding valuation adjustment accounts for the impact of this funding spread in the valuation of derivatives. Funding Valuation Adjustment is reserved as part of Day One Profit and Loss review process and released over the life of the deal.
In total, the Group has made $421 million (2012: $349 million) of valuation adjustments in determining fair value for financial assets and financial liabilities.

Valuation adjustments	2013	2012
Bid offer	**69**	80
Credit[1]	**187**	133
Model	**15**	10
Funding	**84**	73
Others (including Day 1)	**66**	53
Total	**421**	349

[1] includes debit value adjustments on derivatives in 2013

15. Financial instruments continued

Valuation hierarchy

The valuation hierarchy and the types of instruments classified into each level within that hierarchy are 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 government and other securities Listed equities Listed derivative instruments Investments in publicly traded mutual funds with listed market prices	Corporate and other government bonds and loans Over-the-counter (OTC) derivatives Asset backed securities Private Equity Investments	Asset backed securities Private equity investments Highly structured OTC derivatives with unobservable inputs Illiquid or highly structured corporate bonds with unobservable inputs
Types of financial liabilities:	Listed derivative instruments	OTC derivatives Structured deposits Credit structured debt securities in issue	Highly structured OTC derivatives with unobservable inputs. Illiquid or highly structured debt securities in issue with unobservable inputs

Level 1 portfolio

Level 1 assets and liabilities are typically exchange traded positions and some government bonds traded in active markets. These positions are valued using unadjusted quoted prices in active markets.

Level 2 portfolio

Where instruments are not quoted in an active market the Group utilises a number of valuation techniques to determine fair value. These valuation techniques include discounted cash flow analysis models, option pricing models, simulation models and other standard models commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as Level 2.

In line with changes in market practice, certain interest rate swaps have been subject to overnight index swap (OIS) rate discounting since 2011. The factors to be considered for the selection of such interest rate swaps include the currency in which the swaps are traded, counterparties with credit support annex agreement and the form of the collateral posted by the counterparties.

Level 3 portfolio

Level 3 assets and liabilities are valued using techniques similar to those outlined for Level 2, except that if the instrument has one or more inputs that are unobservable and significant to the fair value measurement of the instrument in its entirety, it will be classified as Level 3. Page 176 to 178 set out the significant unobservable inputs used to measure level 3 instruments.

A sensitivity analysis is presented on page 181 in respect of reasonably possible changes to the valuation assumptions.

The primary products classified as Level 3 are as follows:

Loan and advances

These include loans in the global syndications underwriting book which are not syndicated yet. These loans are generally bilateral in nature and their valuation is primarily based on recent trades or proxies, i.e. comparable loans with similar credit grade, sector etc. Where there are no recent transactions and reliable comparable loans to proxy from, the valuation of these loans is based on unobservable inputs resulting in them being classified as level 3.

Debt securities - Asset backed securities

Due to the lack of liquidity in the market and the prolonged period of time under which some securities have not traded, obtaining external prices is not a strong enough measure to determine whether an asset has an observable price or not. Therefore, once external pricing has been verified, an assessment is made whether each security is traded with significant liquidity based on its credit rating and sector. If a security is of low credit rating and/or is traded in a less liquid sector, it will be classified as Level 3. Where third party pricing is not available, the valuation of the security will be estimated from market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings. These securities are also classified as Level 3.

15. Financial instruments continued

Other debt securities
These debt securities include certain convertible bonds, corporate bonds, credit and equity structured notes where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product. Debt securities are valued using available prices provided through pricing vendors, brokers or trading activities. Where such liquid external prices are not available, valuation of these cash securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

Equity shares - private equity
Private equity investments are generally valued based on earning multiples - Price-to-Earnings (P/E) or Enterprise Value to Earning Before Income Tax, Depreciation and Amortisation (EV/EBITDA) ratios - of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earning multiples for the comparable listed companies. In circumstances where an investment doesn't have direct comparables or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternate valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or Level 3 inputs, may be applied. Even though earning multiples for the comparable listed companies can be sourced from third party sources (for example, Bloomberg), and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where observable inputs are available, for example, OTC prices) are classified as Level 3 on the grounds that the valuation methods involve judgments ranging from determining comparable companies to discount rates where the discounted cash flow method is applied

Derivatives
These trading derivatives are classified as Level 3 if there are parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. These unobservable correlation parameters could only be implied from the market, through methods such as historical analysis and comparison to historical levels or benchmark data.

Debt securities in issue
These debt securities relate to credit structured notes issued by the Group where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product. Debt securities are valued using available prices provided through pricing vendors, brokers or trading activities. Where such liquid external prices are not available, valuation of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

15. 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.

Group

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	-	745	3,542
Derivative financial instruments	323	61,240	598	62,161
Of which:				
Foreign exchange	56	42,301	366	42,723
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	3,526	19	26,246
Debt securities	24,447	45,490	608	70,545
Of which:				
Government bonds	14,515	5,451	64	20,030
Issued by corporates other than financial institutions	6,480	7,311	493	14,284
Issued by financial institutions	3,452	32,728	51	36,231
Equity shares	1,635	8	1,269	2,912
At 31 December 2013	63,647	123,275	4,118	191,040
Liabilities				
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 issues	7	6,777	39	6,823
Short positions	4,917	376	-	5,293
	4,924	18,059	47	23,030
Derivative financial instruments	420	61,428	441	62,289
Of which:				
Foreign exchange	84	42,791	315	43,190
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	79,487	488	85,319

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

15. 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 2012.

Group

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 bods	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	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
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 issues	-	5,147	114	5,261
Short positions	4,320	272	-	4,592
	4,388	18,562	114	23,064
Derivative financial instruments	383	47,248	563	48,194
Of which:				
Foreign exchange	72	25,247	411	25,730
Interest rate	-	19,445	33	19,478
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	65,810	677	71,258

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

15. Financial instruments continued

Valuation of financial instruments continued

The tables below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2013

Company

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	246	2,221	-	2,467
Loans and advances to customers	-	4,002	720	4,722
Treasury bills and other eligible bills	2,240	36	-	2,276
Debt securities	2,619	3,754	170	6,543
Of which:				
Government bonds	2,536	1,026	-	3,562
Issued by corporates other than financial institutions	78	1,922	170	2,170
Issued by financial institutions	5	806	-	811
Equity shares	2,592	-	-	2,592
Derivative financial instruments	324	59,286	536	60,146
Of which:				
Foreign exchange	57	40,858	366	41,281
Interest rate	-	15,340	47	15,387
Commodity	267	2,096	-	2,363
Credit	-	549	13	562
Equity and stock index	-	443	110	553
Investment securities				
Treasury bills and other eligible bills	4,666	1,371	-	6,037
Debt securities	12,090	22,833	319	35,242
Of which:				
Government bonds	4,154	5,794	-	9,948
Issued by corporates other than financial institutions	5,850	2,895	268	9,013
Issued by financial institutions	2,086	14,144	51	16,281
Equity shares	688	2	105	795
At 31 December 2013	25,465	93,505	1,850	120,820
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	364	-	364
Customer accounts	-	3,932	-	3,932
Debt securities in issues	-	3,625	39	3,664
Short positions	1,843	381	-	2,224
	1,843	8,302	39	10,184
Derivative financial instruments	418	58,908	377	59,703
Of which:				
Foreign exchange	82	41,517	319	41,918
Interest rate	-	14,584	9	14,593
Commodity	336	1,497	-	1,833
Credit	-	842	-	842
Equity and stock index	-	468	49	517
At 31 December 2013	2,261	67,210	416	69,887

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

Notes to the financial statements continued

15. Financial instruments continued

Valuation of financial instruments continued

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

Company

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	-	3,930	910	4,840
Treasury bills and other eligible bills	686	35	-	721
Debt securities	4,336	4,417	172	8,925
Of which:				
Government bonds	4,223	1,442	-	5,665
Issued by corporates other than financial institutions	103	1,449	172	1,724
Issued by financial institutions	10	1,526	-	1,536
Equity shares	1,767	-	-	1,767
Derivative financial instruments	257	46,752	434	47,443
Of which:				
Foreign exchange	38	23,767	400	24,205
Interest rate	-	19,764	1	19,765
Commodity	219	2,102	-	2,321
Credit	-	793	6	799
Equity and stock index	-	326	27	353
Investment securities				
Treasury bills and other eligible bills	7,522	1,283	-	8,805
Debt securities	10,889	20,538	355	31,782
Of which:				
Government bonds	4,152	2,418	166	6,736
Issued by corporates other than financial institutions	569	3,118	58	3,745
Issued by financial institutions	6,168	15,002	131	21,301
Equity shares	675	5	77	757
At 31 December 2012	26,229	77,637	1,948	105,814
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	-	968	-	968
Customer accounts	68	4,900	-	4,968
Debt securities in issues	-	3,755	114	3,869
Short positions	1,424	272	-	1,696
	1,492	9,895	114	11,501
Derivative financial instruments	380	45,197	420	45,997
Of which:				
Foreign exchange	69	24,114	365	24,548
Interest rate	-	18,493	3	18,496
Commodity	311	1,169	-	1,480
Credit	-	1,094	10	1,104
Equity and stock index	-	327	42	369
At 31 December 2012	1,872	55,092	534	57,498

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

15. **Financial instruments** continued

Level 3 movement tables

Financial assets

Group

	Held at fair value through profit or loss				Investment securities			
Assets	Loans and advances to customers $million	Debt securities $million	Equity shares $million	Derivative financial instruments $million	Treasury bills $million	Debt securities $million	Equity shares $million	Total $million
At 1 January 2013	910	176	1,125	486	58	396	1,958	5,109
Total (losses)/gains recognised in income statement	(89)	63	66	37	-	(18)	49	108
Total losses recognised in other comprehensive income	-	-	-	-	-	(23)	(26)	(49)
Purchases	-	18	265	86	-	6	131	506
Sales	-	(30)	(711)	(11)	(36)	(59)	(818)	(1,665)
Settlements	(103)	(38)	-	(50)	(3)	(100)	-	(294)
Transfers out	-	(44)	-	(1)	-	(56)	(25)	(126)
Transfers in	2	14	-	51	-	462	-	529
At 31 December 2013	720	159	745	598	19	608	1,269	4,118
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 investment 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 and corporate debt securities where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets.

	Held at fair value through profit or loss				Investment securities			
Assets	Loans and advances to customers $million	Debt securities $million	Equity shares $million	Derivative financial instruments $million	Treasury bills $million	Debt securities $million	Equity shares $million	Total $million
At 1 January 2012	-	293	566	276	49	745	1,418	3,347
Total gains/(losses) recognised in income statement	-	9	313	(48)	-	48	(13)	309
Total (losses)/gains recognised in other comprehensive income	-	-	-	-	-	(56)	133	77
Purchases	-	22	310	336	42	134	525	1,369
Sales	-	(5)	(64)	(13)	-	(199)	(71)	(352)
Settlements	(27)	(97)	-	(60)	-	(17)	(23)	(224)
Transfers out	-	(96)	-	(7)	(33)	(261)	(16)	(413)
Transfers in	937	50	-	2	-	2	5	996
At 31 December 2012	910	176	1,125	486	58	396	1,958	5,109
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2012	-	(10)	195	(30)	-	-	(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 financial instruments where the valuation parameters became observable during the year and were transferred to Level 2 financial assets.

Notes to the financial statements continued

15. Financial instruments continued

Level 3 movement tables continued

Company

	Held at fair value through profit or loss				Investment securities			
Assets	Loans and advances to customers $million	Debt securities $million	Equity shares $million	Derivative financial instruments $million	Treasury bills $million	Debt securities $million	Equity shares $million	Total $million
At 1 January 2013	910	172	-	434	-	355	77	1,948
Total (losses)/ gains recognised in income statement	(89)	-	-	26	-	-	(1)	(64)
Total gains recognised in other comprehensive income	-	-	-	-	-	(29)	15	(14)
Purchases	-	32	-	86	-	11	14	143
Sales	-	(30)	-	(11)	-	(91)	-	(132)
Settlements	(103)	(19)	-	(50)	-	(2)	-	(174)
Transfers out	-	-	-	-	-	(56)	-	(56)
Transfers in	2	15	-	51	-	131	-	199
At 31 December 2013	720	170	-	536	-	319	105	1,850
Total (losses) / gains recognised in the income statement relating to assets held at 31 December 2013	(86)	2	-	12	-	-	-	(72)

Transfers in during the year primarily relate to investment 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 and corporate debt securities where the valuation parameters became observable during the year and were transferred to Level 1 and Level 2 financial assets.

	Held at fair value through profit or loss				Investment securities			
Assets	Loans and advances to customers $million	Debt securities $million	Equity shares $million	Derivative financial instruments $million	Treasury bills $million	Debt securities $million	Equity shares $million	Total $million
At 1 January 2012	-	241	1	269	-	509	66	1,086
Total(losses)/gains recognised in income statement	-	9	(1)	(31)	-	-	-	(23)
Total gains recognised in other comprehensive income	-	-	-	-	-	(89)	1	(88)
Purchases	-	22	-	334	-	133	18	507
Sales	-	(95)	-	(13)	-	(199)	-	(307)
Settlements	(27)	(7)	-	(120)	-	(1)	-	(155)
Transfers out	-	-	-	(5)	-	-	(8)	(13)
Transfers in	937	2	-	-	-	2	-	941
At 31 December 2012	910	172	-	434	-	355	77	1,948
Total losses gains recognised in the income statement relating to assets held at 31 December 2012	-	(10)	-	(8)	-	-	-	(18)

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

15. Financial instruments continued

Level 3 movement tables continued

Financial liabilities

Group

	2013				2012			
Liabilities	Customer Accounts $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million	Customer Accounts $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
At 1 January	-	114	563	677	-	172	184	356
Total losses/(gains) recognised in income statement	-	3	54	57	-	(43)	80	37
Total losses recognised in other comprehensive income	-	-	1	1	-	-	-	-
Issues	9	506	(1)	514	-	50	324	374
Settlements	(3)	(490)	(144)	(637)	-	(28)	(25)	(53)
Transfers out	-	(99)	(30)	(129)	-	(37)	-	(37)
Transfers in	2	5	(3)	4	-	-	-	-
At 31 December	8	39	440	487	-	114	563	677
Total losses/(gains) recognised in the income statement relating to liabilities held at 31 December	-	4	37	41	-	3	44	47

Transfers in during the periods 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.

Company

	2013				2012			
Liabilities	Customer Accounts $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million	Customer Accounts $million	Debt securities in issue $million	Derivative financial instruments $million	Total $million
At 1 January	-	114	420	534	-	172	93	265
Total gains recognised in income statement	-	3	41	44	-	(42)	38	(4)
Issues	3	506	2	511	-	50	323	373
Settlements	(3)	(490)	(93)	(586)	-	(28)	(117)	(145)
Transfers out	-	(99)	-	(99)	-	(38)	(1)	(39)
Transfers in	-	5	7	12	-	-	84	84
At 31 December	-	39	377	416	-	114	420	534
Total losses recognised in the income statement relating to liabilities held at 31 December	-	4	-	4	-	3	43	46

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

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

Notes to the financial statements continued

15. Financial instruments continued

The following tables present the Group's primary Level 3 financial instruments which are held at fair value. The table also presents the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, and the range of values for those inputs and the weighted average of those inputs:

Instrument	Value at 31 December 2013 Assets $million	Liabilities $million	Principal valuation technique	Significant unobservable inputs	Range[1]	Weighted average[2]
Loans and advances to customers	720	8	Comparable pricing	Yield	8.75% to 22.78%	14%
Debt securities	410	-	Comparable pricing	Yield	5.2% to 36.0%	8.1%
			Internal pricing model	Equity correlation	40% to 97%	N/A
			Discounted cash flows	Yield	1.49% to 4.01%	4.3%
Asset backed securities	293	-	Discounted cash flows	Discount Margin	16.8%	16.8%
			Comparable pricing	Yield	2.6% to 8.5%	5%
Government bonds	83	-	Discounted cash flows	Credit correlation	0.6% to 3.0%	1%
Debt securities in issue	-	39	Internal pricing model	Equity correlation	40% to 97%	NA
			Comparable pricing	Yield	8.75% to 22.78%	14%
Derivative financial instruments of which:						
Foreign exchange	366	315	Option pricing model	Foreign Exchange Option Implied Volatility	0.17% to 7.2%	0.2%
				Foreign Exchange - Foreign Exchange Implied Correlation	-67.0% to 94.0%	78.6%
Interest rate	53	24	Discounted cash flows	Interest rate curves	0.1% to 13.4%	5.2%
			Spread option model	Interest rate correlation	97.9% to 98.3%	98.1%
Credit	13	-	Discounted cash flows	Credit correlation	80%	80%
			Discounted cash flows	Credit spreads	0.6% to 3.0%	1.1%
			Option pricing model	Bond price volatility	25%	25%
Equity	166	102	Comparable pricing	Yield	40% to 99%	N/A
			Internal pricing model	Equity correlation		
Equity shares	2,014		Comparable pricing	EV/EBITDA multiples	7.3x to 15.2x	8.7x
(includes private equity				P/B multiples	2.6x	2.6x
investments)				P/E multiples	9.0x to 29.1x	17.4x
				Liquidity discount	10.0% to 30.0%	13.8%
Total	4,118	488				

[1] The ranges of values shown in the above table represent the highest and lowest levels used in the valuation of the Group's level 3 financial instruments as at 31 December 2013. The ranges of values used are reflective of the underlying characteristics of these Level 3 financial instruments based on the market conditions at the balance sheet date. However, these ranges of values may not represent the uncertainty in fair value measurements of the Group's Level 3 financial instruments

[2] Weighted average for non-derivative financial instruments have been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable. N/A has been entered for the cases where weighted average is not a meaningful indicator

15. Financial instruments continued

The following section describes the significant unobservable inputs identified in the valuation technique table.

Comparable pricing
Comparable pricing refers to the method where valuation is done by calculating an implied yield from the price of a similar comparable observable instrument. The comparable instrument for a private equity investment is a comparable listed company. The comparable instrument in case of bonds is a similar comparable but observable bond.

This may involve adjusting the yield to derive a value for the unobservable instrument.

EV/EBITDA ratio multiples
This is the ratio of Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA), EV is the aggregate market capitalisation and debt minus the cash and cash equivalents. An increase in EV/EBITDA multiple in isolation will result in a favourable movement in the fair value of the unlisted firm.

P/E and P/B multiples
Price Earnings multiple is the ratio of the Market Capitalisation to the Net Income after tax. Price to Book multiple is the ratio of the Market Capitalisation to the Book Value. The multiples are determined from multiples of listed comparables, which are observable. An increase in P/E multiple or P/B multiple will result in a favourable movement in the fair value of the unlisted firm.

Yield
Yield is the interest rate that is used to discount the future cash-flows in a discounted cash-flow model.

Correlation
Correlation is the measure of how movement in one variable influences the movement in another variable. Credit correlation generally refers to the factor that describes the relationship between the probability of individual entities to default on obligations and the joint probability of multiple entities to default on obligations. Similarly, equity correlation is the correlation between two equity instruments. An interest rate correlation refers to the correlation between two swap rates. FX correlation represents the correlation between two different exchange rates.

Liquidity discount
A liquidity discount is primarily applied to unlisted firms to reflect the fact that these stocks are not actively traded. An increase in liquidity discount in isolation will result in unfavourable movement in the fair value of the unlisted firm.

Volatility
Volatility represents an estimate of how much a particular instrument, parameter or Index will change in value over time. Volatilities are generally implied from the observed option prices. For certain instruments, volatility may change with strike and maturity profile of the option.

Credit spreads
Credit Spreads represent the additional yield that a market participant would demand for taking exposure to the credit risk of an instrument.

Notes to the financial statements continued

15. Financial instruments continued

Sensitivities in respect of the fair values of Level 3 assets and liabilities

Group

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million
Debt securities	159	162	156	608	628	587
Equity shares	745	820	671	1,269	1,396	1,142
Treasury bills and other eligible bills	-	-	-	19	19	19
Loan and advances	712	738	687	-	-	-
Derivative financial Instruments	157	269	111	-	-	-
Debt securities in issue	(39)	(39)	(39)			
At 31 December 2013	1,734	1,950	1,586	1,896	2,043	1,748

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million
Debt securities	176	180	171	396	401	385
Equity shares	1,125	1,237	1,013	1,958	2,167	1,759
Treasury bills and other eligible bills	-	-	-	58	58	58
Loan and advances	910	924	896	-	-	-
Derivative financial Instruments	(77)	2	(154)	-	-	-
Debt securities in issue	(114)	(114)	(114)	-	-	-
At 31 December 2012	2,020	2,229	1,812	2,412	2,626	2,202

Notes to the financial statements continued

15. Financial instruments continued

Sensitivities in respect of the fair values of level 3 assets and liabilities continued

Company

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million
Debt securities	170	173	166	319	399	299
Equity shares	-	-	-	105	116	74
Treasury bills and other eligible bills	-	-	-	-	-	-
Loan and advances	720	749	698	-	-	-
Derivative financial Instruments	159	273	112	-	-	-
Debt securities in issue	(39)	(39)	(39)	-	-	-
At 31 December 2013	1,010	1,156	937	424	515	373

	Held at fair value through profit or loss			Available-for-sale		
	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million	Net exposure $million	Favourable Changes $million	Unfavourable Changes $million
Debt securities	172	176	168	355	363	348
Equity shares	-	-	-	77	85	69
Treasury bills and other eligible bills	-	-	-	-	-	-
Loan and advances	910	924	869	-	-	-
Derivative financial Instruments	14	-	28	-	-	-
Debt securities in issue	(114)	(114)	(114)	-	-	-
At 31 December 2012	982	986	951	432	448	417

15. Financial instruments continued

Where the fair value of financial instruments are measured using valuation techniques that incorporate one or more significant inputs which are based on unobservable market data, we apply a 10 per cent increase or decrease on the values of these unobservable parameter inputs, to generate a range of reasonably possible alternative valuations in accordance with the requirements of IFRS7. The percentage shift is determined by statistical analyses performed on a set of reference prices, which included certain equity indices, credit indices and volatility indices, based on the composition of our Level 3 assets. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This Level 3 sensitivity analysis assumes a one way market move and does not consider offsets for hedges.

As of 31 December 2013, these reasonably possible alternatives could have increased fair values of financial instruments held at fair value through profit or loss by $216 million (2012: $209 million) and available-for-sale by $147 million (2012: $214 million), or decreased fair values of financial instruments held at fair value through profit or loss by $148 million (2012: $208 million) and available-for-sale by $148 million (2012: $210 million). For the Company, these reasonably possible alternatives could have decreased fair values of financial instruments held at fair value through profit or loss by $146 million (2012: $4 million) and available-for-sale by $91 million (2012: $16 million), or increased fair values of financial instruments held at fair value through profit or loss by $73 million (2012: $31 million) and available-for-sale by $ 51 million (2012: $15 million).

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. Resultantly given that 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 Levels 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 a quarter 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.

15. Financial instruments continued

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 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

15. 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.

Group

	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	$million	$million	$million	$million	$million
Assets					
Cash and balances at central banks[1]	54,534	-	54,534	-	54,534
Loans and advances to banks	83,701	2	83,407	177	83,586
Loans and advances to customers	290,584	-	3,626	286,727	290,353
Investment securities	2,676	-	2,661	73	2,734
Other assets[1]	26,350	-	26,183	167	26,350
At 31 December 2013	457,845	2	170,411	287,144	457,557
Liabilities					
Deposits by banks	43,418	12	43,406	-	43,418
Customer accounts	381,066	682	380,610	-	381,292
Debt securities in issue	45,939	365	45,673	-	46,038
Subordinated liabilities and other borrowed funds	22,147	19,238	2,512	-	21,750
Other liabilities[1]	21,897	201	21,695	8	21,904
At 31 December 2013	514,467	20,498	493,896	8	514,402

	Carrying value	Fair value
	$million	$million
Assets		
Cash and balances at central banks[1]	60,537	60,537
Loans and advances to banks	67,796	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	433,228	432,179
Liabilities		
Deposits by banks	36,427	35,961
Customer accounts	372,874	371,702
Debt securities in issue	41,445	40,906
Subordinated liabilities and other borrowed funds	22,873	23,833
Other liabilities[1]	19,547	19,547
At 31 December 2012	493,166	491,949

[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.

15. Financial instruments continued

Company

	Carrying value $million	Fair value Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Assets					
Cash and balances at central banks[1]	41,272	-	41,272	-	41,272
Loans and advances to banks	49,951	-	49,889	13	49,902
Loans and advances to customers	129,785	3	5,680	124,177	129,860
Investment securities	1,801	-	1,351	-	1,351
Other assets[1]	17,369	-	17,397	-	17,397
At 31 December 2013	240,178	3	115,589	124,190	239,782
Liabilities					
Deposits by banks	35,602	-	35,602	-	35,602
Customer accounts	157,499	-	157,951	-	157,951
Debt securities in issue	36,685	189	37,113	-	37,302
Subordinated liabilities and other borrowed funds	19,741	19,210	-	-	19,210
Other liabilities[1]	11,833	-	11,861	8	11,869
At 31 December 2013	261,360	19,399	242,527	8	261,934

	Carrying value $million	Fair value $million
Assets		
Cash and balances at central banks[1]	49,655	49,655
Loans and advances to banks	37,250	37,239
Loans and advances to customers	137,982	137,650
Investment securities	2,271	2,226
Other assets[1]	12,715	12,715
At 31 December 2012	239,873	239,485
Liabilities		
Deposits by banks	28,375	28,377
Customer accounts	169,882	170,033
Debt securities in issue	31,959	31,882
Subordinated liabilities and other borrowed funds	20,107	20,938
Other liabilities[1]	9,318	9,318
At 31 December 2012	259,641	260,548

[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.

15. Financial instruments continued

Reclassification of financial assets

In 2008 the Group and Company 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 balance of assets reclassified during 2008:

Group

			If assets had not been reclassified, fair value gains from 1 January to 31 December 2013 which would have been recognised within				
For assets reclassified:	Carrying amount at 31 December 2013 $million	Fair value at 31 December 2013 $million	Income $million	AFS reserve $million	Income recognised in income statement $million	Effective interest rate at date of reclassification %	Estimated amounts of expected cash flows $million
From trading to AFS	46	46	5[1]	-	6	8.8	123
From trading to loans and receivables	183	179	20	-	12	6.0	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	12.40	20	33		

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

			If assets had not been reclassified, fair value gains/(losses) from 1 January to 31 December 2012 which would have been recognised within				
For assets reclassified:	Carrying amount at 31 December 2012	Fair value at 31 December 2012	Income	AFS reserve	Income recognised in income statement	Effective interest rate at date of reclassification	Estimated amounts of expected cash flows
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.

15. Financial instruments continued

Reclassification of financial assets continued

Company

For assets reclassified:	Carrying amount at 31 December 2013	Fair value at 31 December 2013	If assets had not been reclassified, fair value gains from 1 January to 31 December 2013 which would have been recognised within: Income	AFS reserve	Income recognised in income statement	Effective interest rate at date of reclassification	Estimated amounts of expected cash flows
	$million	$million	$million	$million	$million	%	$million
From trading to AFS	46	46	5[1]	-	6	8.8	124
From trading to loans and receivables	183	179	20	-	12	6.2	212
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 available-for-sale	46	46	7[1]	-	6		
reclassified to loans and receivables	128	127	12	20	33		

For assets reclassified:	Carrying amount at 31 December 2012	Fair value at 31 December 2012	If assets had not been reclassified, fair value gains/(losses) from 1 January to 31 December 2012 which would have been recognised within: Income	AFS reserve	Income recognised in income statement	Effective interest rate at date of reclassification	Estimated amounts of expected cash flows
	$million	$million	$million	$million	$million	%	$million
From trading to AFS	83	83	5[1]	-	10	6.0	195
From trading to loans and receivables	548	529	34	-	28	5.0	609
From AFS to loans and receivables	673	661	-	45	26	5.3	826
	1,304	1,273	39	45	64		
Of which asset backed securities:							
reclassified to available-for-sale	81	81	5[1]	-	8		
reclassified to loans and receivables	924	896	68	45	43		

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

15. Financial instruments continued

Transfers of financial assets

Transfers where financial assets are not derecognised - Group

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

15. 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 special purpose entities. The holders of the liability instruments have recourse only to the assets transferred to the SE. Further details of SE are in note 24.

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.

15. Financial instruments continued

Transfers where financial assets are not derecognised - Company

Repurchase transactions

The Company enters into collateralised repurchase agreements (repos) and securities borrowing and lending transactions. These transactions typically entitle the Company 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 Company 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	-	-	-	-
Debt securities	-	-	-	-
Loans and advances to banks and customers	-	-	**2,362**	**2,362**
At 31 December 2013	-	-	**2,362**	**2,362**

Balance sheet liabilities - Repurchase agreements	
Deposit by banks	**3,453**
Customer accounts	**1,712**
At 31 December 2013	**5,165**

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	363	-	425
Debt securities	522	-	-	522
Loans and advances to banks and customers	-	-	1,780	1,780
Off balance sheet				
Repledged collateral received	97	-	1,049	1,146
At 31 December 2012	681	363	2,829	3,873

Balance sheet liabilities - Repurchase agreements	
Deposits by banks	510
Customer accounts	1,891
At 31 December 2012	2,401

15. Financial instruments continued

Repurchase and reverse repurchase agreements

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

Balance sheet assets - Reverse repurchase agreements

	2013 $million	2012 $million
Loans and advances to banks	**9,238**	6,575
Loans and advances to customers	**3,647**	1,712
	12,885	8,287

Under reverse repurchase and securities borrowing arrangements, the Company 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)	**13,221**	8,118
Securities and collateral which can be repledged or sold (at fair value)	**13,178**	7,963
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)	**1,673**	1,146

Securitisation transactions

The Company 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 Company. As a result, the Company continues to recognise the assets on its balance sheet, together with the associated liability instruments issued by the special purpose entities. The holders of the liability instruments have recourse only to the assets transferred to the SE.

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
Loans and advances to customers	**40**	**40**	54	54
Securitisation liability - represented as debt securities in issue	**39**	**39**	52	52
Net	**1**	**1**	2	2

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

15. 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 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 to cover net exposure in the event of a default. Under repurchase and reverse repurchase agreements the Group pledges (legally sell) and obtain (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 netting on the balance sheet – this comprises derivative transactions settled through an enforceable netting agreement where we have the intent and ability to settle net and which are offset on the balance sheet.

Related amounts not offset in the balance sheet. This comprises

(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) (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.

	Gross amounts of recognised financial instruments	Impact of offset in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Related amount not offset in the balance sheet: Financial instruments	Related amount not offset in the balance sheet: Financial collateral	Net amount
	$million	$million	$million	$million	$million	$million
Assets						
Derivative financial instruments	**67,728**	**(5,567)**	**62,161**	**(46,242)**	**(5,147)**	**10,772**
Reverse repurchase agreements	**17,425**	**-**	**17,425**	**-**	**(17,425)**	**-**
At 31 December 2013	**85,153**	**(5,567)**	**79,586**	**(46,242)**	**(22,572)**	**10,772**
Liabilities						
Derivative financial instruments	**67,856**	**(5,567)**	**62,289**	**(46,242)**	**(9,240)**	**6,807**
Sale and purchase liabilities	**6,062**	**-**	**6,062**	**-**	**(6,062)**	**-**
At 31 December 2013	**73,918**	**(5,567)**	**68,351**	**(46,242)**	**(15,302)**	**6,807**

	Gross amounts of recognised financial instruments	Impact of offset in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Related amount not offset in the balance sheet: Financial instruments	Related amount not offset in the balance sheet: Financial collateral	Net amount
	$million	$million	$million	$million	$million	$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)	11,320
Liabilities						
Derivative financial instruments	54,494	(6,300)	48,194	(35,073)	(5,068)	8,053
Sale and purchase liabilities	3,255	-	3,255	-	(3,255)	-
At 31 December 2012	57,749	(6,300)	51,449	(35,073)	(8,323)	8,053

15. **Financial instruments** continued

Company

	Gross amounts of recognised financial instruments	Impact of offset in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Related amount not offset in the balance sheet		Net amount
				Financial instruments	Financial collateral	
	$million	$million	$million	$million	$million	$million
Assets						
Derivative financial instruments	**65,713**	**(5,567)**	**60,146**	**(42,393)**	**(4,773)**	**12,980**
Reverse repurchase agreements	**12,885**	**-**	**12,885**	**-**	**(12,885)**	**-**
At 31 December 2013	**78,598**	**(5,567)**	**73,031**	**(42,393)**	**(17,658)**	**12,980**
Liabilities						
Derivative financial instruments	**65,270**	**(5,567)**	**59,703**	**(42,393)**	**(8,954)**	**8,356**
Sale and purchase liabilities	**5,165**	**-**	**5,165**	**-**	**(5,165)**	**-**
At 31 December 2013	**70,435**	**(5,567)**	**64,868**	**(42,393)**	**(14,119)**	**8,356**

	Gross amounts of recognised financial instruments	Impact of offset in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Related amount not offset in the balance sheet		Net amount
				Financial instruments	Financial collateral	
	$million	$million	$million	$million	$million	$million
Assets						
Derivative financial instruments	53,743	(6,300)	47,443	(34,633)	(5,055)	7,755
Reverse repurchase agreements	8,287	-	8,287	-	(8,287)	-
At 31 December 2012	62,030	(6,300)	55,730	(34,633)	(13,342)	7,755
Liabilities						
Derivative financial instruments	52,297	(6,300)	45,997	(35,073)	(2,881)	8,043
Sale and purchase liabilities	2,401	-	2,401	-	(2,401)	-
At 31 December 2012	54,698	(6,300)	48,398	(35,073)	(5,282)	8,043

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

Loans and advances held at fair value through profit and loss

The maximum exposure to credit risk for loans designated at fair value through profit or loss was $1,142 million (2012: $282 million) for the Group and $1,071 million (2012: $168 million) for the Company.

The net fair value gain on loans and advances to customers designated at fair value through profit or loss was $(3.3) million (2012: gain of $0.2million). Of this, $nil million (2012: $nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was $3.4 million 2012: $3.4 million.

The changes in fair value attributable to credit risk has been determined by comparing fair value movements in risk-free bonds with similar maturities to the changes in fair value of loans designated at fair value through profit or loss.

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

Group

	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	780	3,515	8,833
	12,699	3,542	5,161	21,402
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

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

Financial assets held at fair value through profit or loss continued

Company

	2013			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	3,556			
Other public sector securities	72			
	3,628			
Issued by banks:				
Certificates of deposit	64			
Other debt securities	341			
	405			
Issued by corporate entities and other issuers:				
Other debt securities	2,510			
Total debt securities	6,543			
Of which:				
Listed on a recognised UK exchange	144	20	-	164
Listed elsewhere	3,798	2,524	1,211	7,533
Unlisted	2,601	48	1,065	3,714
	6,543	2,592	2,276	11,411
Market value of listed securities	3,941	2,545	1,211	7,697

	2012			
	Debt Securities $million	Equity Shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	5,553			
Other public sector securities	77			
	5,630			
Issued by banks:				
Certificates of deposit	115			
Other debt securities	1,511			
	1,626			
Issued by corporate entities and other issuers:				
Other debt securities	1,669			
Total debt securities	8,925			
Of which:				
Listed on a recognised UK exchange	256	23	-	279
Listed elsewhere	4,305	1,744	427	6,476
Unlisted	4,364	-	294	4,658
	8,925	1,767	721	11,413
Market value of listed securities	4,561	1,768	428	6,757

The net fair value loss on liabilities designated at fair value through profit or loss was $(96) million for the year (2012: net loss of $256 million). Of this, a loss of $nil million (2012: $nil million) relates to changes in credit risk. The cumulative fair value movement relating to changes in credit risk was a loss of $0.0 million (2012: $10 million). The change in fair value attributable to credit risk was determined by comparing fair value movements in risk-free debt instruments with similar maturities, to the changes in fair value of liabilities designated at fair value through profit or loss.

As at 31 December 2013, the amount the Group is contractually obliged to pay at maturity to the holders of these obligations was $(596) million higher (2012: $31 million higher) than the carrying amount at fair value.

As at 31 December 2013, the amount the Company is contractually obliged to pay at maturity to the holders of these obligations was $490 million higher (2012: $12 million higher) than the carrying amount at fair value.

17. Derivative financial instruments

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

Group

Total derivatives	2013 Notional principal amounts $million	2013 Assets $million	2013 Liabilities $million	2012[1] Notional principal amounts $million	2012[1] Assets $million	2012[1] Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	**1,303,103**	**17,214**	**17,490**	1,220,806	11,635	12,697
Currency swaps and options	**1,099,374**	**25,209**	**25,529**	862,684	13,932	13,033
Exchange traded futures and options	**340**	**-**	**-**	8,772	-	-
	2,402,817	**42,423**	**43,019**	2,092,262	25,567	25,730
Interest rate derivative contracts:						
Swaps	**1,984,701**	**15,595**	**15,414**	1,471,277	19,107	18,682
Forward rate agreements and options	**236,646**	**771**	**644**	145,020	1,266	796
Exchange traded futures and options	**694,212**	**-**	**-**	306,054	-	-
	2,915,559	**16,366**	**16,058**	1,922,351	20,373	19,478
Credit derivative contracts	**40,981**	**586**	**875**	61,186	830	1,130
Equity and stock index options	**15,684**	**415**	**501**	12,223	355	372
Commodity derivative contracts	**162,858**	**2,371**	**1,836**	138,642	2,370	1,484
Total derivatives	**5,537,899**	**62,161**	**62,289**	4,226,664	49,495	48,194

Company

Total derivatives	2013 Notional principal amounts $million	2013 Assets $million	2013 Liabilities $million	2012[1] Notional principal amounts $million	2012[1] Assets $million	2012[1] Liabilities $million
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	**1,396,517**	**17,891**	**19,048**	1,303,259	11,934	13,514
Currency swaps and options	**1,017,313**	**23,390**	**22,870**	788,787	12,271	11,034
Exchange traded futures and options	**-**	**-**	**-**	8,329	-	-
	2,413,830	**41,281**	**41,918**	2,100,375	24,205	24,548
Interest rate derivative contracts:						
Swaps	**1,838,021**	**14,680**	**14,014**	1,324,557	18,612	17,827
Forward rate agreements and options	**230,455**	**707**	**579**	137,459	1,153	669
Exchange traded futures and options	**692,059**	**-**	**-**	300,888	-	-
	2,760,535	**15,387**	**14,593**	1,762,904	19,765	18,496
Credit derivative contracts	**40,369**	**562**	**842**	59,440	799	1,104
Equity and stock index options	**17,372**	**553**	**517**	13,607	353	369
Commodity derivative contracts	**159,105**	**2,363**	**1,833**	138,893	2,321	1,480
Total derivatives	**5,391,211**	**60,146**	**59,703**	4,075,219	47,443	45,997

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

The Group and Company 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 Financial risk management on page 40.

The Derivatives and Hedging sections of the Financial risk management on pages 100 explain the Group's risk management of derivative contracts and application of hedging.

17. 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 (see note 1 on page 145). The tables below list the types of derivatives that the Group and Company hold for hedge accounting.

Group

	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	19,173	109	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	37,996	1,252	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	66,721	1,360	733

Company

	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	23,809	958	199	24,850	1,214	606
Currency swaps	8,211	682	236	1,705	18	3
Forward foreign exchange contracts	227	2	1	427	-	9
	32,247	1,642	436	26,982	1,232	618
Derivatives designated as cash flow hedges:						
Interest rate swaps	12,966	7	-	8,355	19	6
Forward foreign exchange contracts	397	-	5	2,066	52	1
Currency swaps	4,095	96	88	3,475	19	5
	17,458	103	93	13,896	90	12
Derivatives designated as net investment hedges:						
Forward foreign exchange contracts	981	-	84	671	-	52
Total derivatives held for hedging	50,686	1,745	613	41,549	1,322	682

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

17. Derivative financial instruments continued

Fair value hedges

The swaps exchange fixed rates for floating rates on funding to match floating rates received on assets, or exchange fixed rates on assets to match the floating rates paid on funding.

For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss. In respect of fair value hedges, net losses arising on the hedging instruments during the year were $417 million (2012: $156 million) compared to net gains arising on the hedged items of $371 million (2012: $163 million). For the Company, net gains arising on fair value hedging instruments were $563 million (2012: gains of $77 million) compared to net losses arising on the hedged items of $508 million (2012: $102 million).

Cash flow hedges

The Group uses interest rate swaps to manage the variability in future cash flows on assets and liabilities that have floating rates of interest by exchanging the floating rates for fixed rates. It also uses foreign exchange contracts, currency swaps and options to manage the variability in future exchange rates on its assets and liabilities and costs in foreign currencies.

Gains and losses arising on the effective portion of the hedges are deferred in equity until the variability on the cash flow affects profit and loss, at which time the gains or losses are transferred to profit and loss.

During the year, net loss of $6 million (2012: $20 million) for the Company were reclassified to profit and loss from the cash flow hedge reserve, of which, loss of $5 million (2012: $16 million) were recognised within operating costs and gains of $1 million (2012: loss of $4 million) recognised within net interest income.

The Group has hedged the following cash flows which are expected to impact the income statement in the following years:

	2013						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	**963**	**233**	**1,649**	**6**	**2**	**-**	**2,853**
Forecast payable cash flows	**(986)**	**(259)**	**(1,862)**	**(4)**	**(1)**	**-**	**(3,112)**
	(23)	**(26)**	**(213)**	**2**	**1**	**-**	**(259)**

	2012						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	3,533	292	174	2	-	-	4,001
Forecast payable cash flows	(5,229)	(577)	(177)	(3)	(2)	-	(5,988)
	(1,696)	(285)	(3)	(1)	(2)	-	(1,987)

The Company has hedged the following cash flows which are expected to impact the income statement in the following periods:

	2013						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	**83**	**145**	**1,563**	**5**	**2**	**-**	**1,798**
Forecast payable cash flows	**(85)**	**(159)**	**(1,771)**	**(2)**	**(1)**	**-**	**(2,018)**
	(2)	**(14)**	**(208)**	**3**	**1**	**-**	**(220)**

	2012						
	Less than one year $million	One to two years $million	Two to three years $million	Three to four years $million	Four to five years $million	Over five years $million	Total $million
Forecast receivable cash flows	26	16	86	-	-	-	128
Forecast payable cash flows	(1,655)	(296)	(88)	-	-	-	(2,039)
	(1,629)	(280)	(2)	-	-	-	(1,911)

Net investment hedges

The Group uses a combination of foreign exchange contracts and non-derivative financial assets to manage the variability in future exchange rates on its net investments in foreign currencies. Gains and losses arising on the effective portion of the hedges are deferred in equity until the net investment is disposed off. During the year, $nil million (2012: $nil million) was recognised in the Income statement in respect of ineffectiveness arising on net investment hedges.

18. Loans and advances to banks

	Group		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
Loans and advances to banks	**86,270**	68,675	**52,441**	38,049
Individual impairment provision	**(100)**	(103)	**(22)**	(24)
Portfolio impairment provision	**(2)**	(2)	**(1)**	(1)
	86,168	68,570	**52,418**	38,024
Of which: loans and advances held at fair value through profit or loss (note 15)	**(2,467)**	(774)	**(2,467)**	(774)
	83,701	67,796	**49,951**	37,250

Analysis of loans and advances to banks by geography are set out in the Financial risk management section on page 41

19. Loans and advances to customers

	Group		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
Loans and advances to customers	**299,336**	287,668	**136,359**	144,429
Individual impairment provision	**(2,749)**	(2,330)	**(1,582)**	(1,301)
Portfolio impairment provision	**(696)**	(722)	**(270)**	(306)
	295,891	284,616	**134,507**	142,822
Of which: loans and advances held at fair value through profit or loss (note 15)	**(5,307)**	(4,978)	**(4,722)**	(4,840)
	290,584	279,638	**129,785**	137,982

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 customer by geography and business and related impairment provisions are set out within the Financial risk management on pages 41 to 84.

20. Assets leased to customers

Finance leases and instalment credit

	Group		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
Finance leases	395	576	142	178
Instalment credit agreements	1,945	2,248	1,031	2,097
	2,340	2,824	1,173	2,275

The above assets are included within loans and advances to customers. The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to $667 million (2012: $841 million) for the Group and $603 million (2012: $766 million) for the Company. The cost of assets excludes amounts relating acquisition during the year.

	Group		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
Minimum lease receivables under finance leases falling due:				
Within one year	72	116	45	66
Later than one year and less than five years	199	370	52	88
After five years	214	188	98	65
	485	674	195	219
Interest income relating to future periods	(90)	(98)	(53)	(41)
Present value of finance lease receivables	395	576	142	178
Of which:				
Falls due within one year	59	98	37	58
Falls due later than one year and less than five years	166	332	36	73
Falls due after five years	170	146	69	47

Operating lease assets

Assets leased to customers under operating leases consist of commercial aircraft and ships which are included within property, plant and equipment in note 27. At 31 December 2013, these assets had a net book value of $4,897 million (2012: $4,422 million) in the Group.

	Group	
	2013 $million	2012 $million
Minimum lease receivables under operating leases falling due:		
Within one year	528	480
Later than one year and less than five years	1,459	1,201
After five years	1,667	1,523
	3,654	3,204

21. Investment securities

Group

	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	42			
	31,373	42			
Issued by corporate entities and other issuers:					
Other debt securities	12,133	2,634			
Total debt securities	70,545	2,676			
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	38,891	1,944	1,302	15,766	57,903
	70,545	2,676	2,912	26,246	102,379
Market value of listed securities	31,654	731	1,610	10,480	44,475

	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 investment in corporates.

21. Investment securities continued

Company

	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	8,750	-			
Other public sector securities	43	-			
	8,793	-			
Issued by banks:					
Certificates of deposit	1,424	-			
Other debt securities	15,738	39			
	17,162	39			
Issued by corporate entities and other issuers:					
Other debt securities	9,287	1,762			
Total debt securities	35,242	1,801			
Of which:					
Listed on a recognised UK exchange	4,107	12[1]	53	-	4,172
Listed elsewhere	11,886	17[1]	636	2,186	14,725
Unlisted	19,249	1,772	106	3,851	24,978
	35,242	1,801	795	6,037	43,875
Market value of listed securities	15,993	27	689	2,186	18,895

	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	8,238	390			
Other public sector securities	43	-			
	8,281	390			
Issued by banks:					
Certificates of deposit	1,713	-			
Other debt securities	13,370	562			
	15,083	562			
Issued by corporate entities and other issuers:					
Other debt securities	8,418	1,319			
Total debt securities	31,782	2,271			
Of which:					
Listed on a recognised UK exchange	5,274	26[1]	38	-	5,338
Listed elsewhere	11,087	933[1]	638	4,075	16,733
Unlisted	15,421	1,312	81	4,730	21,544
	31,782	2,271	757	8,805	43,615
Market value of listed securities	16,361	914	676	4,075	22,026

[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 investment in corporates.

21. Investment securities continued

The change in the carrying amount of investment securities comprised:

Group

	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)	(563)	(2,406)	678	14	627	1,319
Additions	92,967	(183)	49,537	142,321	111,322	783	44,778	156,883
Maturities and disposals	(86,936)	(316)	(49,676)	(136,928)	(104,558)	(217)	(40,552)	(145,327)
Impairment, net of recoveries on disposals	(60)	(61)	-	(121)	24	(109)	-	(85)
Changes in fair value (including the effect of fair value hedging)	(91)	203	(29)	83	727	264	56	1,047
Amortisation of discounts and premiums	(32)	-	237	205	39	-	403	442
At 31 December	73,221	2,912	26,246	102,379	69,207	3,278	26,740	99,225

At 31 December 2013, unamortised premiums on debt securities held for investment purposes amounted to $604 million (2012: $607 million) and unamortised discounts amounted to $425 million (2012: $443 million).

Income from listed equity shares amounted to $67 million (2012: $54 million) and income from unlisted equity shares amounted to $37 million (2012: $38 million).

Company

	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	34,053	757	8,805	43,615	30,935	673	6,808	38,416
Exchange translation differences	(807)	(4)	(347)	(1,158)	7	2	91	100
Additions	38,203	14	11,451	49,668	27,248	29	12,729	40,006
Maturities and disposals	(34,392)	(1)	(14,055)	(48,448)	(24,635)	(35)	(11,044)	(35,714)
Impairment, net of recoveries on disposals	(6)	-	-	(6)	1	(6)	-	(5)
Changes in fair value (including the effect of fair value hedging)	(7)	29	2	24	495	94	4	593
Amortisation of discounts and premiums	(1)	-	181	180	2	-	217	219
At 31 December	37,043	795	6,037	43,875	34,053	757	8,805	43,615

At 31 December 2013, unamortised premiums on debt securities held for investment purposes amounted to $442 million (2012: $423 million) and unamortised discounts amounted to $328 million (2012: $347 million).

Income from listed equity shares amounted to $58 million (2012: $42 million) and income from unlisted equity shares amounted to $2 million (2012: $1 million).

21. Investment securities continued

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables.

	Group		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
At 1 January	27	33	23	28
Exchange translation differences	(1)	-	(1)	-
Amounts written off	(5)	(2)	(4)	(2)
Impairment charge/ (release)	5	(4)	6	(4)
At 31 December	26	27	24	22

22. Other assets

	Group		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
Financial assets held at amortised cost (note 15)				
Hong Kong SAR Government certificates of indebtedness (note 32)[1]	4,460	4,191	-	-
Cash collateral	9,240	5,068	8,954	5,055
Acceptances and Endorsements	5,501	4,957	2,773	2,506
Unsettled trades and other financial assets	7,149	7,190	5,642	5,154
	26,350	21,406	17,369	12,715
Non-financial assets				
Commodities	3,965	5,574	3,965	5,574
Assets for sale	1,623[2]	43	47	1
Other	1,556	1,452	239	489
	33,494	28,475	21,620	18,779

[1] The Hong Kong SAR government certificates of indebtedness are subordinated to the claims of other parties in respect of bank notes issued
[2] 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.

The assets and liabilities of the business held for sale is summarised below:

	2013 $million
Assets	
Cash and balances at central banks	11
Loans and advances to banks	102
Loans and advances to customers (net of individual impairment $42 million, portfolio impairment provision $25 million)	1,421
Investment securities	4
Other assets	1
Prepayments and accrued income	19
Intangible assets	3
Property, plant and equipment	2
Total assets	1,563
Liabilities	
Customer accounts	319
Other liabilities	6
Accruals and deferred income	9
Deferred tax liabilities	10
Total liabilities	344

The businesses have total net liabilities due to Group undertakings of $1.1 billion. These liabilities will be transferred to the acquirers on completion of the sale.

23. Investments in subsidiary undertakings, joint ventures and associates

Investment in subsidiary undertakings

	2013 $million	2012 $million
At 1 January	**13,571**	14,270
Additions	**1,425**	131
Disposals and liquidation	**(205)**	(830)
Impairment	**(28)**	-
At 31 December	**14,763**	13,571

At 31 December 2013, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital %
Standard Chartered Bank Korea Limited, Korea	Korea	100
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100
Standard Chartered Bank (Pakistan) Limited, Pakistan	Pakistan	98.99
Standard Chartered Bank (Taiwan) Limited, Taiwan	Taiwan	100
Standard Chartered Bank (Hong Kong) Limited, Hong Kong	Hong Kong	51[1]
Standard Chartered Bank (China) Limited, China	China	100
Standard Chartered Bank (Singapore) Limited, Singapore	Singapore	100
Standard Chartered Bank (Thai) Public Company Limited, Thailand	Thailand	99.99
Standard Chartered Bank Nigeria Limited, Nigeria	Nigeria	100
Standard Chartered Bank Kenya Limited, Kenya	Kenya	74.3
Standard Chartered Private Equity Limited, Hong Kong	Hong Kong	100

A complete list of subsidiary and associated undertakings will be attached to the next Standard Chartered Bank annual return to the Registrar of Companies.

The Group does not have any material non-controlling interests in any of its subsidiaries, except 25.7 percent non-controlling interests amounting to $98million (2012 : $82million) on Standard Chartered Bank Kenya Limited which contributes 2.61 percent of the Group's Operating Profit and 0.38% of the Group's assets.

Whilst the Group's subsidiaries are subject to local statutory capital and liquidity requirements in relation to foreign exchange remittance, these restrictions arise in the normal course of business and do not significantly restrict the Group's ability to access or use assets and settle liabilities of the Group.

Interests in joint ventures

The Group and Company have a 44.56 per cent (2012: 44.56 per cent) interest through a joint venture company which holds a majority investment in PT Bank Permata Tbk (Permata), in Indonesia. Permata provides commercial banking service to retail and wholesale customers. The Group accounts for its investment in the joint venture using equity accounting method. Equity accounting is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of the investee's net assets. The Group's profit or loss includes its share of the investee's profit or loss and the Group's other comprehensive income includes its share of the investee's other comprehensive income. Related party transactions are disclosed in note 47.

	Group		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
At 1 January	**731**	617	**489**	396
Translation	**(152)**	(42)	**-**	-
Additions	**9**	90	**3**	93
Share of profits	**73**	66	**-**	-
Share of AFS and other reserves	**(5)**	-	**-**	-
At 31 December	**656**	731	**492**	489

The Company accounts for its investments in joint ventures at cost.

23. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in joint ventures continued

The following table sets out the summarised financial statements of the joint venture amounts prior to the Group's share of the joint venture:

	2013 $million	2012 $million
Current assets	7,875	8,260
Long-term assets	5,808	5,135
Total assets	13,683	13,395
Current liabilities	(7,257)	(10,693)
Long-term liabilities	(5,242)	(1,414)
Total liabilities	(12,499)	(12,107)
Net assets	1,184	1,288
Income	650	646
Of which:		
Interest income	1,147	978
Interest expense	(655)	(467)
Expenses	(434)	(390)
Of which:		
Depreciation and amortisation	(5)	(18)
Impairment	-	(52)
Operating profit	216	204
Tax	(53)	(56)
Profit after tax	163	148
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	1,833	2,433
Current financial liabilities (excluding trade and other payables and provisions)	(7,257)	(10,693)
Non-current financial liabilities (excluding trade and other payables and provisions)	(4,050)	(812)
Other comprehensive income for the year	(33)	13
Total comprehensive income for the year	130	161

Reconciliation of the above summarised financial information to the carrying amount of the investments in joint ventures recognised in the consolidated financial statements:

	2013 $million	2012 $million
Net assets of the joint ventures	1,184	1,288
Proportion of the Group's ownership interest in the joint venture	529	574
Notional goodwill	127	157
Carrying amount of the Group's interest in joint ventures	656	731

Long-term assets are primarily loans to customers and current liabilities are primarily customer deposits based on contractual maturities.

23. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in associates

	Group		Company	
	2013	2012	2013	2012
	$million	$million	$million	$million
At 1 January	**953**	903	**45**	53
Translation	**10**	14	**-**	-
Additions	**10**	4	**7**	2
Share of profits	**153**	116	**1**	-
Dividends received	**(5)**	(14)	**(1)**	-
Share of AFS and other reserves	**(10)**	-	**-**	-
Impairment	**-**	(70)	**-**	(10)
At 31 December	**1,111**	953	**52**	45

The Company accounts for its investments in associates at cost.

The following amounts represent the total profit, assets and liabilities of the Group's associated undertakings:

	Group		Company	
	2013	2012	2013	2012
	$million	$million	$million	$million
Profit for the year	**777**	609	**6**	5
Total assets	**96,596**	79,637	**512**	114
Total liabilities	**(91,807)**	(75,770)	**(328)**	(26)
Net assets	**4,789**	3,867	**184**	88

Reconciliation of the above summarised financial information to the carrying amount of the interest in associates recognised in the consolidation financial statements are:

	Group	
	2013	2012
	$million	$million
Net assets of associates	**4,789**	3,867
Proportion of the Group's ownership interest in associates	**914**	740
Notional goodwill	**296**	296
Impairment provision	**(135)**	(135)
Other adjustments	**36**	52
Carrying amount of the Group's interest in associates	**1,111**	953

The Group's principal associates are:

Associates	Main areas of operation	Group interest in ordinary share capital %
China Bohai Bank	China	19.9
Fleming Family & Partners	Asia	20.0
Asia Commercial Bank	Vietnam	15.0

China Bohai Bank and Asia Commercial Bank provide commercial banking service to retail and wholesale customers. The fair value of the listed element of our investment in Asia Commercial Bank (ACB) at 31 December 2013 is $104 million (2012: $111 million). The Group's investments in ACB and China Bohai Bank are less than 20 per cent but both ACB and China Bohai Bank are considered to be associates because of the significant influence the Group is able to exercise over the management of these companies and their financial and operating policies. Significant influence is evidenced largely through the interchange of management personnel and the provision of expertise. The group applied the equity method of accounting for investments in associates. The reporting dates of these associates are within three months of the Group's reporting date, (the reporting dates of China Bohai Bank and ACB are 30 November 2013 and 30 September 2013, respectively).

24. Structured entities

The Group uses structured entities (SE) in the normal course of business across a variety of activities. An SE typically has restricted activities, together with a narrow and well-defined objective and are predominately thinly capitalisation, with a reliance on debt financing for support. This note provides further details on those SEs that are consolidated into the Group as well as details on unconsolidated SEs in which the Group has a variable interest. A variable interest is categorised as a return that is subject to change based on performance and could result in either income or losses to the Group and includes debt and equity interests, commitments, guarantees, derivative financial instruments and certain fees.

Interests in consolidated structured entities

In accordance with the Group's accounting policies discussed in note 1, SEs are consolidated into the Group's financial statements where the Group controls the SE. Control is deemed to exist when the Group is exposed to, or has rights to, variable returns from its involvement with the SE and has the ability to affect those returns through its power over the SE. The assessment of power is based on the Group's practical ability to direct the relevant activities of the SE unilaterally for the Group's own benefit and is subject to reassessment if and when one or more of the elements of control change.

Most of the Group's consolidated SEs are in respect of the Group's securitised portfolios of residential mortgages (see page 30 for details of assets securitised) within Consumer Banking. The Group also consolidates structured entities within the aircraft and ship leasing business of Wholesale Banking.

Securitisation is a transaction in which the Group transfers portfolios of residential mortgages into a SE such that the assets are legally isolated from the creditors of the Group.

The Group also consolidates SEs that it creates to hold long term assets such as commercial aircraft. Typically the Group will create an SE to manage a particular asset or portfolio of assets that are operating leases in nature. In addition to securitisation and aircraft leasing the Group will create structured entities to manage returns and capital.

In determining whether to consolidate an SE to which assets have been transferred the Group takes into account its ability to direct the relevant activities of the SE which is evidenced though a unilateral right to liquidate the SE, investment in a substantial proportion of the securities issued by the SE or where the Group holds specific subordinate securities that embody certain controlling rights.

The following table presents the Group's interests in consolidated SEs.

	2013	2012
	Total Assets $million	Total Assets $million
Securitisation	779	1,321
Aircraft and ship leasing	4,896	4,421
Structured finance	1,326	1,681
Total	7,001	7,423

Interests in unconsolidated structured entities

The main types of activities for which the Group utilises unconsolidated SEs cover synthetic credit default swaps for portfolio management purposes, managed investment funds (including specialised principal finance funds) and structured finance.

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

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

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

24. Structured entities continued

Interests in unconsolidated structured entities continued

The Group also has holdings of Asset Backed Securities which are generally held in a structured entity. Further details of the Group's holdings of assets backed securities are set out on page 87 of the Financial Risk Management section of this report.

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

The following table presents the carrying amount of the assets and liabilities recognised in the financial statements relating to variable interests held in unconsolidated SEs, the maximum exposure to loss relating to those interests and the total assets of the SEs. Maximum exposure to loss is primarily limited to the carrying amount of the Group's on balance sheet exposure to the SE. For derivatives, the maximum exposure to loss represents the on-balance sheet valuation and not the notional amount. For commitments and guarantees the maximum exposure to loss is the notional amount of potential future losses.

	2013					2012				
	Portfolio management vehicles $million	Principal finance funds $million	Structured finance $million	Asset backed securities $million	Total $million	Portfolio management vehicles $million	Principal finance funds $million	Structured finance $million	Asset backed securities $million	Total $million
Balance sheet - assets										
Financial assets held at fair value through profit or loss	-	119	-	158	277	-	160	-	191	351
Investment securities - Equities	-	146	-	-	146	-	156	21	-	177
Investment securities - Debt securities (AFS)	44	6	22	5,202	5,274	43	7	-	2,786	2,836
Investment securities - Debt securities (Loans and receivables)	-	32	-	1,196	1,228	-	13	-	1,574	1,587
Maximum exposure	44	303	22	6,556	6,925	43	336	21	4,551	4,951
Committed capital[1]	-	375	-	-	375	-	375	-	-	375
Total assets of SE	1,280	1,196	262	457,447	460,185	1,267	1,671	259	316,042	319,239

[1] $145 million (2012: $145 million) of the committed capital has been drawn down net of impairment provisions of $33 million (2012: $33 million)

25. Business Combinations

2013 acquisitions

Group

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

Group

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 licence. The primary reason for this acquisition is to enhance capability and broaden product offering to customers.

Goodwill arising on the acquisitions is attributable to the synergies expected to arise from their integration with the Group, the skilled workforce acquired and the distribution networks.

26. Goodwill and intangible assets

Group

	2013				2012			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	5,966	891	922	7,779	5,774	874	806	7,454
Exchange translation differences	(187)	(15)	(15)	(217)	158	14	38	210
Acquisitions	16	35	-	51	34	3	-	37
Additions	-	-	372	372	-	-	294	294
Amounts written off	(1,000)	-	(175)	(1,175)	-	-	(218)	(218)
Other movements	-	-	(2)	(2)	-	-	2	2
At 31 December	4,795	911	1,102	6,808	5,966	891	922	7,779
Provision for amortisation								
At 1 January	-	662	330	992	-	563	340	903
Exchange translation differences	-	(6)	1	(5)	-	15	16	31
Amortisation	-	72	228	300	-	84	189	273
Amounts written off	-	-	(173)	(173)	-	-	(215)	(215)
At 31 December	-	728	386	1,114	-	662	330	992
Net book value	4,795	183	716	5,694	5,966	229	592	6,787

At 1 January 2012, the net book value was: goodwill, $5,774 million; acquired intangibles, $311 million; and software, $466 million.
At 31 December 2012, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $1,069 million (2012: $69 million), of which $1 billion was recognised in 2013 relating to goodwill held against Korea.

Company

	2013				2012			
	Goodwill $million	Acquired intangibles $million	Software $million	Total $million	Goodwill $million	Acquired intangibles $million	Software $million	Total $million
Cost								
At 1 January	487	129	741	1,357	466	126	668	1,260
Exchange translation differences	(8)	(5)	(25)	(38)	13	-	35	48
Acquisitions	16	36	-	52	8	3	-	11
Additions	-	-	289	289	-	-	243	243
Disposals	(223)	-	-	(223)	-	-	-	-
Amounts written off	-	-	(159)	(159)	-	-	(205)	(205)
At 31 December	272	160	846	1,278	487	129	741	1,357
Provision for amortisation								
At 1 January	-	100	226	326	-	75	252	327
Exchange translation differences	-	(2)	(8)	(10)	-	-	13	13
Amortisation	-	19	187	206	-	25	163	188
Amounts written off	-	-	(159)	(159)	-	-	(202)	(202)
At 31 December	-	117	246	363	-	100	226	326
Net book value	272	43	600	915	487	29	515	1,031

At 1 January 2012, the net book value was: goodwill, $466 million; acquired intangibles, $51 million; and software, $416 million.

26. Goodwill and intangible assets continued

	Group		Company	
	2013	2012	**2013**	2012
	$million	$million	**$million**	$million
Acquired intangibles comprise:				
Core deposits	**9**	18	**-**	-
Customer relationships	**118**	122	**43**	29
Brand names	**54**	86	**-**	-
Licences	**2**	3	**-**	-
Net book value	**183**	229	**43**	29

Group

Acquired intangibles primarily comprise those recognised as part of the acquisitions of Korea First Bank (subsequently renamed Standard Chartered Bank Korea Limited), Union Bank (now amalgamated into Standard Chartered Bank (Pakistan) Limited), Hsinchu (now amalgamated into Standard Chartered Bank (Taiwan) Limited), Pembroke, Harrison Lovegrove, American Express Bank and the custody business in Africa. The acquired intangibles are amortised over periods from four years to a maximum of 16 years in the case of the customer relationships intangible acquired in Korea First Bank (KFB).

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	19.0	3.5
Taiwan business	**1,313**	**18.6**	**4.4**	1,348	16.3	4.8
Credit card and personal loan - Asia, India & MESA	**494**	**15.8**	**1.4**	494	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	**246**	**12.4-15.8**	**1.4-7.4**	240	15.6 - 17.0	1.8 - 7.5
	4,795			5,966		

26. Goodwill and intangible assets continued

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 above.

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.

Company

Acquired intangibles primarily comprise those recognised as part of the acquisitions of American Express Bank, GE Money and GE Singapore.

Significant items of goodwill arising on acquisitions have been allocated to the following cash generating units for the purposes of impairment testing:

	Goodwill	
	2013	2012
Cash Generating Unit	$million	$million
Financial Institutions and Private Banking Business	148	148
Consumer banking business in Singapore	-	228
Other	124	111
	272	487

In October 2013 the Company completed the transfer of the retail banking business of its Singapore branch to a new Singapore subsidiary. Included within the assets and liabilities transferred was goodwill relating to the acquisition of GE Money Singapore amounting to $228m.

All recoverable amounts were measured based on value in use.

The key assumptions and approach to determining value-in-use calculations, as set out above, are solely estimates for the purposes of assessing impairment on acquired goodwill. The calculation for each unit uses cash flow projections based on budgets and forecasts approved by management covering one year. These are then extrapolated for periods of up to a further 19 years using steady long term growth forecast GDP growth rates and as terminal value determined based on long term earnings multiples.

Where these rates are different from available market data on long term rates, that fact is stated above. The cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the cash generating unit. Management believes that a reasonable possible change in any of the key assumptions on which recoverable amounts have been based would not cause the carrying amounts to exceed their recoverable amount.

27. Property, plant and equipment

Group

	2013				2012			
	Premises $million	Equipment $million	Operating lease assets $million	Total $million	Premises $million	Equipment $million	Operating lease assets $million	Total $million
Cost or valuation								
At 1 January	2,544	818	4,809	8,171	2,525	800	3,021	6,346
Exchange translation differences	(44)	(29)	-	(73)	56	9	-	65
Additions	77	128	874	1,079	72	90	1,788	1,950
Acquisitions	-	-	-	-	2	-	-	2
Disposals and fully depreciated assets written off	(126)	(117)	(218)	(461)	(111)	(81)	-	(192)
Transfers to assets held for re-sale	(60)	(3)	-	(63)	-	-	-	-
At 31 December	2,391	797	5,465	8,653	2,544	818	4,809	8,171
Depreciation								
Accumulated at 1 January	565	599	387	1,551	516	540	239	1,295
Exchange translation differences	(6)	(21)	-	(27)	9	6	-	15
Charge for the year	108	119	206	433	126	132	148	406
Attributable to assets sold or written off	(67)	(115)	(25)	(207)	(86)	(79)	-	(165)
Accumulated at 31 December	600	582	568	1,750	565	599	387	1,551
Net book amount at 31 December	1,791	215	4,897	6,903	1,979	219	4,422	6,620

At 1 January 2012, the net book value was: premises, $2,009 million; equipment, $260 million and operating lease assets, $2,782 million.

Assets held under finance leases have a net book value of $151 million (2012: $173 million) with minimum lease payments of $9 million (2012: $7 million) before and after future finance charges.

Company

	2013			2012		
	Premises $million	Equipment $million	Total $million	Premises $million	Equipment $million	Total $million
Cost or valuation						
At 1 January	639	289	928	666	285	951
Exchange translation differences	(36)	(15)	(51)	(3)	-	(3)
Additions	15	54	69	22	39	61
Disposals and fully depreciated assets written off	(40)	(72)	(112)	(46)	(35)	(81)
Reclassification	(58)	(8)	(66)	-	-	-
At 31 December	520	248	768	639	289	928
Depreciation						
Accumulated at 1 January	123	179	302	118	148	266
Exchange translation differences	(4)	(9)	(13)	-	-	-
Charge for the year	34	57	91	44	65	109
Attributable to assets sold or written off	(27)	(69)	(96)	(39)	(34)	(73)
Accumulated at 31 December	126	158	284	123	179	302
Net book amount at 31 December	394	90	484	516	110	626

At 1 January 2012, the net book value was; premises $548 million; and equipment $137 million.

Assets held under finance leases have a net book value of $160 million (2012: $173 million) with minimum lease payments of $6 million (2012: $5 million) before and after future finance charges.

28. Deferred tax

Group

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year:

	At 1 January 2013 $million	Exchange & other adjustments $million	Acquisitions/ disposals $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2013 $million
Deferred taxation comprises:						
Accelerated tax depreciation	128	(28)	-	94	-	194
Impairment provisions on loans and advances	(154)	11	-	(87)	-	(230)
Tax losses carried forward	(476)	11	-	43	-	(422)
Available-for-sale assets	86	(9)	-	(5)	(39)	33
Cash flow hedges	17	(1)	-	(3)	(11)	2
Retirement benefit obligations	(105)	2	-	10	21	(72)
Share based payments	(80)	-	-	8	1	(71)
Other temporary differences	69	(14)	7	122	-	184
Net deferred tax assets	(515)	(28)	7	182	(28)	(382)

	At 1 January 2012 $million	Exchange & other adjustments $million	Acquisitions/ disposals $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2012 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(47)	16	-	159	-	128
Impairment provisions on loans and advances	18	20	-	(192)	-	(154)
Tax losses carried forward	(431)	(15)	-	(30)	-	(476)
Available-for-sale assets	(4)	2	-	1	87	86
Premises revaluation	-	(1)	-	1	-	-
Cash flow hedges	(2)	-	-	-	19	17
Retirement benefit obligations	(102)	(1)	-	12	(14)	(105)
Share based payments	(88)	(2)	-	18	(8)	(80)
Other temporary differences	(32)	(2)	-	103	-	69
Net deferred tax assets	(688)	17	-	72	84	(515)

Deferred taxation comprises assets and liabilities as follows:

	2013			2012		
	Total $million	Asset $million	Liability $million	Total $million	Asset $million	Liability $million
Deferred taxation comprises:						
Accelerated tax depreciation	194	(27)	221	128	(15)	143
Impairment provisions on loans and advances	(230)	(219)	(11)	(154)	(322)	168
Tax losses carried forward	(422)	(311)	(111)	(476)	(403)	(73)
Available-for-sale assets	33	18	15	86	51	35
Cash flow hedges	2	2	-	17	14	3
Retirement benefit obligations	(72)	(70)	(2)	(105)	(100)	(5)
Share based payments	(71)	(63)	(8)	(80)	(67)	(13)
Other temporary differences	184	112	72	69	166	(97)
	(382)	(558)	176	(515)	(676)	161

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

28. Deferred tax continued

Company

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the reporting period:

	At 1 January 2013 $million	Exchange & other adjustments $million	Acquisitions $million	Charge/ (credit) to profit $million	Charge/ (credit) to equity $million	At 31 December 2013 $million
Deferred taxation comprises:						
Accelerated tax depreciation	12	(6)	-	35	-	41
Impairment provisions on loans and advances	(230)	22	-	(63)	-	(271)
Tax losses carried forward	(303)	9	-	70	-	(224)
Available-for-sale assets	38	-	-	(5)	(13)	20
Cash flow hedges	15	1	-	(3)	(6)	7
Retirement benefit obligations	(78)	-	-	8	16	(54)
Share based payments	(62)	-	-	23	1	(38)
Other temporary differences	111	(11)	7	71	-	178
	(497)	15	7	136	(2)	(341)

	At 1 January 2012 $million	Exchange & other adjustments $million	Acquisitions $million	Charge/ (credit) to profit	Charge/ (credit) to equity $million	At 31 December 2012 $million
Deferred taxation comprises:						
Accelerated tax depreciation	(10)	3	-	19	-	12
Impairment provisions on loans and advances	(94)	3	-	(139)	-	(230)
Tax losses carried forward	(267)	3	-	(39)	-	(303)
Available-for-sale assets	5	(1)	-	1	33	38
Cash flow hedges	(5)	-	-	-	20	15
Retirement benefit obligations	(75)	(1)	-	12	(14)	(78)
Share based payments	(58)	-	-	4	(8)	(62)
Other temporary differences	37	8	-	66	-	111
	(467)	15	-	(76)	31	(497)

Deferred taxation comprises assets and liabilities as follows:

	2013			2012		
	Total $million	Asset $million	Liability $million	Total $million	Asset $million	Liability $million
Deferred taxation comprises:						
Accelerated tax depreciation	41	(15)	56	12	(37)	49
Impairment provisions on loans and advances	(271)	(270)	(1)	(230)	(245)	15
Tax losses carried forward	(224)	(224)	-	(303)	(303)	-
Available-for-sale assets	20	16	4	38	30	8
Cash flow hedges	7	7	-	15	13	2
Retirement benefit obligations	(54)	(54)	-	(78)	(77)	(1)
Share based payments	(38)	(30)	(8)	(62)	(62)	-
Other temporary differences	178	170	8	111	110	1
	(341)	(400)	59	(497)	(571)	74

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

28. Deferred tax continued

The Finance Act 2013 contained a reduction in the main rate of UK corporation tax to 21 per cent with effect from 1 April 2014 and to 20 per cent with effect from 1 April 2015. This change has reduced the UK deferred tax asset by $28 million.

At 31 December 2013, the Group has net deferred tax assets of $382 million (2012: $515 million).

The recoverability of the Group's deferred tax assets is based on management's judgment of the availability of future taxable profits against which the deferred tax assets will be utilised.

Of the group's total deferred tax asset, $422 million relates to tax losses carried forward. These tax losses have arisen in individual legal entities and will be offset as future taxable profits arise in those entities.

$173 million of the deferred tax asset relating to losses has arisen in the UK, where there is no expiry date for unused tax losses. There is a defined profit stream against which the losses are forecast to be fully utilised, over a period of 13 years.

$110 million of the deferred tax asset relating to losses has arisen in Ireland, where there is no expiry date for unused tax losses. These losses relate to aircraft leasing and are expected to be fully utilised over the useful economical life of the assets being up to 25 years.

$44 million of the deferred tax asset relating to losses has arisen in Taiwan. Management forecasts show that the losses are expected to be fully utilised over a period of 5 years. The tax losses expire after 10 years.

$35 million of the deferred tax asset relating to losses has arisen in Australia, where these is no expiry date for unused tax losses. Management forecasts show that the losses are expected to be fully utilised over a period of 12 years.

The remaining deferred tax asset relating to losses has arisen in other jurisdictions and is expected to be recovered in less than five years.

	Group		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
No account has been taken of the following potential deferred taxation assets/(liabilities):				
Unremitted earnings from overseas subsidiaries	**(328)**	(316)	**(165)**	(186)
Foreign exchange movements on investments in branches	**(85)**	36	**(85)**	36
Tax losses	**106**	112	**85**	84
Held over gains on incorporation of overseas branches	**(506)**	(496)	**(506)**	(496)

29. Deposits by banks

	Group		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
Deposits by banks	**43,418**	36,427	**35,602**	28,375
Deposits by banks included within:				
Financial liabilities held at fair value through profit or loss (note 15)	**1,009**	968	**364**	968
Total deposits by banks	**44,427**	37,395	**35,966**	29,343

30. Customer accounts

	Group		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
Customer accounts	**381,066**	372,874	**157,499**	169,882
Customer accounts included within:				
Financial liabilities held at fair value through profit or loss (note 15)	**9,905**	12,243	**3,932**	4,968
Total customer accounts	**390,971**	385,117	**161,431**	174,850

Included in customer accounts were deposits of $4,956 million (2012: $2,862 million) held for the Group and $549 million (2012: $158 million) for the Company, as collateral for irrevocable commitments under import letters of credit.

31. Debt securities in issue

Group

	2013			2012		
	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total
	$million	$million	$million	$million	$million	$million
Debt securities in issue	21,082	24,857	45,939	16,982	24,463	41,445
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	141	6,682	6,823	165	5,096	5,261
Total debt securities in issue	21,223	31,539	52,762	17,147	29,559	46,706

Company

	2013			2012		
	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total	Certificates of deposit of $100,000 or more	Other debt securities in issue	Total
	$million	$million	$million	$million	$million	$million
Debt securities in issue	18,062	18,623	36,685	15,463	16,496	31,959
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	-	3,664	3,664	-	3,869	3,869
Total debt securities in issue	18,062	22,287	40,349	15,463	20,365	35,828

32. Other liabilities

	Group		Company	
	2013	2012	2013	2012
	$million	$million	$million	$million
Financial liabilities held at amortised cost (note 15)				
Notes in circulation[1]	4,460	4,191	-	-
Acceptances and endorsements	5,501	4,900	2,826	2,505
Cash collateral	5,147	3,245	4,773	2,881
Unsettled trades and other financial liabilities	6,789	7,211	4,234	3,932
	21,897	19,547	11,833	9,318
Non-financial liabilities				
Liabilities held for sale[2]	344	-	-	-
Other liabilities	5,120	4,742	2,228	2,420
	27,361	24,289	14,061	11,738

1 Hong Kong currency notes in circulation of $4,460 million (2012: $4,191 million) which are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 22)

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. The businesses held for sale also have total net liabilities due to Group undertakings of $1.1 billion, which will be transferred to the acquirers on completion of the sale. See note 22 for the balance sheet of the businesses held for sale. Liabilities recorded here are classified as level 2

33. Subordinated liabilities and other borrowed funds

Subordinated loan capital - issued by subsidiary undertakings	2013 $million	2012 $million
$750 million 5.875 per cent subordinated notes 2020	**789**	847
BWP 127.26 million 8.2 per cent subordinated notes 2022	**15**	16
BWP 75 million floating rate subordinated Notes 2017 (callable 2013)	**-**	10
BWP 70 million floating rate subordinated notes 2021 (callable 2016)	**8**	9
BWP 50 million floating rate notes 2022 (callable 2017)	**6**	6
KRW 300 billion 7.05 per cent subordinated debt 2019 (callable 2014)	**284**	280
KRW 270 billion 4.67 per cent subordinated debt 2021 (callable 2016)	**256**	252
KRW 260 billion 6.08 per cent subordinated debt 2018 (callable 2013)	**-**	244
KRW 90 billion 6.05 per cent subordinated debt 2018	**95**	95
PKR 2.5 billion floating rate notes 2022 (callable 2017)	**24**	26
PKR 1 billion floating rate notes 2013	**-**	3
SGD 750 million 4.15 per cent subordinated notes 2021 (callable and floating rate from 2016)	**570**	607
TWD 10 billion 2.9 per cent subordinated debt 2019 (callable 2014)	**337**	349
TZS 10 billion 11 per cent subordinated notes 2021 (callable and floating rate from 2015)	**6**	6
UGX 40 billion 13 per cent subordinated notes 2020 (callable 2015)	**16**	16
	2,406	2,766
Subordinated loan capital - issued by Company		
£700 million 7.75 per cent subordinated notes 2018	**1,291**	1,353
£675 million 5.375 per cent undated step up subordinated notes (callable and floating rate from 2020)	**727**	781
£600 million 8.103 per cent step up callable perpetual preferred securities (callable and floating rate from 2016)	**1,128**	1,177
£300 million 6.0 per cent subordinated notes 2018 (callable and floating rate from 2013)	**-**	488
£200 million 7.75 per cent undated step up subordinated notes (callable and floating rate from 2022)	**410**	446
€1,100 million 5.875 per cent subordinated notes 2017	**1,704**	1,706
€675 million floating rate subordinated notes 2018 (callable 2013)	**-**	890
$2 billion floating rate subordinated notes 2023	**2,000**	-
$1.8 billion floating rate undated subordinated notes (callable 2014)	**1,800**	1,800
$1.6 billion floating rate subordinated notes 2022 (callable 2017)	**1,600**	1,600
$1.5 billion 9.5 per cent step up perpetual preferred securities (callable 2014)	**1,542**	1,582
$1.3 billion floating rate subordinated notes 2021 (callable 2016)	**1,300**	1,300
$1.25 billion floating rate subordinated notes 2022 (callable 2017)	**1,250**	1,250
$1 billion 6.4 per cent subordinated notes 2017	**1,134**	1,188
$1 billion floating rate subordinated notes 2022	**1,000**	1,000
$960 million floating rate subordinated notes 2022	**960**	960
$700 million 8.0 per cent subordinated notes 2031	**592**	675
$500 million floating rate subordinated notes 2043	**500**	-
$100 million floating rate subordinated notes 2018 (callable 2013)	**-**	100
JPY 10 billion 3.35 per cent subordinated notes 2023 (callable 2018)	**101**	128
SGD 450 million 5.25 per cent subordinated notes 2023 (callable and floating rate from 2018)	**380**	408
Primary Capital Floating Rate Notes:		
$400 million	**57**	57
$300 million (Series 2)	**81**	81
$400 million (Series 3)	**83**	83
$200 million (Series 4)	**51**	51
£150 million	**50**	50
$925 million 8.125 per cent non-cumulative redeemable preference shares (Callable 2013)	**-**	953
Total for Company	**19,741**	20,107
Total for Group	**22,147**	22,873

33. Subordinated liabilities and other borrowed funds continued

	2013				2012			
	USD $million	GBP $million	Euro $million	Others $million	USD $million	GBP $million	Euro $million	Others $million
Fixed rate subordinated debt	**6,557**	**3,556**	**1,704**	**2,060**	5,245	4,245	1,706	2,401
Floating rate subordinated debt	**8,182**	**50**	**-**	**38**	8,282	50	890	54
Total	**14,739**	**3,606**	**1,704**	**2,098**	13,527	4,295	2,596	2,455

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, Standard Chartered Bank issued $2 billion floating rate notes due January 2023.

On 11 January 2013, Standard Chartered Bank issued $500 million floating rate notes due January 2043.

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 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

34. Provisions for liabilities and charges

Group

	2013		
	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January	30	185	215
Exchange translation differences	-	(2)	(2)
Charge against profit	-	20	20
Provisions utilised	(8)	(121)	(129)
At 31 December	22	82	104

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations. Other provisions include provisions for regulatory settlement, legal claims and restructuring.

Company

	2013		
	Provision for credit commitments $million	Other provisions $million	Total $million
At 1 January	112	21	133
Exchange translation differences	-	(1)	(1)
Charge against profit	8	9	17
Provisions utilised	(1)	(18)	(19)
At 31 December	119	11	130

Provision for credit commitments for the Company comprises primarily provisions made as part of risk participation agreements with subsidiaries.

35. Retirement benefit obligations

Retirement benefit obligations comprise:

	2013 $million	2012 $million
Defined benefit schemes obligation	341	470
Defined contribution schemes obligation	24	21
Net book amount	365	491

	2013 $million	2012 $million
At 1 January	491	507
Exchange translation differences	(1)	15
Charge against profit	336	299
Change in other comprehensive income	(79)	76
Net payments	(382)	(406)
At 31 December	365	491

Retirement benefit charge comprises:

	2013 $million	2012 $million
Defined benefit schemes	119	96
Defined contribution schemes	217	203
Charge against profit (note 8)	336	299

35. Retirement benefit obligations continued

Group

The Group operates over 50 defined benefit plans across its geographies many of which are closed to new entrants who now join defined contribution arrangements. The aim of all these plans is to give employees the opportunity to save appropriately for retirement in a way that is consistent with local regulations, taxation requirements and market conditions. The defined benefit plans expose the Group to currency risk, interest rate risk, investment risk and actuarial risks such as longevity risk. The UK Fund is the only retirement arrangement of material size, and a description of it, along with the other categories of scheme, is given below.

The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2013. Pension costs for the purpose of these accounts were assessed using the projected unit method and the assumptions set out below which were based on market data at the date of calculation.

The principal assumptions relate to the rate of inflation and the discount rate. The discount rate is equal to the yield on high-quality corporate bonds which have a term to maturity approximating that of the related liability.

UK Fund

The Group's principal retirement benefit scheme is the Standard Chartered Pension Fund (the 'Fund') and provides pensions based on 1/60th of final salary per year of service, normally payable from age 60. The Fund is set up under a Trust that is legally separate from the Bank (its formal sponsor) and as required by UK legislation one-third of the Trustee Directors are nominated by members; the remainder are appointed by the Bank. The Trustee Directors have a fiduciary duty to Fund members, and are responsible for governing the Fund in accordance with its Trust Deed and Rules.

The financial position of the Fund is assessed by an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was performed as at 31 December 2011 by A Zegleman, Fellow of the Faculty of Actuaries, of Towers Watson, using the projected unit method and assumptions different from those below. To repair the past service deficit revealed as at 31 December 2011, a cash payment of GBP35 million was made into the Fund on 27 March 2013. In addition, an escrow account of GBP110 million exists to provide security for future contributions should they be needed.

Following the 31 December 2011 valuation, regular contributions to the Fund were set at 36 per cent of pensionable salary for all members.

With effect from 1 July 1998 the Fund was closed to new entrants and new employees have subsequently been offered membership of a defined contribution scheme. Due to the closure of the Fund to new entrants, it is expected that the current service cost will increase, as a percentage of pensionable salary, as the members approach retirement. Over 80% of the Fund's liabilities now relate to pensioners or ex-employees who have left the Group but have not yet retired. As at 31 December 2013, the weighted-average duration of the Fund was 15 years (2012: 15 years).

Overseas Schemes

The principal overseas defined benefit arrangements operated by the Group are in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the United States (US).

Employer contributions to defined benefit plans over 2014 are expected to be around $50 million.

35. Retirement benefit obligations continued

The financial assumptions used at 31 December 2013 were:

	Funded defined benefit schemes			
	UK Fund [1]		Overseas Schemes [2]	
	2013 %	2012 %	2013 %	2012 %
Price inflation[3]	**2.40**	2.30	**1.50 – 5.00**	1.50 – 4.50
Salary increases	**2.40**	2.30	**2.40 – 6.50**	2.10 – 6.00
Pension increases	**2.40**	2.30	**1.75 – 3.40**	1.75 – 3.00
Discount rate	**4.50**	4.50	**1.70 – 9.40**	0.70 – 8.40

[1] The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 28 years (2012: 28 years) and a female member 29 years (2012: 29 years) and a male member currently aged 40 will live for 30 years (2012: 30 years) and a female member 31 years (2012: 31 years) after their 60th birthday

[2] The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, Hong Kong, India, Jersey, Korea, Taiwan and the US. These comprise over 85 per cent of the total liabilities of funded overseas schemes

[3] UK pension increases are now based on CPI rather than RPI so the measure of the inflation quoted has been updated accordingly

These assumptions are likely to change in the future and thus will affect the value placed on the liabilities. For example, changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

- If the discount rate for the UK Fund increased by 25 basis points the liability would reduce by approximately $65 million
- If the rate of inflation and pension increases for the UK Fund increased by 25 basis points the liability would increase by approximately $65 million
- If the rate salaries increase compared to inflation for the UK Fund increased by 25 basis points the liability would increase by approximately $7 million
- If longevity expectations increased by one year for the UK Fund the liability would increase by approximately $50 million

Although this analysis does not take account of the full distribution of cash flows expected under the Fund, it does provide an approximation of the sensitivity to the main assumptions. Whilst changes in other assumptions would also have an impact, the effect would not be as significant.

	Unfunded schemes			
	Post-retirement medical [4]		Other [5]	
	2013 %	2012 %	2013 %	2012 %
Price inflation	**2.50**	2.50	**2.50 – 5.00**	3.00 – 5.00
Salary increases	**4.00**	4.00	**2.40 – 6.50**	2.30 – 6.00
Pension increases	**N/A**	N/A	**0.00 – 2.40**	0.00 – 2.30
Discount rate	**5.10**	4.20	**4.50 – 9.40**	4.20 – 8.40
Post-retirement medical rate	**8% in 2013 reducing by 1% per annum to 5% in 2016**	9% in 2012 reducing by 1% per annum to 5% in 2016	**N/A**	N/A

[4] The post-retirement medical plan is in the US

[5] The range of assumptions shown is for the main Unfunded schemes in India, Indonesia, UAE and the UK

The assets and liabilities of the schemes, attributable to defined benefit members were:

	2013				2012			
	Funded defined benefit schemes		Unfunded schemes		Funded defined benefit schemes		Unfunded schemes	
At 31 December	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million
Equities	**423**	**304**	**N/A**	**N/A**	382	254	N/A	N/A
Government Bonds	**696**	**155**	**N/A**	**N/A**	698	151	N/A	N/A
Corporate Bonds	**285**	**68**	**N/A**	**N/A**	374	78	N/A	N/A
Property	**78**	**11**	**N/A**	**N/A**	58	8	N/A	N/A
Others	**350**	**215**	**N/A**	**N/A**	190	173	N/A	N/A
Total market value of assets	**1,832**	**753**	**N/A**	**N/A**	1,702	664	N/A	N/A
Present value of the schemes' liabilities[6]	**(1,855)**	**(875)**	**(26)**	**(170)**	(1,795)	(854)	(28)	(159)
Net pension liability	**(23)**	**(122)**	**(26)**	**(170)**	(93)	(190)	(28)	(159)

[6] Includes $1 million (2012: $nil) impact as a result of unrecognisable surplus in Kenya

35. Retirement benefit obligations continued

Group continued

The pension cost for defined benefit schemes was:

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2013	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	7	71	1	21	100
Past service cost and curtailments	-	1	-	3	4
Gains on settlements	-	-	-	-	-
Interest income on pension scheme assets	(74)	(19)	-	-	(93)
Interest on pension scheme liabilities	76	23	1	8	108
Total charge to profit before deduction of tax	9	76	2	32	119
Return on plan assets excluding interest income[1]	(38)	(31)	-	-	(69)
Loss/(gain) on liabilities	24	(19)	(3)	(12)	(10)
Total gain recognised directly in other comprehensive income before tax	(14)	(50)	(3)	(12)	(79)
Deferred taxation	3	18	-	-	21
Total gain after tax	(11)	(32)	(3)	(12)	(58)

[1] The actual return on the UK fund assets was $112 million and on overseas scheme assets was $50 million.

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2012	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	8	74	1	17	100
Past service cost and curtailments	-	-	-	3	3
Gains on settlements	-	(6)	-	-	(6)
Interest income on pension scheme assets	(80)	(32)	-	-	(112)
Interest on pension scheme liabilities	77	26	1	7	111
Total charge to profit before deduction of tax	5	62	2	27	96
Return on plan assets excluding interest income[2]	(53)	(22)	-	-	(75)
Loss on liabilities	115	28	-	8	151
Total loss recognised directly in other comprehensive income before tax	62	6	-	8	76
Deferred taxation	(14)	-	-	-	(14)
Total loss after tax	48	6	-	8	62

[2] The actual return on the UK fund assets was $133 million and on overseas scheme assets was $54 million.

35. Retirement benefit obligations continued

Group continued

Movement in the pension schemes and post retirement medical deficit during the year comprise:

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2013	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Deficit at 1 January 2013	(93)	(190)	(28)	(159)	(470)
Contributions	63	94	1	10	168
Current service cost	(7)	(71)	(1)	(21)	(100)
Past service cost and curtailments	-	(1)	-	(3)	(4)
Settlement costs	-	-	-	-	-
Net interest on the net defined benefit assets/liability	(2)	(4)	(1)	(8)	(15)
Actuarial gain	14	50	3	12	79
Exchange rate adjustment	2	-	-	(1)	1
Deficit at 31 December 2013	(23)	(122)	(26)	(170)	(341)

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2012	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Deficit at 1 January 2012	(74)	(249)	(28)	(136)	(487)
Contributions	52	139	2	10	203
Current service cost	(8)	(74)	(1)	(17)	(100)
Past service cost and curtailments	-	-	-	(3)	(3)
Settlement costs	-	6	-	-	6
Net interest on the net defined benefit asset/liability	3	6	(1)	(7)	1
Actuarial loss	(62)	(6)	-	(8)	(76)
Exchange rate adjustment	(4)	(12)	-	2	(14)
Deficit at 31 December 2012	(93)	(190)	(28)	(159)	(470)

35. Retirement benefit obligations continued

Group continued

Movement in pension schemes and post-retirement medical gross assets and obligations during the year comprise:

Year ended 31 December 2013	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2013	2,366	(2,836)	(470)
Contributions[1]	170	(2)	168
Current service cost[2]	-	(100)	(100)
Past service cost and curtailments	-	(4)	(4)
Settlement costs	(5)	5	-
Interest cost on Pension scheme liabilities	-	(108)	(108)
Interest income on pension scheme assets	93	-	93
Benefits paid out[2]	(146)	146	-
Actuarial gains[3]	69	10	79
Exchange rate adjustment	38	(37)	1
Deficit at 31 December 2013	2,585	(2,926)	(341)

[1] Includes employee contributions of $2 million

[2] Includes administrative expenses of $1 million paid out of scheme assets

[3] The $10 million gain on liabilities can be broken down as a $25 million gain from financial assumption changes, $1 million loss from demographic assumption changes and a $14 million loss from experience

Year ended 31 December 2012	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2012	2,118	(2,605)	(487)
Contributions	204	(1)	203
Current service cost	-	(100)	(100)
Past service cost and curtailments	-	(3)	(3)
Settlement costs	(72)	78	6
Interest cost on pension scheme liabilities	-	(111)	(111)
Interest income on pension scheme assets	112	-	112
Benefits paid out	(151)	151	-
Actuarial gain/(loss)	75	(151)	(76)
Exchange rate adjustment	80	(94)	(14)
Deficit at 31 December 2012	2,366	(2,836)	(470)

35. Retirement benefit obligations continued

Company

Retirement benefit obligations comprise:

	2013 $million	2012 $million
Defined benefit schemes obligation	**260**	352
Defined contribution schemes obligation	**16**	13
Net book amount	**276**	365

	2013 $million	2012 $million
At 1 January	**365**	324
Exchange translation differences	**-**	10
Charge against profit	**158**	146
Change in other comprehensive income	**(53)**	73
Net payments	**(194)**	(188)
At 31 December	**276**	365

Retirement benefit charge comprises:

	2013 $million	2012 $million
Defined benefit schemes	**59**	46
Defined contribution schemes	**99**	100
Charge against profit	**158**	146

UK Fund
See the Group note on the UK Fund on page 222, there are no differences between Group and Company in respect of the Fund.

Overseas Schemes
The principal overseas defined benefit arrangements operated by the Company are in Germany, India and the United States.

All Schemes
The disclosures required under IAS 19 have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated, where necessary, to 31 December 2013.

Employer contributions to defined benefit plans over 2013 are expected to be $30 million.

The financial assumptions used at 31 December 2013 as shown below. Sensitivities are recorded on page 223 of the Group accounts.

	Funded defined benefit schemes			
	UK Fund[1]		Overseas Schemes[2]	
	2013 %	2012 %	2013 %	2012 %
Price inflation[3]	**2.40**	2.30	**2.00 – 5.00**	2.00 – 4.50
Salary increases	**2.40**	2.30	**3.50 – 6.50**	3.50 – 6.00
Pension increases	**2.40**	2.30	**0.00 – 1.75**	0.00 – 1.75
Discount rate	**4.50**	4.50	**3.50 – 9.40**	3.20 – 8.40

1 The assumptions for life expectancy for the UK Fund assumes that a male member currently aged 60 will live for 28 years (2012: 28 years) and a female member 29 years (2012: 29 years) and a male member currently aged 40 will live for 30 years (2012: 30 years) and a female member 31 years (2012: 31 years) after their 60th birthday

2 The range of assumptions shown is for the main funded defined benefit overseas schemes in Germany, India, and the United States. These comprise over 80 per cent of the total liabilities of funded overseas schemes

3 UK Pension increases are now based on CPI rather than RPI so the measure of inflation quoted has been updated accordingly

	Unfunded schemes			
	Post-retirement medical[4]		Other[5]	
	2013 %	2012 %	2013 %	2012 %
Price inflation	**2.50**	2.50	**2.40 – 5.00**	2.30 – 4.50
Salary increases	**4.00**	4.00	**2.40 – 6.50**	2.30 – 6.00
Pension increases	**N/A**	N/A	**0.00 – 2.40**	0.00 - 2.30
Discount rate	**5.10**	4.20	**4.50 – 9.40**	4.20 – 8.40
Post-retirement medical rate[1]	**8% in 2013 reducing by 1% per annum to 5% in 2016**	9% in 2012 reducing by 1% per annum to 5% in 2016		N/A

4 The Post-retirement medical plan is in the United States.

5 The range of assumptions shown is for the main Unfunded Schemes in India, UAE and the UK

35. Retirement benefit obligations continued
Company continued

The assets and liabilities of the schemes, attributable to defined benefit members, at 31 December 2013 were:

	2013				2012			
	Funded defined benefit schemes		Unfunded schemes		Funded defined benefit schemes		Unfunded schemes	
At 31 December	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million
Equities	423	102	N/A	N/A	382	61	N/A	N/A
Government Bonds	696	83	N/A	N/A	698	40	N/A	N/A
Corporate Bonds	285	37	N/A	N/A	374	21	N/A	N/A
Property	78	2	N/A	N/A	58	28	N/A	N/A
Others	350	36	N/A	N/A	190	9	N/A	N/A
Total market value of assets	1,832	260	N/A	N/A	1,702	159	N/A	N/A
Present value of the schemes' liabilities[1]	(1,855)	(321)	(26)	(150)	(1,795)	(245)	(28)	(145)
Net pension liability	(23)	(61)	(26)	(150)	(93)	(86)	(28)	(145)

[1] Includes $1 million (2012: $nil) impact as a result of unrecognisable surplus in Kenya

The pension cost for defined benefit schemes was:

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2013	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	7	15	1	20	43
Past service cost and curtailments	-	-	-	4	4
(Gain)/loss on settlements	-	-	-	-	-
Interest Income on pension scheme assets	(74)	(9)	-	-	(83)
Interest expense on pension scheme liabilities	76	11	1	7	95
Total charge to profit before deduction of tax	9	17	2	31	59
Return on Plan assets excluding Interest Income[1]	(38)	(6)	-	-	(44)
Loss/(gain) on liabilities	24	(14)	(3)	(16)	(9)
Total gain recognised directly in statement of comprehensive income before tax	(14)	(20)	(3)	(16)	(53)
Deferred taxation	3	8	-	5	16
Total gain after tax	(11)	(12)	(3)	(11)	(37)

[1] The actual return on the UK fund assets was $112 million and on overseas scheme assets was $15 million.

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2012	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Current service cost	8	14	1	16	39
Past service cost and curtailments	-	-	-	-	-
(Gain)/loss on settlements	-	-	-	-	-
Interest income on pension scheme assets	(80)	(9)	-	-	(89)
Interest expense on pension scheme liabilities	77	11	1	7	96
Total charge to profit before deduction of tax	5	16	2	23	46
Return on Plan assets excluding Interest Income[2]	(53)	(4)	-	-	(57)
Loss on liabilities	115	7	-	8	130
Total loss recognised directly in statement of comprehensive income before tax	62	3	-	8	73
Deferred taxation	(14)	-	-	-	(14)
Total loss after tax	48	3	-	8	59

[2] The actual return on the UK fund assets was $133 million and on overseas scheme assets was $13 million.

35. Retirement benefit obligations continued

Company continued

Movement in the pension schemes and post retirement medical deficit during the year comprise:

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2013	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Deficit at 1 January 2013	(93)	(86)	(28)	(145)	(352)
Contributions	63	23	1	11	98
Current service cost	(7)	(15)	(1)	(20)	(43)
Past service cost and curtailments	-	-	-	(4)	(4)
Settlement costs	-	-	-	-	-
Net interest on the net defined benefit asset/liability	(2)	(2)	(1)	(7)	(12)
Actuarial gain	14	20	3	16	53
Exchange rate adjustment	2	(1)	-	(1)	-
Deficit at 31 December 2013	(23)	(61)	(26)	(150)	(260)

	Funded defined benefit schemes		Unfunded schemes		
Year ended 31 December 2012	UK Fund $million	Overseas schemes $million	Post-retirement medical $million	Other $million	Total $million
Deficit at 1 January 2012	(74)	(90)	(28)	(121)	(313)
Contributions	52	25	2	9	88
Current service cost	(8)	(14)	(1)	(16)	(39)
Past service cost and curtailments	-	-	-	-	-
Settlement costs	-	-	-	-	-
Net interest on the net defined benefit asset/liability	3	(2)	(1)	(7)	(7)
Actuarial loss	(62)	(3)	-	(8)	(73)
Exchange rate adjustment	(4)	(2)	-	(2)	(8)
Deficit at 31 December 2012	(93)	(86)	(28)	(145)	(352)

Movement in pension schemes and post-retirement medical gross assets and obligations during the year comprise:

Year ended 31 December 2013	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2013	1,861	(2,213)	(352)
Contributions	98	-	98
Current service cost	-	(43)	(43)
Past service cost and curtailments	-	(4)	(4)
Settlement costs	(1)	1	-
Interest cost on pension scheme liabilities	-	(95)	(95)
Interest Income on pension scheme assets	83	-	83
Benefits paid out	(29)	29	-
Actuarial gains	48	5	53
Exchange rate adjustment	32	(32)	-
Deficit at 31 December 2013	2,092	(2,352)	(260)

Year ended 31 December 2012	Assets $million	Obligations $million	Total $million
Deficit at 1 January 2012	1,672	(1,985)	(313)
Contributions	88	-	88
Current service cost	-	(39)	(39)
Past service cost and curtailments	-	-	-
Settlement costs	-	-	-
Interest cost on pension scheme liabilities	-	(96)	(96)
Interest Income on pension scheme assets	89	-	89
Benefits paid out	(113)	113	-
Actuarial gain/(loss)	57	(130)	(73)
Exchange rate adjustment	68	(76)	(8)
Deficit at 31 December 2012	1,861	(2,213)	(352)

36. Share capital, reserves and own shares

Share capital

The authorised share capital of the Company at 31 December 2013 was $18,007 million and TWD 1,225 million (2012: $15,005 million and TWD 1,225 million) made up of 18,000 million ordinary shares of $1 each, 2.4 million non-cumulative irredeemable preference shares of $0.01 each, 1 million non-cumulative preference shares of $5 each, 15,000 non-cumulative redeemable preference shares of $5 each, 462,500 non-cumulative redeemable 8.125% preference shares of $5 each and 50million non cumulative redeemable preference shares of TWD24.5 each.

The issued share capital of the Company at 31 December 2013 was 17,754 million (2012: $12,054 million) made up of:

17,754 million ordinary shares of $1 each;

7,500 non-cumulative redeemable preference shares issued on 8 December 2006 with a nominal value of $5 each and a premium of $99,995, making a paid up amount per Preference Share of $100,000. The preference shares are redeemable at the option of the company in whole or in part on 31 Jan 2017 and on any quarterly dividend payment date falling on or around ten year intervals thereafter. The amount payable on redemption will be the paid up amount of $100,000 per preference share to be redeemed, plus an amount equal to the accrued but unpaid dividend thereon up to but excluding the redemption date; and

7,500 non-cumulative redeemable preference shares issued on 25 May 2007 with a nominal value of $5 each and a premium of $99,995, making a paid up amount per Preference Share of $100,000. The preference shares are redeemable at the option of the company on 30 July 2037 and on any quarterly dividend payment date falling on or around ten year intervals thereafter. The amount payable on redemption will be the paid up amount of $100,000 per preference share to be redeemed, plus an amount equal to the accrued but unpaid dividend thereon up to but excluding the redemption date

Group and Company

	Number of ordinary shares (millions)	Ordinary share capital $million	Preference share capital $million	Total $million
At 1 January 2012	12,054	12,054	-	12,054
Shares issued	-	-	-	-
At 31 December 2012	**12,054**	**12,054**	**-**	**12,054**
Shares issued	**5,700**	**5,700**	**-**	**5,700**
At 31 December 2013	**17,754**	**17,754**	**-**	**17,754**

During the year the company issued 5,700 million new ordinary shares of $1 each at nil premium (2012: nil) to its parent company, Standard Chartered Holdings Limited in the following tranches:

On 31 July 2013, the issued share capital of the company was increased from $12,054 million to $15,054 by the issue of an additional 3,000 million ordinary shares of $1 each to Standard Chartered Holdings Limited; and

On 16 December 2013, the issued share capital of the company was increased from $15,054 million to $17,754 million by the issue of 2,700 million additional ordinary shares of $1 each to Standard Chartered Holdings Limited.

Reserves

The capital reserve represents the exchange difference on redenomination of share capital and share premium from sterling to US dollars in 2001. The capital redemption reserve represents the nominal value of preference shares redeemed.

The available-for-sale reserve represents the unrealised fair value gains and losses in respect of financial assets classified as available-for-sale, net of taxation. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying asset is sold, matures or becomes impaired.

The cash flow hedge reserve represents the effective portion of the gains and losses on derivatives that meet the criteria for these types of hedges. Gains and losses are deferred in this reserve and are reclassified to the income statement when the underlying hedged item affects profit and loss or when a forecast transaction is no longer expected to occur.

Translation reserve represents the cumulative foreign exchange gains and losses on translation of the net investment of the Group in foreign operations. Since 1 January 2004, gains and losses are deferred to this reserve and are reclassified to the income statement when the underlying foreign operation is disposed. Gains and losses arising from derivatives used as hedges of net investments are netted against the foreign exchange gains and losses on translation of the net investment of the foreign operations.

Retained earnings represents profits and other comprehensive income earned by the Group and Company in the current and prior periods, together with the after tax increase relating to equity-settled share options, less dividend distributions and own shares (treasury shares).

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches, principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

37. Non-controlling interests

	$300m 7.267% Hybrid Tier 1 Securities $million	Other non-controlling interests $million	Total $million
At 1 January 2012	320	2,825	3,145
Income in equity attributable to non-controlling interests	-	29	29
Other profits attributable to non-controlling interests	22	633	655
Comprehensive income for the year	22	662	684
Distributions	(22)	(234)	(256)
Other increases	-	8	8
At 31 December 2012	320	3,261	3,581
Income in equity attributable to non-controlling interests	-	(87)	(87)
Other profits attributable to non-controlling interests	22	872	894
Comprehensive income for the year	22	785	807
Distributions	(22)	(251)	(273)
Other increases	-	(115)	(115)
At 31 December 2013	320	3,680	4,000

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.

38. Share based payments

The Group operates a number of share based arrangements for its directors and employees. Details of the share based payment charge are set out below:

	2013 $million	2012 $million
Deferred share awards	237	314
Other share awards	45	59
Total charge taken to the income statement	282	373

2011 Standard Chartered Share Plan (the '2011 Plan')
Approved by shareholders in May 2011 this is the Group's main share plan, applicable to all employees with the flexibility to provide a variety of award types. The 2011 Plan is designed to deliver performance shares, deferred awards and restricted shares, giving us sufficient flexibility to meet the challenges of the changing regulatory and competitive environment. Discretionary share awards are a key part of both executive directors' and senior management's variable compensation and their significance as a proportion of potential total remuneration is one of the strongest indicators of our commitment to pay for sustainable performance ensuring there is an appropriate return for the risk taken and that the measure is aligned with the Group's risk appetite.

Further details regarding the 2011 Plan are included in the Directors' Remuneration Report. The remaining life of the plan is seven years.

Performance shares
Performance shares are subject to a combination of three performance measures, total shareholder return (TSR), earnings per share (EPS) and return on risk weighted assets (RoRWA). The weighting between the three elements is split equally, one third of the award depending on each measure, assessed independently. Performance share awards for executive directors are currently subject to an annual limit of 400 per cent of base salary in face value terms and delivered as nil cost options.

Valuation
The fair value of the TSR component is derived by discounting one-third of the award by the loss of expected dividends over the vesting period together with the probability of meeting the TSR condition, which is calculated by the area under the TSR vesting schedule curve. The EPS fair value is derived by discounting one third of the award respectively by the loss of expected dividends over the vesting period. The same approach is applied to calculate the RoRWA fair value for one third of the award. In respect of the EPS and RoRWA components, the number of shares expected to vest is adjusted for actual performance when calculating the share based payment charge for the year. The same fair value applies to all employees including directors.

	2013			2012			
Grant date	18 September	19 June	11 March	21 December	19 September	20 June	13 March
Share price at grant date (£)	15.14	14.62	18.22	15.84	14.82	14.17	15.65
Vesting period (years)	3	3	3	3	3	3	3
Expected dividend yield (%)	4.6	4.1	4.1	3.7	3.2	3.5	3.5
Fair value (EPS) (£)	4.43	4.32	5.38	4.73	4.50	4.26	4.71
Fair value (RoRWA) (£)	4.43	4.32	5.38	4.73	4.50	4.26	4.71
Fair value (TSR) (£)	1.80	1.76	2.19	1.86	1.77	1.68	1.85

The expected dividend yield assumption is based on a historical average over a period commensurate with this period until vesting, or over one year if the period until vesting is less than one year.

Deferred share awards/restricted shares
Deferred awards are used to deliver the deferred portion of annual performance awards, in line with both market practice and the requirements of the PRA. These awards are subject to a three-year deferral period, vesting equally one-third on each of the first, second and third anniversaries. These awards are not subject to an annual limit to ensure that regulatory requirements relating to deferral levels can be met and in line with market practice of our competitors. Deferred awards will not be subject to any further performance criteria, although the Group's claw back policy will apply.

Restricted share awards which are made outside of the annual performance process, as additional incentive or retention mechanisms, are provided as restricted shares under the 2011 Plan. These awards typically vest in equal instalments on the second and the third anniversaries of the award date. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance conditions.

38. Share based payments continued

Valuation

The fair value, for all employees including directors, is based on 100 per cent of the face value of the share date of grant as the share price will reflect expectations of all future dividends.

Deferred share awards

	2013		2012		
Grant date	19 June	11 March	19 September	20 June	13 March
Share price at grant date (£)	14.62	18.22	14.82	14.17	15.65
Vesting period (years)	1/2/3	1/2/3	1/2/3	1/2/3	1/2/3
Expected dividend yield (%)	n/a	n/a	n/a	n/a	n/a
Fair value (£)	14.62	18.22	14.82	14.17	15.65

Deferred awards accrue dividend equivalent payments during the vesting period.

Other restricted share awards

	2013				2012			
Grant date	17 December	18 September	19 June	11 March	21 December	19 September	20 June	13 March
Share price at grant date (£)	13.04	15.14	14.62	18.22	15.84	14.82	14.17	15.65
Vesting period (years)	2/3	2/3	2/3 1/2/3/4	2/3 1/2/3/4	2/3 1/2/3/4	2/3	2/3	2/3
Expected dividend yield (%)	4.9	4.6	4.6	4.6	3.7	3.0	3.8	3.8
Fair value (£)	11.59	13.54	13.05	16.27	14.46	13.76	12.91	14.26

The dividend yield assumption is based on a historical average over a period commensurate with this 'average' period until vesting, or over one year if the average period until vesting is less than one year.

2000 Executive Share Option Scheme (2000 ESOS) - now closed to new grants

The Group previously operated the 2000 ESOS for executive directors and selected senior managers and there remain outstanding vested awards. Executive share options to purchase ordinary shares in Standard Chartered PLC were exercisable after the third, but before the tenth, anniversary of the date of grant subject to EPS performance criteria being satisfied. The exercise price per share is the share price at the date of grant.

2001 Performance Share Plan (PSP) - now closed to new grants

The Group's previous plan for delivering performance shares was the 2001 PSP and there remain outstanding vested awards. Under the 2001 PSP half the award is dependent upon TSR performance and the balance is subject to a target of defined EPS growth. Both measures use the same three-year period and are assessed independently.

1997/2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS)

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS both now replaced by the 2011 Plan. There remain unvested and vested awards outstanding under these plans. Awards were generally in the form of nil cost options and do not have any performance conditions. Generally deferred restricted share awards vest equally over three years and for non-deferred awards half vests two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

2004 Deferred Bonus Plan (DBP)

Under the DBP, shares are conditionally awarded as part of certain executive directors' annual performance award. Awards under the DBP are made in very limited circumstances to a small number of employees. Further details are contained in the Directors' remuneration report. The remaining life of the plan is less than one year and no further awards will be granted under the DBP.

All Employee Sharesave Plan (2004 International Sharesave, 2004 UK Sharesave and 2013 Sharesave)

Under the Sharesave plans, employees have the choice of opening a savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the Company at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the Sharesave plans. In some countries in which the Group operates, it is not possible to operate Sharesave plans, typically due to securities law and regulatory restrictions. In these countries the Group offers an equivalent cash-based plan to its employees. The remaining life of the 2004 Sharesave plans is less than one year and no further awards will be granted under these plans.

A new sharesave scheme, the Standard Chartered 2013 Sharesave Plan was approved by Shareholders at the AGM in May 2013 and new sharesave invitations were made under this plan in September 2013. The remaining life of the 2013 Sharesave Plan is nine years.

38. Share based payments continued

Valuation

Options under the Sharesave plans are valued using a binomial option-pricing model. The same fair value is applied to all employees including directors. The fair value per option granted and the assumptions used in the calculation are as follows:

All Employee Sharesave Plan (Sharesave)

	2013	2012	
Grant date	**9 October**	11 October	1 October
Share price at grant date	**14.36**	13.95	14.35
Exercise price (£)	**11.78**	11.40	11.40
Vesting period (years)	**3**	3	3
Expected volatility (%)	**26.8**	29.8	30.0
Expected option life (years)	**3.33**	3.33	3.33
Risk free rate (%)	**0.8**	0.4	0.4
Expected dividend yield (%)	**4.3**	3.1	3.1
Fair value (£)	**3.30**	3.28	3.53

The expected volatility is based on historical volatility over the last three years, or three years prior to grant. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend for three years prior to grant.

Reconciliation of option movements for the year to 31 December 2013

	2011 Plan[1]									
	Performance shares	Deferred/ Restricted shares	PSP[1]	RSS[1]	SRSS[1]	DBP [1, 2]	ESOS	Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)
Outstanding at 1 January	9,075,667	10,598,950	2,221,257	16,685,298	2,870,847	70,255	351,044	7.46	14,076,948	11.59
Granted	4,556,119[3]	8,310,176[4]	-	258,870[5]	-	-	-	-	3,614,013[5]	11.78
Lapsed	(316,190)	(546,529)	(179,594)	(952,300)	(280,160)	-	(36,316)	6.60	(1,824,566)	12.07
Exercised	-	(2,869,213)	(1,506,034)	(8,900,128)	(1,610,335)	(70,255)	(291,119)	7.54	(1,270,057)	11.18
Outstanding at 31 December	13,315,596	15,493,384	535,629	7,091,740	980,352	-	23,609	7.89	14,596,338	11.62
Exercisable at 31 December	-	580,225	535,629	3,056,007	895,073	-	23,609	7.89	1,688,962	13.90
Range of exercise prices (£)	-	-	-	-	-	-	7.89		9.80-14.63	
Intrinsic value of vested but not exercised options ($ million)	-	1	1	6	2	-	-		1	
Weighted average contractual remaining life (years)	8.3	5.7	5.0	3.7	3.1	-	0.2		2.2	
Weighted average share price for options exercised during the period (£)	-	16.91	16.52	17.17	16.99	16.12	16.59		16.18	

1 Employees do not contribute towards the cost of these awards

2 The closing balance in the 2012 accounts was understated by 14,460 shares and the opening balance for 2013 has therefore been restated

3 4,506,380 granted on 11 March 2013, 21,698 granted on 19 June 2013, 9,636 granted on 18 September 2013 and 18,405 granted on 17 December 2013

4 7,478,046 granted on 11 March 2013, 301,575 (notional dividend) granted on 13 March 2013, 159,388 granted on 19 June 2013, 4,310 (notional dividend) granted on 20 June 2013, 68 (notional dividend) granted on 22 June 2013,174,823 granted on 18 September 2013, 476 (notional dividend) granted on 20 September 2013 and 191,490 granted on 17 December 2013

5 Granted on 10 March 2013 and relates to notional dividend applied to unvested portion of awards

38. Share based payments continued

Reconciliation of option movements for the year to 31 December 2012

	2011 Plan[1]									
	Performance shares	Deferred/ Restricted shares	PSP[1]	RSS[1]	SRSS[1]	DBP [1, 2]	ESOS	Weighted average exercise price (£)	Sharesave	Weighted average exercise price (£)
Outstanding at 1 January	4,159,843	631,525	6,860,767	30,071,548	7,110,450	55,795	958,376	7.10	15,381,639	11.42
Granted	5,116,875	10,268,598	-	364,112	-	70,255	-	-	4,572,789	11.40
Lapsed	(201,051)	(299,723)	(1,657,903)	(937,152)	(103,149)	-	(123,016)	6.33	(2,337,736)	11.64
Exercised	-	(1,450)	(2,981,607)	(12,813,210)	(4,136,454)	(70,255)	(484,316)	6.77	(3,539,744)	10.44
Outstanding at 31 December	9,075,667	10,598,950	2,221,257	16,685,298	2,870,847	55,795	351,044	7.46	14,076,948	11.59
Exercisable at 31 December	-	-	863,644	3,396,479	2,154,834	-	351,044	7.46	1,068,182	10.96
Range of exercise prices (£)	-	-	-	-	-	-	5.82-7.80		10.48-11.04	
Intrinsic value of vested but not exercised options ($ million)	-	-	2	8	3	-	-		-	
Weighted average contractual remaining life (years)	8.8	6.2	6.6	4.5	4.1	-	1.0		2.5	
Weighted average share price for options exercised during the period (£)	-	14.39	15.59	15.66	15.64	15.97	14.94		14.87	

[1] Employees do not contribute towards the cost of these awards

[2] Notes:

a) The market value of shares on date of awards (13 March 2012) was 1,605 pence

b) The shares vest one year after the date of award

c) A notional scrip dividend accrues on the shares held in the Trust. The dividend is normally delivered in the form of shares and is released on vesting

39. Cash flow statement

Adjustment for non-cash items included within income statement

	Group		Company	
	2013	2012	2013	2012
	$million	$million	$million	$million
Amortisation of discounts and premiums of investment securities	(205)	(442)	(180)	(219)
Interest expense on subordinated liabilities	1,027	902	634	250
Interest expense on senior debt liabilities	146	98	17	-
Other non - cash income items	(405)	(397)	(228)	(255)
Depreciation and amortisation	733	679	297	297
Pension costs for defined benefit schemes	119	96	59	46
Share based payment costs	282	374	213	274
Own Credit Adjustment	(106)	-	(90)	-
UK bank levy	55	10	55	10
Impairment losses on loans and advances and other credit risk provisions	1,617	1,196	664	546
Dividend income from subsidiaries	-	-	(990)	(1,237)
Other impairment	1,129	196	35	321
Loss on business classified as held for sale	49	-	-	-
Profit from associates and joint ventures	(226)	(182)	-	-
Total	4,215	2,530	486	33

Change in operating assets

	Group		Company	
	2013	2012	2013	2012
	$million	$million	$million	$million
(Increase)/decrease in derivative financial instruments	(13,424)	18,727	(13,401)	9,454
Net decrease/(increase) in debt securities, treasury bills and equity shares held at fair value through profit or loss	5,379	(3,077)	1,975	(2,683)
Net decrease in loans and advances to banks and customers	(29,794)	(20,934)	(9,728)	(15,135)
Decrease/(Increase) in pre-payments and accrued income	8	(39)	5	34
Decrease in other assets	(6,701)	(3,229)	(2,534)	(5,196)
Total	(44,532)	(8,552)	(23,683)	(13,526)

Change in operating liabilities

	Group		Company	
	2013	2012	2013	2012
	$million	$million	$million	$million
Increase/(Decrease) in derivative financial instruments	14,855	(18,567)	14,418	(9,672)
Net increase in deposits from banks, customer accounts, debt securities in issue and short positions	27,289	36,771	3,485	30,946
(Decrease)/Increase in accruals and deferred income	(154)	5	(42)	140
Increase/(decrease) in amounts due to parents/subsidiaries/other related parties	1,279	1,466	(5,513)	1,691
Increase/(decrease) in other liabilities	2,229	(386)	1,902	2,480
Total	45,498	19,289	14,250	25,585

40. 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		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
Cash and balances at central banks	**54,534**	60,537	**41,272**	49,655
Less restricted balances	**(9,946)**	(9,336)	**(4,144)**	(4,629)
Treasury bills and other eligible bills	**6,561**	3,101	**1,863**	1,062
Loans and advances to banks	**29,509**	23,909	**14,472**	13,914
Trading securities	**3,498**	1,307	**2,030**	663
Total	**84,156**	79,518	**55,493**	60,665

41. Capital commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

	Group		Company	
	2013 $million	2012 $million	2013 $million	2012 $million
Contracted	**11**	51	**2**	-

42. Operating lease commitments

Group

	2013		2012	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	**327**	**3**	336	4
Later than one year and less than five years	**769**	**3**	755	5
After five years	**731**	**-**	806	-
	1,827	**6**	1,897	9

During the year $377 million (2012: $443 million) was recognised as an expense in the income statement in respect of operating leases. The Group leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2013 is $5 million (2012: $6 million).

Company

	2013		2012	
	Premises $million	Equipment $million	Premises $million	Equipment $million
Commitments under non-cancellable operating leases expiring:				
Within one year	**99**	**-**	112	1
Later than one year and less than five years	**363**	**-**	385	1
After five years	**526**	**-**	628	-
	988	**-**	1,125	2

During the year $126 million (2012: $186 million) was recognised as an expense in the income statement in respect of operating leases. The Company leases various premises and equipment under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The total future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2013 are $nil million (2012: $nil million).

43. 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.

Group

	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	**7,408**	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
	192,625	175,106

Company

	2013 $million	2012 $million
Contingent liabilities		
Guarantees and irrevocable letters of credit	**25,274**	25,089
Other contingent liabilities	**9,383**	9,159
	34,657	34,248
Commitments		
Documentary credits and short term trade-related transactions	**4,767**	4,808
Forward asset purchases and forward deposits placed	**3**	-
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	**26,391**	27,985
Less than one year	**6,245**	5,375
Unconditionally cancellable	**60,893**	60,231
	98,299	98,399

Contingent liabilities
Where the Group undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit as part of the Group's transaction banking business for which an obligation to make a payment has not arisen at the reporting date those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit and bonds issued on behalf of customers to customs officials, for bids or offers and as shipping guarantees.

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 (see note 34).

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

The Group's share of contingent liabilities and commitments in the joint venture, PT Bank Permata TBK is $388 million (2012: $348 million).

Commitments
Where the Group has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees whether cancellable or not or letters of credit and the Group has not made payments at the balance sheet date, those instruments are included in these financial statements as commitments.

44. 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 on regulatory compliance, reviews, request for information, investigation and risk of fraud and other criminal acts are set out in page 30 and 31 of Financial risk management.

45. Post balance sheet events

On 1 January 2014 the Group adopted 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 of 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 three segment groups (Corporate and Institutional; Commercial and Private banking; and Retail) serviced by five global product groups. The impact of this change will be reflected in the Group’s 2014 Half Year report.

46 Restatement of prior periods

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 240 to 244).

- **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 pages 244).

  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 244).

The impact of the above restatements on the primary statements is set out on pages 132 to136.

Income statement

	Notes	As reported 2012 $million	Permata restatement $million	Restated 2012 $million
Interest income	3	18,258	(431)	17,827
Interest expense	4	(7,253)	202	(7,051)
Net interest income		11,005	(229)	10,776
Fees and commission income	5	4,621	(43)	4,578
Fees and commission expense	5	(504)	1	(503)
Net trading income	6	2,769	(9)	2,760
Other operating income	7	1,102	(8)	1,094
Non-interest income		7,988	(59)	7,929
Operating income		18,993	(288)	18,705
Staff costs	8	(6,577)	92	(6,485)
Premises costs	8	(886)	23	(863)
General administrative expenses	8	(2,758)	51	(2,707)
Depreciation and amortisation	9	(687)	8	(679)
Operating expenses		(10,908)	174	(10,734)
Operating profit before impairment losses and taxation		8,085	(114)	7,971
Impairment losses on loans and advances and other credit risk provisions	10	(1,221)	25	(1,196)
Other impairment	11	(194)	(2)	(196)
Profit from associates and joint ventures		116	66	182
Profit before taxation		6,786	(25)	6,761
Taxation	12	(1,856)	25	(1,831)
Profit for the year		4,930	-	4,930

46 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		4,930	-	4,930
Other comprehensive income:				
Items that will not be reclassified to Income statement:				
Actuarial losses on retirement benefit obligations	35	(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	12	(132)	-	(132)
Other comprehensive income for the period, net of taxation		1,122	-	1,122
Total comprehensive income for the year		6,052	-	6,052

46 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	15, 40	61,043	(506)	60,537
Financial assets held at fair value through profit or loss	15, 16	27,084	(8)	27,076
Derivative financial instruments	15, 17	49,496	(1)	49,495
Loans and advances to banks	15, 18	68,380	(584)	67,796
Loans and advances to customers	15, 19	283,885	(4,247)	279,638
Investment securities	15, 21	99,413	(188)	99,225
Other assets	15, 22	28,745	(270)	28,475
Current tax assets		215	-	215
Prepayments and accrued income		2,581	(29)	2,552
Interests in associates and joint ventures	23	953	731	1,684
Goodwill and intangible assets	26	6,954	(167)	6,787
Property, plant and equipment	27	6,646	(26)	6,620
Deferred tax assets	28	691	(15)	676
Total assets		636,086	(5,310)	630,776
Liabilities				
Deposits by banks	15, 29	36,477	(50)	36,427
Customer accounts	15, 30	377,639	(4,765)	372,874
Financial liabilities held at fair value through profit or loss	15, 16	23,064	-	23,064
Derivative financial instruments	15, 17	48,194	-	48,194
Debt securities in issue	15, 31	41,445	-	41,445
Other liabilities	15, 32	24,508	(219)	24,289
Due to Parent Companies		15,096	-	15,096
Current tax liabilities		1,208	(3)	1,205
Accruals and deferred income		4,611	(49)	4,562
Subordinated liabilities and other borrowed funds	15, 33	23,084	(211)	22,873
Deferred tax liabilities	28	161	-	161
Provisions for liabilities and charges	34	215	-	215
Retirement benefit obligations	35	504	(13)	491
Total liabilities		596,206	(5,310)	590,896
Equity				
Share capital	36	12,054	-	12,054
Reserves		24,245	-	24,245
Total parent company shareholders' equity		36,299	-	36,299
Non-controlling interests	37	3,581	-	3,581
Total equity		39,880	-	39,880
Total equity and liabilities		636,086	(5,310)	630,776

46 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		6,786	(25)	6,761
Adjustments for:				
Non-cash items and other adjustments included within income statement	39	2,395	135	2,530
Change in operating assets	39	(15,846)	7,294	(8,552)
Change in operating liabilities	39	26,735	(7,446)	19,289
Contributions to defined benefit schemes		(204)	1	(203)
UK and overseas taxes paid		(1,700)	24	(1,676)
Net cash from operating activities		18,166	(17)	18,149
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	21	(157,325)	442	(156,883)
Disposal and maturity of investment securities	21	145,905	(578)	145,327
Dividends received from investment in subsidiaries, associates and joint ventures	23	14	-	14
Net cash used in investing activities		(11,442)	(130)	(11,572)
Net cash flows from financing activities				
Interest paid on subordinated liabilities		(739)	(118)	(857)
Gross proceeds from issue of subordinated liabilities		4,978	-	4,978
Repayment of subordinated liabilities		(1,667)	-	(1,667)
Interest paid on senior debts		(61)	-	(61)
Gross proceeds from issue of senior debts		8,542	-	8,542
Repayment of senior debts		(5,938)	-	(5,938)
Dividends paid to non-controlling interests and preference shareholders, net of scrip		(356)	(1)	(357)
Dividends paid to ordinary shareholders, net of scrip		(1,373)	1	(1,372)
Net cash from financing activities		3,386	(118)	3,268
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	40	80,600	(1,082)	79,518

46 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	11,791	-	18,993	(181)	(107)	-	(288)	7,021	11,684	-	18,705
Operating expenses	(4,726)	(6,008)	(174)	(10,908)	126	48	-	174	(4,600)	(5,960)	(174)	(10,734)
Operating profit before impairment losses and taxation	2,476	5,783	(174)	8,085	(55)	(59)	-	(114)	2,421	5,724	(174)	7,971
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	1,775	5,139	(128)	6,786	(30)	51	(46)	(25)	1,745	5,190	(174)	6,761
Total assets employed	143,133	491,094	1,859	636,086	(4,453)	(6,676)	5,819	(5,310)	138,680	484,418	7,678	630,776
Total liabilities employed	191,297	403,540	1,369	596,206	(3,568)	(1,739)	(3)	(5,310)	187,729	401,801	1,366	590,896

Reclassification of financial liabilities

	As reported 2012			Restatements 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

47. Related party transactions

The ultimate parent company of the Group is Standard Chartered PLC, a company registered in England and Wales, and the immediate parent company is Standard Chartered Holdings Limited. The consolidated financial statements of Standard Chartered PLC are available at the registered address located at 1 Basinghall Avenue, London, EC2V 5DD, England.

Directors and officers

Details of directors' remuneration and interests in shares are disclosed in note 14 Remuneration of Directors.

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises non-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 the 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 values 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 Hong Kong Stock Exchange (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 disclosure, the term 'Officers' means the members of the Executive Management Group, other than those who were directors of Standard Chartered Bank, and the Company Secretary

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

Group

	2013				2012			
	Due from/to subsidiary undertakings and other related parties $million	Derivatives $million	Subordinated liabilities and other borrowed funds $million	Accruals $million	Due from/to subsidiary undertakings and other related parties $million	Derivatives $million	Subordinated liabilities and other borrowed funds $million	Accruals $million
Assets								
Ultimate parent company	**31**	**359**	**-**	**-**	23	-	-	-
Fellow subsidiaries of								
Joint ventures	**31**	**-**	**-**	**-**	18	-	-	-
	62	**359**	**-**	**-**	41	-	-	-
Liabilities								
Ultimate parent company	**14,402**	**1,053**	**920**	**62**	14,717	1,002	288	76
Fellow subsidiaries of								
SC PLC Group	**-**	**-**	**-**	**-**	303	-	-	-
Joint ventures	**31**	**-**	**-**	**-**	23	-	-	-
	14,433	**1,053**	**920**	**62**	15,043	1,002	288	76

	2013		2012	
	Interest expense $million	Dividend expense $million	Interest expense $million	Dividend expense $million
Ultimate parent company	**663**	**1,839**	510	1,372
	663	**1,839**	510	1,372

47. Related party transactions continued

Group continued

Several inter-company balances were settled in cash during the year. The asset due from the ultimate parent company relates to the partial rebate of the license value as explained below.

In 2006, SC PLC licensed intellectual property rights related to its main brands to an indirect wholly owned subsidiary of the Company, Standard Chartered Strategic Brand Management. In 2009, SC PLC transferred part of the intellectual property rights to the Company for $1. The intangible asset is held on SCSBM's and the Company's balance sheet and amortised to the income statement over the term of the licence. At 31 December 2013 $36 million (2012: $54 million) has been included as intangible asset in the Group's balance sheet in relation to this licence.

The Group contributes to employee pension funds and provides banking services free of charge to the UK fund. For details of the funds see note 35.

The Group's employees participate in the Standard Chartered PLC group's share based compensation plans (see note 38). The cost of the compensation is recharged from SC PLC to the Group's branches and subsidiaries. As at 31 December 2013, Standard Chartered Bank had created a charge over $60 million (2012: $43 million) of cash assets in favour of the independent trustee of its employer financed retirement benefit scheme.

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).

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 $nil million and $20 million respectively at 31 December 2013 (2012: $21 million and $16 million respectively).

Company

	2013				2012			
	Due from/to subsidiary undertakings and other related parties $million	Derivatives $million	Subordinated liabilities and other borrowed funds $million	Accruals $million	Due from/to subsidiary undertakings and other related parties $million	Derivatives $million	Subordinated liabilities and other borrowed funds $million	Accruals $million
Assets								
Ultimate parent company	95	346	-	1	23	-	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	17,379	4,454	-	45	17,933	3,752	-	58
Joint ventures	-	-	-	-	18	-	-	-
	17,474	4,800	-	46	17,974	3,752	-	58
Liabilities								
Ultimate parent company	15,877	1,053	289	124	14,717	1,002	288	76
Subsidiaries and fellow subsidiaries of SC PLC Group	17,079	3,774	-	16	24,387	3,233	-	45
Joint ventures	-	-	-	-	23	-	-	-
	32,956	4,827	289	140	39,127	4,235	288	121

47. Related party transactions continued

Company continued

	2013					
	Fees and commission income $million	Fees and commission expense $million	Interest income $million	Interest expense $million	Dividend income $million	Dividend expense $million
Ultimate parent company	-	-	-	663	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	2	51	281	188	-	-
	2	51	281	851	-	-

	2012					
	Fees and commission income $million	Fees and commission expense $million	Interest income $million	Interest expense $million	Dividend income $million	Dividend expense $million
Ultimate parent company	-	-	-	510	-	-
Subsidiaries and fellow subsidiaries of SC PLC Group	115	135	146	91	-	-
Joint ventures	-	-	5	-	-	-
	115	135	151	601	-	-

As at 31 December 2013, the Company had created a charge over $60 million (2012: $43 million) of cash assets in favour of the independent trustee of its employer financed retirement benefit scheme.

The Company has provided a letter of support to its subsidiary undertaking Standard Chartered Overseas Holdings Limited.

The Company contributes to employee pension funds and provides banking services free of charge to the UK fund. For details of the funds see note 35.

In the normal course of business the Company has guaranteed credit risk on credit exposures to customers of certain subsidiaries of $nil million (2012: $nil million).

The Company has entered into risk participation agreements with its subsidiary undertakings which transferred exposures of $312 million (2012: $379 million).

As at 31 December 2013 the Company holds debt securities issued by subsidiary undertakings of $1,299 million (2012: $762 million) and has issued debt securities to subsidiary undertakings of $551 million (2012: $0.1 million).

The Company's employees participate in the Standard Chartered PLC group's share based compensation plans (see notes 1 and 38).

The Company has an agreement with Standard Chartered PLC that in the event of the Company defaulting on its debt coupon interest payments, where the terms of such debt requires it, Standard Chartered PLC shall issue shares as settlement for non-payment of the coupon interest.

Joint ventures
The Company 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).

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 Financial Services Authority (FSA).
Core Tier 1 Capital ratio	**Core Tier 1 capital** as a percentage of risk weighted assets.
Cost to income ratio	Represents the proportion of total operating expenses to total operating income.
Cover ratio	Represents the extent to which **non-performing loans** are covered by **impairment allowances**.
Covered bonds	Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds.
Credit Conversion Factor (CCF)	CCF is an internally modelled parameter based on historical experience to determine the amount that is expected to be further drawn down from the undrawn portion in a committed facility.

Glossary continued

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.

Glossary continued

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 not having the necessary historical market data.
Risk weighted assets	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the FSA.
Seasoning	The emergence of credit loss patterns in portfolio over time.
Secured (fully and partially)	A secured loan is a loan in which the borrower pledges an asset as collateral for a loan which, in the event that the borrower defaults, the Group is able to take possession of. All secured loans are considered fully secured if the fair value of the collateral is equal to or greater than the loan at the time of origination. All other secured loans are considered to be partly secured.
Securitisation	Securitisation is a process by which debt instruments are aggregated into a pool, which is used to back new securities. A company sells assets to a **structured entity (SE)** 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.

Glossary continued

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.

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