Standard
Chartered
Here for good

Driving investment, trade and the creation of wealth across Asia, Africa and the Middle East

About us

We are a leading international banking group, with more than 86,000 employees and a 150-year history in some of the world's most dynamic markets. We bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East, where we earn around 90 per cent of our income and profits. Our heritage and values are expressed in our brand promise, Here for good.

Standard Chartered PLC is listed on the London and Hong Kong Stock Exchanges as well as the Bombay and National Stock Exchanges in India.

For more information please visit www.sc.com

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Enhancing our reporting

In line with the UK's new reporting legislation, we have made some changes to this year's annual report to give readers a clearer picture of our performance, business model and strategy.

Notably, we have introduced a strategic report (pages 2 to 61) which brings together all of the most relevant information for our shareholders. Elsewhere, we have expanded the Risk review, incorporating recommendations from the Enhanced Disclosure Task Force, and provided more information on our directors' pay. To make it easier for readers to navigate our annual report, we have included more linkages between sections.

We hope you find these enhancements useful and informative.

Content symbols

Further information is available where you see these icons.

📄 Additional information can be found within the report.

🖥 More information is available online.

Cover: Marina Bay Financial Centre, Singapore

Strategic report
2-61

Risk review
62-135

Corporate governance
136-222

Financial statements and notes
224-313

Supplementary information
312-340

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

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

Standard Chartered PLC is headquartered in London where it is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. The Group's head office provides guidance on governance and regulatory standards. Standard Chartered PLC stock code: 02888.

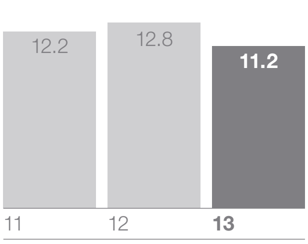
Performance highlights

Resilient performance

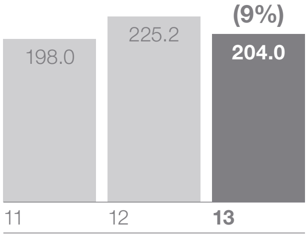
Financial highlights

Group performance

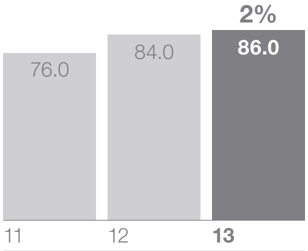
Normalised return on equity[1]
%



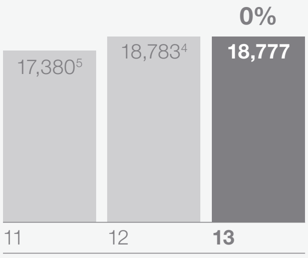
Normalised earnings per share[1]
cents



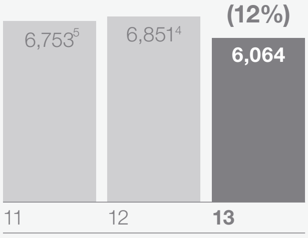
Dividend per share[2]
cents



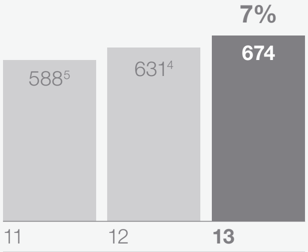
Operating income[3]
$m



Profit before taxation[3]
$m

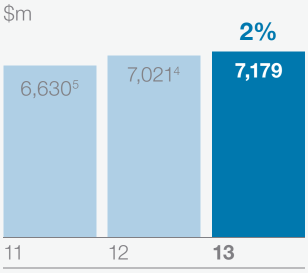


Total assets
$bn

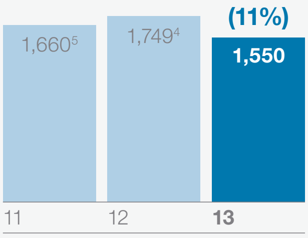


Consumer Banking

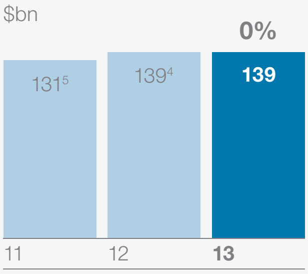
Consumer Banking operating income
$m



Consumer Banking profit before taxation
$m

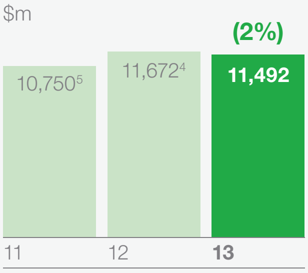


Consumer Banking total assets
$bn

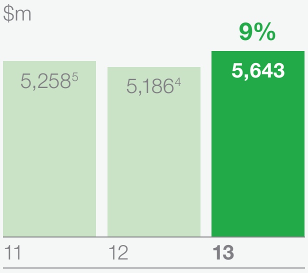


Wholesale Banking

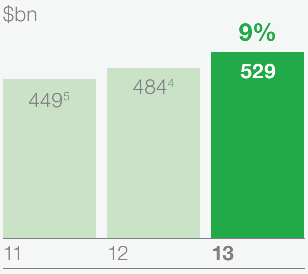
Wholesale Banking operating income
$m



Wholesale Banking profit before taxation
$m



Wholesale Banking total assets
$bn



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[1] Standard Chartered uses non generally accepted accounting principles (GAAP) measures, where these are not defined under International Financial Reporting Standards (IFRS) or they have been adjusted. Normalised earnings are defined in the Glossary on page 334 and in note 14 to the financial statements

[2] Represents the recommended final dividend per share for the respective years together with the interim dividend per share declared and paid in those years. Further details are set out in note 13 to the financial statements

[3] Operating income in 2013 includes a credit of $106 million relating to own credit adjustment (OCA). Profit before taxation for 2013 includes OCA and a goodwill impairment of $1 billion. 2012 includes a charge of $667 million in respect of the settlements with the US authorities. The US authorities comprise The New York Department of Financial Services (DFS), the Office of Foreign Assets Control (OFAC), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Federal Reserve (NYFED)

[4] Amounts have been restated as explained in note 43 to the financial statements

[5] Amounts have been restated for the impact of using the equity method of accounting for joint ventures and for the allocation of associates and joint ventures to Consumer Banking and Wholesale Banking

Operational overview

Strong foundations

Operational highlights in 2013

- Broad-based performance across multiple markets, with operating income of over $100 million in 25 markets
- Resilient client income, with strong increases in customer volumes in Transaction Banking, Financial Markets and Corporate Finance, partially offset margin and spread compression
- Hong Kong, our largest market, grew income 11 per cent and operating profit 16 per cent
- The Group was the number one global underwriter of offshore renminbi (RMB) bonds and partnered Agricultural Bank of China to provide RMB clearing services in London
- Reopened in Myanmar, subsidiarised our retail operations in Singapore and acquired a custody business in South Africa
- The balance sheet continues to be strongly capitalised, highly liquid and well diversified

Non-financial highlights

Employees

86,640

2012: 89,058 **2011:** 86,865

Nationalities

132

2012: 127 **2011:** 130

Markets

70

2012: 68 **2011:** 71

Chairman's statement

Well positioned to drive further value for shareholders

Sir John Peace
Chairman

> "The business has grown substantially over the last decade and we continue to view Standard Chartered as an exciting growth story. We will continue to support the growth of trade and wealth across our markets and drive value for shareholders."

Key highlights

Normalised earnings per share

204.0 cents

2012: 225.2 cents

Dividend per share

86.00 cents

2012: 84.00 cents

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

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

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

Our annual strategy review in 2013 confirmed that we are in markets with good opportunities for profitable growth. The new organisation structure, which we announced in January 2014, will ensure that the Group is best placed to take advantage of these opportunities, by supporting clients and customers in a more seamless way, providing them with access to a broad range of products and services. The Group Chief Executive's review on pages 6 to 11 provides further detail on our strategy.

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

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

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

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

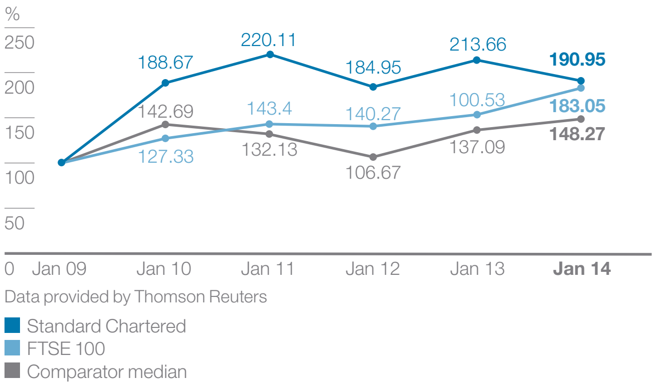
When we announced the reorganisation of the Group in January 2014, we set out a few Board level changes. Steve Bertamini will step down from the Board at the end of March 2014, after more than five years leading Consumer Banking. I would like to thank Steve for the very considerable contribution he has made to the business over that time and wish him every success in the future. By the end of June 2014, we will also be saying farewell to Richard Meddings who has been on our Board for 11 years. Richard's contribution to the business has been immense, and he will be greatly missed. Finally, I would like to take this opportunity to congratulate Mike Rees as he takes up his new role as Deputy Group Chief Executive on 1 April 2014. Further information about our Board level changes is provided in Corporate governance on pages 144 to 175.

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

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

Sir John Peace
Chairman
5 March 2014

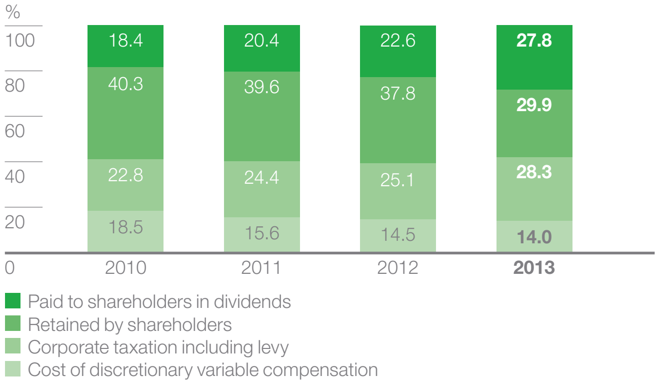
Percentage change in TSR[1] over a five-year period



Data provided by Thomson Reuters

[1] Total shareholder return

Allocation of the Group's earnings between stakeholders



Group Chief Executive's review

2013 was a challenging year

Peter Sands
Group Chief Executive

> "2013 was not a great year. We are making changes to adapt to the new realities. We have a strong balance sheet, great client relationships and superb capabilities."

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

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

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

Opportunities in our markets

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

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

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

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

Challenges in our markets

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

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

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

Some of the countries in our footprint are being directly challenged by the impact of the tapering of quantitative easing on currency and bond markets. Underlying structural weaknesses have been exposed by the shift in sentiment. However, in terms of foreign exchange reserves, and the ability to finance balance of payments deficits, countries like India and Indonesia are in a far better place than they were at the time of the Asian financial crisis in the late 1990s.

Broader challenges

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

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

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

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

Group Chief Executive's review continued

Sharpening our strategic focus

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

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

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

- Five strategic aspirations that flesh out how we will grow the core
- Five tests that we are applying to more peripheral businesses to ensure we reinforce the core
- A significant reorganisation of our regions, business and functions, to ensure alignment to the strategy and streamline the way we work
- Our 'flexed' financial framework, which now comprises five metrics, including both positive jaws and capital accretion. We will use this to explain our performance and ensure that we are balancing the imperatives of near-term delivery against longer-term strategic progress
- Finally, our five priorities for 2014. These are used to set personal and team objectives across the Group, ensuring that everybody is marching to the same tune

Client relationships

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

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

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

Wealth

The scale of the Private Banking opportunity across our markets is enormous. Today there is some $10 trillion of assets under management (AUM) from high net worth individuals in Asia, Africa and the Middle East. By 2017, this number will more than double. We start with a very good platform, with $58 billion in AUM, good product capabilities, experienced relationship managers and a network of advisory and booking centres. However, we can scale up and enhance our offer, making more effective use of our client franchise and network. A great example is the Africa to London corridor, which we are superbly positioned to serve, given our extensive African footprint and London advisory and booking centre.

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

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

Trade

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

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

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

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

Group Chief Executive's review continued

Korea

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

Against this, one positive factor was the continued strength of our network income relating to Korean clients, a significant and growing revenue stream of over $200 million.

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

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

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

Our financial framework

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

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

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

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

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

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

Our 2014 priorities

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

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

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

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

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

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

Outlook

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

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

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

Finally, I would like to thank our investors for their support through these turbulent times.

Peter Sands
Group Chief Executive
5 March 2014

Our strategy
What guides us

In 2013, we undertook a review of our strategy, resulting in new wording of our ambition, a refreshed description of our strategy and new aspirations. These changes were announced in November 2013 and are included below. For details on how our strategy relates to our KPIs, see pages 14 and 15.

Our ambition

The world's best international bank

Our strategy

We bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East

Our brand promise

Here for good

Our aspirations

Relationships
Build trusted relationships with the people, companies and institutions shaping our markets' future

Investment
Play a leading role in facilitating investment and deepening financial markets

Trade
Become the undisputed leader in commercial payments and financing for and in Asia, Africa and the Middle East

Wealth
Be recognised as a leader in growing and protecting our clients' wealth

Relevant scale
Establish sufficient scale and balance sheet and franchise strength to be relevant and influential in our key markets

Our values

Courageous
We take measured risks and stand up for what is right

Responsive
We deliver relevant, timely solutions for clients and customers

International
We value diversity and collaborate across the network

Creative
We innovate and adapt, continuously improving the way we work

Trustworthy
We are reliable, open and honest

Our commitments

Colleagues
A great place to work, enabling individuals to grow and teams to win

Society
A force for good, promoting sustainable economic and social development

Investors
A distinctive investment, delivering consistently superior performance via disciplined growth

Regulators
A responsible partner with exemplary governance and ethics

Our business model

How we create value

On 9 January 2014, we announced a reorganisation of our business, effective from 1 April 2014. The Group's two businesses, Wholesale Banking and Consumer Banking, will be integrated to form one business, organised into three client segment groups and serviced by five global product groups. These changes will be reflected in our next annual report.

For more information see investors.sc.com

Our geographies

We operate in 70 markets with a focus on Asia, Africa and the Middle East

Across our markets, we use our network and collaborate as one bank to serve our clients and customers

Our activities

We manage savings and cash and facilitate transactions

Deposits
We help customers manage their savings and cash and make transactions

Wealth management
We help people grow and protect their wealth to meet long-term needs

SME Banking
We help SMEs do business by managing their cash, payments and collections

Transaction Banking – Cash and Custody
We help companies do business by managing their cash, transactions and securities holdings

Consumer Banking

Individuals
- Personal and Preferred Banking customers
- Priority and International Banking customers
- Private Banking customers

Small and Medium-sized Enterprises (SMEs)

Wholesale Banking

Global Corporates
Large multinational corporations

Local Corporates
Corporations that operate mainly in their home market

Financial Institutions
Banks and other financial institutions

Commodity Traders and Agribusiness
Commodity traders, producers and processors

We supply funds for productive uses, facilitate trade and provide advice

Cards, Personal Loans and Unsecured Lending
We help customers finance their needs at various life stages

Mortgages and Auto Finance
We supply credit to help people buy homes and vehicles

SME Banking
We help SMEs to set up, trade and expand

Lending and portfolio management
We provide finance to help businesses grow

Transaction Banking – Trade
We facilitate cross-border trade, by providing companies with finance and transactional services

Financial Markets
We help clients invest, manage their risks and raise debt capital

Corporate Finance
We support clients with strategic advice and solutions, including for mergers and acquisitions and raising equity finance

Principal Finance
We make equity investments to supply businesses with the capital they need to grow

Islamic Banking
Under our 'Saadiq' brand, we offer people and businesses in a number of our markets the choice to bank in accordance with their faith by giving them access to a wide range of Shariah-compliant banking products and services

Our enablers

Finance
Measuring and managing financial performance

Human Resources
Acquiring, developing and retaining talent

Technology and Operations
Providing the infrastructure and support for the Group to effectively and efficiently carry out its activities

Risk
Upholding the overall integrity of the Group's risk/return decisions; ensuring that risks are assessed and controlled in accordance with the Group's standards and risk appetite

Compliance
Ensuring the Group's activities and conduct comply with legal and regulatory requirements

Treasury
Managing the Group's capital and liquidity, including ensuring we meet regulatory requirements and have sufficient capacity to absorb losses

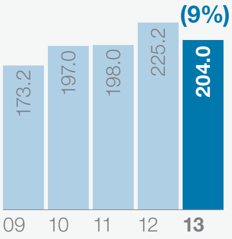
Other central support functions
- Corporate Real Estate
- Strategy
- Corporate Development
- Corporate Affairs
- Legal
- Audit
- Corporate Secretariat
- Research

Key performance indicators
Delivering value to shareholders, clients and customers

1

Deliver consistently superior performance via disciplined growth[1]

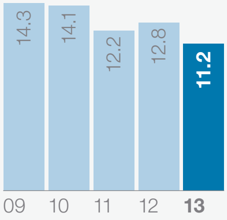
Normalised earnings per share
cents



Aim
To deliver double-digit earnings per share (EPS) growth.

Analysis
Resilient performance in a challenging environment.

Normalised return on shareholders' equity
%



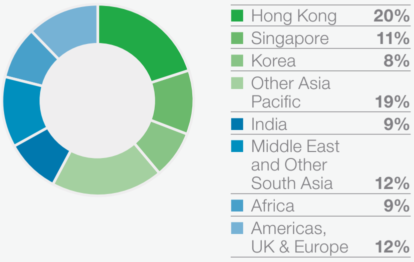
Aim
To deliver mid-teens returns over the medium term while balancing the long-term objective of having strong yet efficient levels of capital.

Analysis
The normalised return on equity reduced to 11.2 per cent, as profits declined.

2

Focus on Asia, Africa and the Middle East

Operating income by region in 2013[2]



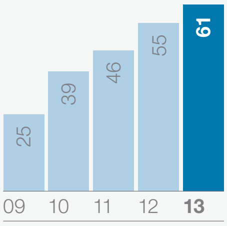
Aim
To deliver diversified income streams across our footprint.

Analysis
Our income stream remains highly diversified with 25 markets delivering over $100 million of income.

3

Build trusted relationships with clients and customers

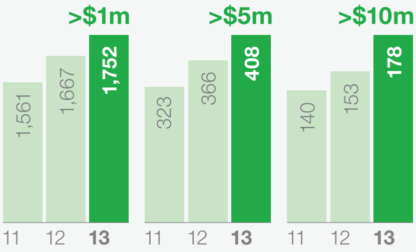
Consumer Banking
Net Promoter Score (NPS) Index[3]



Aim
To increase customer satisfaction with our products and services and to become the bank that customers recommend.

Analysis
Our global NPS is up 1 point from 55 to 56.

Wholesale Banking
Core bank – number of client relationships



Aim
To continue to grow the total number of client relationships that deliver income in excess of $1 million, $5 million and $10 million.

Analysis
We have consistently grown the number of leading clients that generate income in excess of $1 million, $5 million and $10 million per year, demonstrating our strong and consistent progress in delivering our Wholesale Banking strategy to become the core bank to more clients.

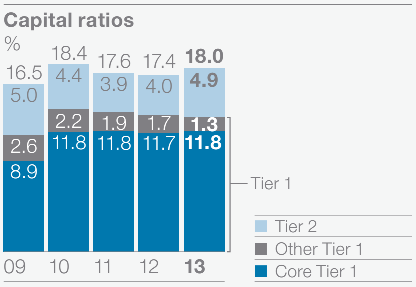
[1] We have removed the previously reported KPI on operating income growth to better align the KPIs with our sharpened strategic focus

[2] Operating income in 2013 includes a benefit of $106 million relating to own credit adjustment (OCA)

[3] 'Net Promoter Score' and 'NPS' are trademarks of Satmetrix Systems Inc., Bain & Company, and Fred Reichheld. Standard Chartered uses Bain methodology recalibrated for financial services to calculate NPS. NPS scores provided are for the fourth quarter. Previous reports are based on third-quarter data

4

Maintain balance sheet strength to support our aspirations

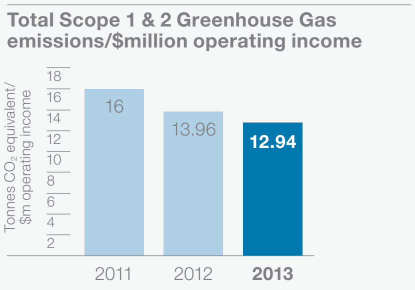


Aim
To maintain a strong capital base, with an increasing emphasis on Core Tier 1 capital.

Analysis
Core Tier 1 ratio for 2013 was 11.8 per cent and total Tier 1 was 13.1 per cent. The Group's capital position continues to be strong with good levels of organic equity generation, positioning us well for future changes as the regulatory environment continues to evolve.

5

Protect the environment, promoting sustainable economic and social development



Aim
To improve energy efficiency across our markets.

Analysis
Achieved better energy efficiency relative to revenue for the past three years.

Note
The emissions within our inventory, arising from our energy use, correspond to a reporting period of 1 October to 30 September to allow sufficient time for independent assurance to be gained. Accordingly, the operating income used in this inventory corresponds to the same period rather than calendar year used in financial reporting, but this is consistent with international carbon reporting practice.

Normalised earnings per share
This KPI is calculated as profit attributable to ordinary shareholders of the Group as normalised for certain one-off or irregular items, divided by the weighted average of the shares in issue during the year.
Source: *This measure is reported in note 14 of the Group's audited financial statements.*

Normalised return on shareholders' equity
This KPI is calculated as the normalised profit attributable to ordinary shareholders as a percentage of average ordinary shareholders' equity.
Source: *This measure is derived from information within the Group's audited financial statements, being normalised earnings (note 14) as a percentage of average shareholders' equity (excluding preference shares).*

Operating income by region
Source: *This information is discussed in note 2 to the financial statements.*

Consumer Banking
Net Promoter Score (NPS) Index
NPS gauges customer support for the Consumer Banking products and services we provide. We ask our customers "How likely are you to recommend Standard Chartered to a friend or colleague?" and apply a 10 point scale where one is not likely at all and 10 is most likely. We then derive the NPS by subtracting the percentage of detractors (those who score one to five) from the percentage of promoters (those who score eight to 10). It operates on a scale from –100 (all detractors) to +100 (all promoters).
Source: *Market Probe Customer Satisfaction Survey (20 markets on average each year). The survey uses interviews completed in 2013.*

Wholesale Banking
Core bank – number of client relationships
The metric charts our progress towards becoming the core bank to more clients by measuring the number of client relationships where total global income exceeds the threshold amount. The bar chart displays solid growth and the deepening of client relationships year after year.
Source: *Standard Chartered client income.*

Capital ratios
The components of the Group's capital are summarised on pages 131 and 132. The Tier ratios are measured by the ratio of respective capital to risk-weighted assets.
Source: *This measure is reported in the Capital section on pages 128 to 135.*

HR KPI
Use of the Q[12] employee engagement survey, carried out by The Gallup Organisation, as a KPI ceased at the end of 2012. After 12 years of sustained success, 2013 was the right time to begin developing a new approach, better aligned to our future business priorities. This will be launched in 2014 and we will report on our performance against the new KPI in our Annual Report and Accounts for 2014.

Overview of risk

Our risk profile is in line with our strategy

The Group has a defined risk appetite, approved by the Board, 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. It is consistent with our business model and the core business activities we undertake in the markets in which we operate. 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 approach to risk management are set out in the Risk review on pages 64 to 127.

Risk profile

Highly diversified and short tenor portfolio	▪ We have a well-diversified portfolio of loans and advances and income streams across geographies, industry sectors and products; no individual country accounts for more than 21 per cent of our loans and advances to customers or operating income ▪ In Consumer Banking 73 per cent of assets are secured and the average loan-to-value ratio on our mortgage portfolio is less than 48 per cent ▪ In Wholesale Banking 64 per cent of loans and advances are short term and we hold a diverse mix of collateral, valued conservatively	▪ 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 ▪ We have low exposure to asset classes outside our core markets and customer base; our exposure to commercial real estate, Asset Backed Securities and leveraged loans is non-material from a Group perspective ▪ Our asset quality remains good
Strong capital and liquidity position	▪ We remain well capitalised and our balance sheet remains highly liquid ▪ We have a strong advances-to-deposits ratio ▪ We remain a net provider of liquidity to interbank markets	▪ Our customer deposit base is diversified by type and maturity ▪ We have a substantial portfolio of liquid assets which can be realised if a liquidity stress occurs
Robust risk governance structure and experienced senior team	▪ We have a clear statement of risk appetite which is aligned to the Group's strategy; it is approved by the Board and informs the more granular risk parameters within which our businesses operate ▪ We continuously monitor our risk profile to ensure it remains within our risk appetite and regularly conduct stress tests ▪ We review and adjust our exposures, underwriting standards and limits in response to observed and anticipated changes in the external environment and expectations	▪ We have a very experienced senior risk team and our risk committees are staffed by the Group's most senior leaders ▪ We have a robust risk management framework that assigns accountability and responsibility for the management and control of risk ▪ We maintain a consistent and highly selective approach to large corporate credit underwriting

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

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

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

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

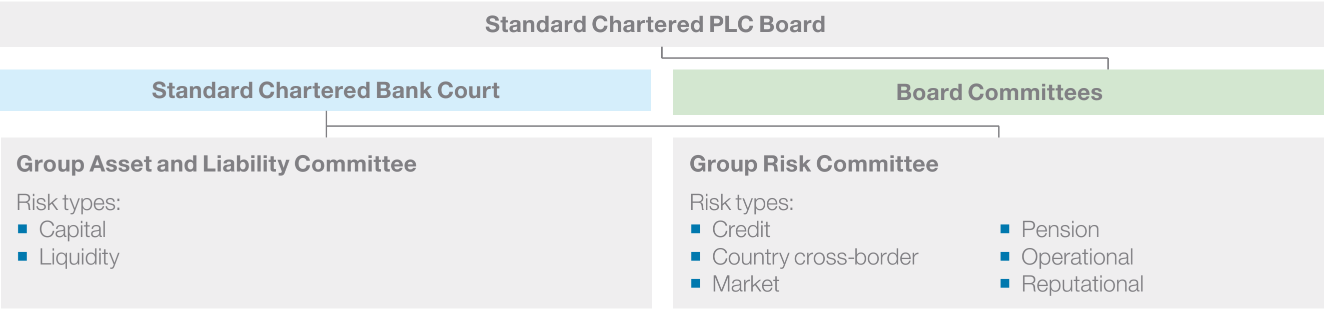
The Court is the highest executive body of the Group and its terms of reference are approved by the Board of Standard Chartered PLC. The Court delegates authority for the management of risk to the GRC and the GALCO.

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

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

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

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



Standard Chartered PLC Board

Standard Chartered Bank Court

Board Committees

Group Asset and Liability Committee

Risk types:
- Capital
- Liquidity

Group Risk Committee

Risk types:
- Credit
- Country cross-border
- Market
- Pension
- Operational
- Reputational

Overview of risk continued

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 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 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 geographic coverage.

Our primary risk types are set out in the accompanying table, 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 See page 72	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 See page 109	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 See page 110	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 See page 115	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 See page 123	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 See page 125	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 See page 125	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 See page 128	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

Overview of risk continued

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 are and may be subject to regulatory reviews and investigations by governmental and regulatory bodies, including in relation to US sanctions compliance and anti-money laundering controls ▪ 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

Risk	Description	Mitigants
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 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 assess carefully the performance of our financial institution counterparties, rate them internally according to their systemic importance and adjust our exposure accordingly ■ We maintain robust processes to assess the suitability and appropriateness of products and services we provide to our clients and customers
Geo-political 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 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 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

Our approach to governance

Exemplary governance is key to our long-term success, enabling us to deliver sustainable shareholder value

Our approach to governance

'Governance' is the framework of systems, processes and controls used to ensure the effective management of the Group.

We have an integrated approach to governance which is applicable to both our subsidiaries and our branches. This ensures that the Group is effectively managed and controlled, in line with our strategy, in keeping with our values and culture, and with regard to the requirements of our key stakeholders. In addition to customers and clients, these key stakeholders include governments, regulators, shareholders, employees and the communities in which we operate.

The Group operates in a diverse range of countries with inherent differences in revenues, size of balance sheet, complexity of products, clients, operating environment, branch distribution and corporate structure. Our robust approach to governance combines consistent globally applied policies, procedures and standards across the Group's multiple locations, businesses, functions and legal entities. These are subject only to variations in local laws and regulations and are delivered within a culture of transparency, accountability and collaboration. The Group's approach to governance is underpinned by the legal and regulatory framework in each of the countries in which we operate.

Exemplary standards of governance are crucial to our success and ultimately depend as much on behaviour as on structure and process. It is the responsibility of all of our employees to be responsive and vigilant to ensure compliance with both the letter and spirit of our governance framework. At Standard Chartered, each and every employee is expected to live the Group's brand promise, Here for good, and to build on a culture which is open and challenging yet cohesive and collaborative. We take care to ensure that all employees have and demonstrate the necessary skills, values and experience commensurate with their responsibilities. We place as much emphasis on the way employees behave as on what they deliver.

Corporate governance

Exemplary corporate governance is essential for delivering sustainable shareholder value and, as a leading international bank, we are at the forefront of corporate governance practices. We believe that simply complying with written corporate governance standards is not enough. It is vital for companies to have an underlying culture with behaviours and values that support effective corporate governance.

While being mindful of the need to avoid restricting the autonomy of the Group's subsidiaries, we have focused on ensuring we have processes and mechanisms in place so that issues being raised at subsidiary level are adequately considered at Group level and vice versa.

Further details concerning our approach to corporate governance disclosures can be found on page 146.

Who is on our Board

The Board has been evolving in 2013 as part of our multi-year Board succession plan (the 'Plan'). In line with the Plan, during 2013 we were at the height of our transition phase, balancing longevity with new joiners to our Board. As at 5 March 2014 there are 21 directors on the Board. However by the end of May 2014 we will have 18 Board members: the Chairman, five executive directors and 12 independent non-executive directors. A further non-executive director will step down during the course of 2014.

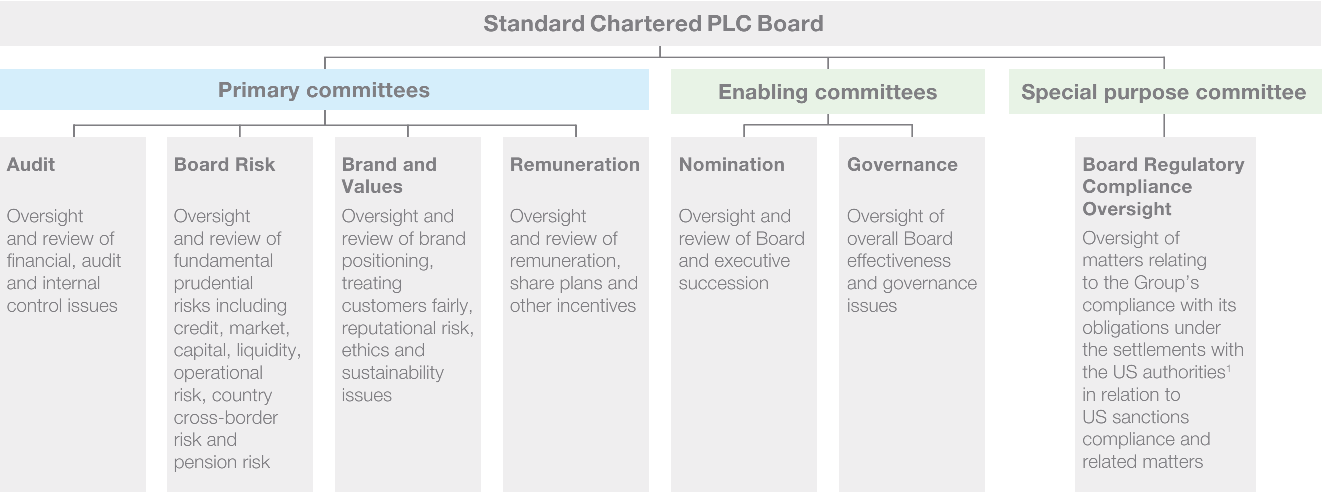
A list of individual directors and their biographies are set out on pages 138 to 142.

The Board and its committees

The Board delegates certain responsibilities to its committees to assist it in carrying out its function of ensuring independent oversight. With the exception of the Board Regulatory Compliance Oversight Committee and the Governance Committee, which has both executive and non-executive membership, the board committees are made up of independent non-executive directors and play a key role in supporting the Board.

An overview of the activities of the Board and its committees can be found on pages 144 to 175.

Group Board committee structure



Standard Chartered PLC Board

Primary committees

Audit
Oversight and review of financial, audit and internal control issues

Board Risk
Oversight and review of fundamental prudential risks including credit, market, capital, liquidity, operational risk, country cross-border risk and pension risk

Brand and Values
Oversight and review of brand positioning, treating customers fairly, reputational risk, ethics and sustainability issues

Remuneration
Oversight and review of remuneration, share plans and other incentives

Enabling committees

Nomination
Oversight and review of Board and executive succession

Governance
Oversight of overall Board effectiveness and governance issues

Special purpose committee

Board Regulatory Compliance Oversight
Oversight of matters relating to the Group's compliance with its obligations under the settlements with the US authorities[1] in relation to US sanctions compliance and related matters

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[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)

Overview of directors' remuneration

Committed to long-term shareholder value

In this extract from the Directors' remuneration report we summarise the principles of our remuneration policy, the impact of the external environment on remuneration, the 2013 remuneration decisions and changes to the directors' remuneration policy for 2014.

More detail can be found in the full Directors' remuneration report on pages 176 to 212.

The principles of our remuneration policy

Our approach to performance, reward and benefits supports and drives our business strategy and reinforces our values in the context of a clearly articulated risk appetite.

Our approach:

- Supports a strong performance-oriented culture, ensuring that individual reward and incentives relate directly to i) the performance and behaviour of the individual; ii) the performance of the business; and iii) the interests of shareholders
- Ensures a competitive reward package that reflects our international nature and enables us to attract, retain and motivate our employees
- Reflects the fact that many of our employees bring international experience and expertise and that we recruit from a global marketplace
- Encourages an appropriate mix of fixed and variable compensation based on i) the individual's responsibility; and ii) the individual's risk profile and that of the business

The impact of the external environment on remuneration

2013 has seen a number of external factors impacting our overall business, including a turbulent economy and continued regulatory change. In particular the introduction of new rules, as a result of the European Union's Capital Requirements Directive IV (CRD IV), has had a significant impact on the structure of remuneration for executive directors and other employees identified as having a material impact on the Group's risk profile (known as Code Staff). These rules present a number of challenges for the Group. To ensure compliance with the provisions while remaining competitive in terms of attracting and retaining talent across Asia, Africa and the Middle East, we will be seeking approval from shareholders at the Annual General Meeting (AGM) on 8 May 2014 to increase the limit on variable compensation for directors and Code Staff to allow up to two times fixed compensation to be paid in variable compensation. This will enable us to deliver a greater proportion of total compensation in the form of variable compensation and, as a consequence, minimise the impact of this new limit on the Group's fixed costs. It will also enable us to have a larger proportion of total compensation subject to claw back and/or future performance than would be the case if we did not receive approval for the increased limit.

2013 Group variable compensation pool and executive directors' variable compensation

As in previous years, the Remuneration Committee (the Committee) carefully considered the balance of all stakeholders' interests including the value delivered to shareholders before finalising the total variable compensation (TVC) pool. Consequently, the approved TVC pool for 2013 was 15 per cent lower than that approved for 2012, compared with an 11 per cent reduction in reported operating profits.

In the context of the reduction in both profit and the TVC pool, the Committee determined that the starting point for executive directors' TVC awards should be a minimum 20 per cent reduction in TVC year-on-year prior to the consideration of individual and business performance. The Committee believed that, given the leadership role of the executive directors, they should take a disproportionate share in year-on-year reduction relative to the overall decrease in the pool. As a result, the TVC awards for executive directors are 22 per cent lower year on year.

2013 single figure of remuneration for executive directors

Executive directors	Base salary $000	Benefits $000	Annual performance award $000	Performance share award[1] $000	Pension $000	Total $000	Change in total remuneration compared with 2012 %
P A Sands	1,680	225	2,500	1,561	874	6,840	(38)
R H Meddings	1,250	104	1,725	1,063	638	4,780	(33)
S P Bertamini	1,000	1,242	1,250	837	400	4,729	(35)
A M G Rees	1,149	101	6,500	1,244	516	9,510	(35)
J S Bindra	835	987	1,400	747	482	4,451	(30)
V Shankar	871	525	1,490	566	348	3,800	(27)

[1] This is the amount of vested performance shares granted in 2011 as part of each director's 2010 TVC award

Overview of directors' remuneration continued

Assessment of performance

When determining the appropriate TVC award for 2013 performance, the Committee considered financial performance and non-financial performance including control-related matters and progress against the executive management group's collective agenda.

	Assessment of performance in 2013
Financial measures ■ Deliver superior financial performance ■ Double-digit earnings per share growth ■ Mid-teens return on shareholders' equity ■ Deliver diversified income growth	As outlined in the financial highlights section on page 2, performance in 2013 was resilient in a challenging environment. The normalised return on equity reduced to 11.2 per cent, as profits declined. Our income stream remains highly diversified with 25 markets delivering over $100 million of income. The Committee noted that these results needed to be viewed in the context of the challenging market conditions also experienced by our global peers. The Committee concluded that overall the Group 'did not meet expectations' against the financial measures.
Non-financial measures ■ Build long-term, deep relationships with our clients and customers ■ Continue to run our balance sheet conservatively, maintaining a strong capital base ■ Risk and control ■ Prove we are Here for good ■ Innovate and digitise	The key performance indicators on pages 14 to 15 show that significant progress was made in a number of areas. For example: ■ We have consistently grown the number of leading clients that generate income of $1 million, $5 million and $10 million per year ■ The Net Promoter Score, an indication of customer satisfaction of our products and services in Consumer Banking, showed year-on-year improvement ■ The Group's capital position continues to be strong with good levels of organic equity generation. We remain well capitalised and our balance sheet remains highly liquid The Committee noted the status of compliance and risk and control matters, and also considered the progress that had been achieved during the year in relation to the roll out of the new operational risk framework. We supported governments across our footprint in relation to the structure of their financial services industries and established new offices in countries that will enable us to serve the network better. More than 90,300 volunteering days were undertaken by our employees and $6 million was raised for Seeing is Believing. We have become globally recognised for our best-in-class mobile and internet banking services, winning several external awards including the Global Finance 2013 Awards for Best Consumer Internet Bank in: Bangladesh, Brunei, Ghana, Jersey, Kenya, Korea, Pakistan, Singapore, the UAE, Vietnam and Zambia. The Committee concluded that the performance in this category in aggregate 'met expectations'.

Performance against the Group's targets

The performance share award amount in the single figure table is the conditional share award granted in 2011 as part of each directors' 2010 TVC. Vesting was dependent on performance over the three financial years ended on 31 December 2013 and continued service until 31 May 2014. The performance against the targets is shown in the table below.

Performance measure	Target (30% vesting)	Maximum (100% vesting)	Actual	Percentage of maximum achieved
Total shareholder return (one-third weighting)	Median	Equal to or above fifth	Between 16th and 17th place	0%
Earnings per share (one-third weighting)	15%	30%	3.55%	0%
Return on risk-weighted assets (one-third weighting)	1.5%	1.7%	1.76%	100%
Total				33%

Directors’ remuneration policy for 2014

Set out below are the changes to the policy on directors’ remuneration from that implemented in 2013, which if approved by shareholders at the AGM on 8 May 2014 will be effective from that date with the exception of Peter Sands and Mike Rees’ base salary changes. It is intended to apply for three years to the conclusion of the AGM in 2017. In summary, we are proposing longer deferrals, higher shareholding requirements, all variable compensation to be delivered in shares and a fixed pay allowance to be delivered in the form of shares retained for up to five years.

<table>
<tr><th>Element</th><th>Operation</th><th>2014 approach</th><th>Changes compared to 2013</th></tr>
<tr><td>Base salary</td><td>No change</td><td>P A Sands: £1,120,000
A M G Rees: £975,000</td><td>Peter Sands’ salary increased from £1,075,000 as part of a market competitiveness review
Mike Rees’ salary increased from £735,000 to reflect his new role and responsibilities
No other executive directors will receive an increase in 2014</td></tr>
<tr><td>Fixed pay allowance[1]</td><td>Introduction of a fixed pay allowance delivered in shares, released over five years</td><td>P A Sands: $1,100,000
R H Meddings: None
S P Bertamini: None
A M G Rees: $1,000,000
J S Bindra: $575,000
V Shankar: $575,000</td><td>This is a new component of pay</td></tr>
<tr><td>Benefits</td><td>No change</td><td>Not applicable</td><td>No change</td></tr>
<tr><td>Pension</td><td>No change</td><td>Not applicable</td><td>No change</td></tr>
<tr><td>Total variable compensation[1]</td><td>Maximum TVC cannot exceed 200 per cent of fixed pay in line with the European Banking Authority valuation rules
TVC is delivered as follows:
<table>
<tr><th>Structure</th><th>Proportion (on an expected value basis)</th></tr>
<tr><td>Upfront in shares</td><td>20%</td></tr>
<tr><td>Deferred in shares with a three-year phased vesting period, subject to claw back</td><td>55%</td></tr>
<tr><td>Deferred in shares with a five-year cliff vesting period, subject to claw back</td><td>12.5%</td></tr>
<tr><td>Deferred in shares with a five-year cliff vesting period, subject to claw back and satisfaction of performance conditions</td><td>12.5%</td></tr>
</table></td><td>Maximum TVC (face value):
P A Sands: $8,425,000
R H Meddings: $2,200,000
S P Bertamini: $1,800,000
A M G Rees: $7,750,000
J S Bindra: $4,625,000
V Shankar: $4,780,000</td><td>Annual performance awards and performance share awards have been combined into a single TVC award
The TVC for a target level of performance is set in combination with fixed pay to deliver competitive total compensation on an expected value basis against peer groups
Performance conditions remain unchanged at one-third each on relative total shareholder return, earnings per share and return on risk-weighted assets</td></tr>
<tr><td>Shareholding requirement</td><td>No change</td><td>P A Sands: 250,000
R H Meddings: 120,000*
S P Bertamini: 120,000*
A M G Rees: 200,000
J S Bindra: 150,000
V Shankar: 150,000
*For the period that they are Group executive directors. After this, the number of shares will be aligned to the shareholding requirement for Code Staff</td><td>Increases to the specified number of shares including the creation of a new requirement level specific to the role of Deputy Group Chief Executive</td></tr>
</table>

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[1] Maximum award potentials for fixed pay allowances and variable compensation awards are based on obtaining shareholder approval to increase the maximum variable compensation as a percentage of fixed pay under CRD IV from 100 per cent to 200 per cent at the AGM on 8 May 2014. If shareholder approval is not obtained the maximum fixed pay allowance payable for each executive director under the policy will be the difference between i) 50 per cent of maximum total remuneration of the executive director under this policy as shown in the illustrative scenarios charts on page 188, and ii) the aggregate of the base salary, benefits and pension cost for that executive director. The maximum variable compensation award levels will then be revised from 200 per cent to 100 per cent of fixed pay (in line with the EBA valuation rules). The increase in the cap to 200 per cent would enable us to minimise the increase in fixed remuneration costs and maintain greater flexibility on total pay while retaining a larger quantum of variable pay that can be subject to claw back and forward-looking performance conditions

Business environment

Rising East, emerging West

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 to 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 middle class 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 Federal Reserve 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 the 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

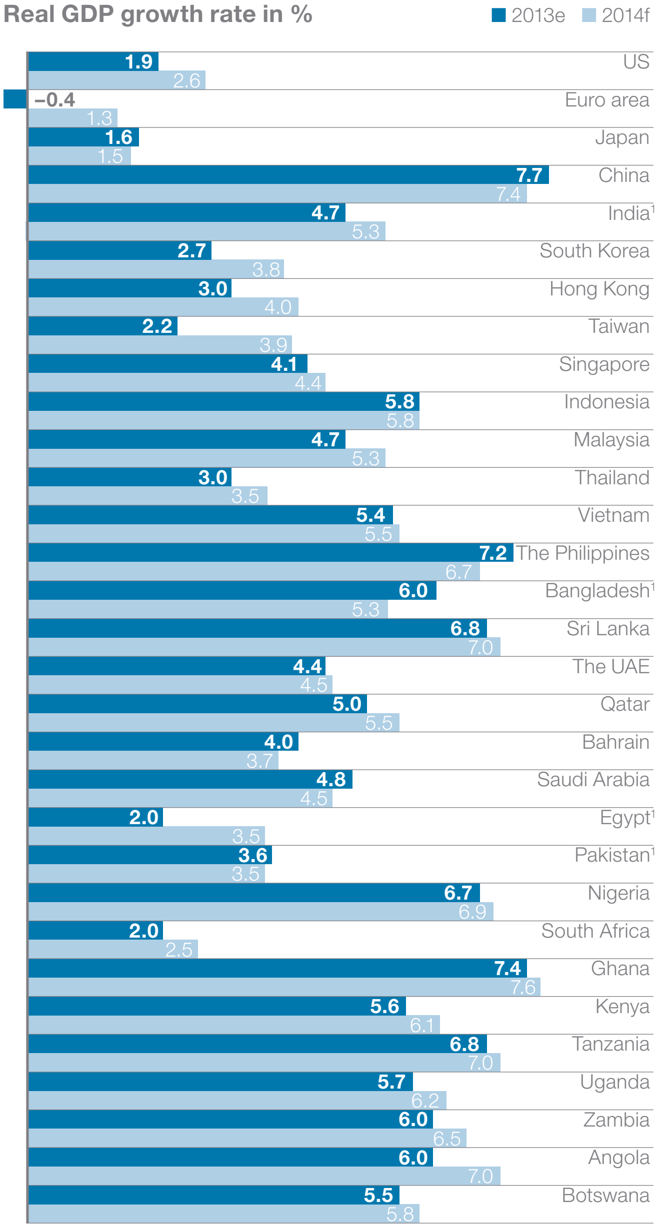
The emerging markets are seeing a rise in consumerism among a growing middle class.

China's growing prominence in the world economy is being reflected in growing global recognition of its currency, the renminbi.

The Business environment report has been produced by our Global Research team. The forecasts for 2014 reflect the projections made by the team.

Economic growth in key markets

Real GDP growth rate in %



[1] India's financial year starts in April while the financial years of Bangladesh, Pakistan and Egypt start in July

Standard Chartered estimates for 2013 (2013e) and forecasts for 2014 (2014f) are based on Standard Chartered Economics Weekly, published on 27 February 2014

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.

Business environment continued

Growth in 2013 remained resilient

China
7.7%
2012: 7.7%

India*
4.7%
2012: 4.5%

South Korea
2.7%
2012: 2.0%

Indonesia
5.8%
2012: 6.2%

Hong Kong
3.0%
2012: 1.5%

Singapore
4.1%
2012: 1.3%

The UAE
4.4%
2012: 4.3%

Nigeria
6.7%
2012: 6.6%

* India's financial year starts in April

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 six 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 Standard Chartered'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 may grow 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 policymakers 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.

The rise of the African middle class is being reinforced by large-scale infrastructure and resource investment.

Urbanisation will be an important driver of growth across Asia, Africa and the Middle East.

Inflation remains benign, with the exception of a few emerging markets. Among the Group's biggest markets, we expect policy rates to go up marginally – by 25 to 50 basis points – in Indonesia, the Philippines, 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 consumption, 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

Reinforcing the importance of conduct within our culture

Our highlights in 2013

- Refreshed our Group Code of Conduct, raising our people's understanding of its requirements, enhancing their ability to use good judgment and fostering greater personal accountability
- Reinforced the importance of conduct and behaviours in the delivery of objectives, as well as in performance assessments and related reward proposals
- Continued to improve operational effectiveness and efficiency, removing unnecessary complexity to enable us to operate as one bank
- Increased training significantly, delivering our highest number of employee learning events for three years, while reducing costs through a more effective delivery mix
- Continued to promote the importance of diversity and inclusion, celebrating our first Global Inclusion Day and launching a Flexibility Charter to encourage better work-life balance

Our priorities in 2014

- Embed the new organisation structure, ensuring employees are clear on their new responsibilities and accountabilities, and treat people fairly where roles are changing or falling away
- Continue to raise the bar on conduct, leveraging our global people analytics capability to support the identification and management of potential risk and control issues
- Continue to embed the Group's Fair Accountability Principles, providing targeted support to countries where cultural challenges exist in moving to a more judgment-based rather than prescriptive approach
- Strengthen our focus on line manager capability to ensure managers understand and are able to comply with the increasingly complex regulatory environment in which we operate
- Launch our refreshed approach to employee engagement, building on the success of our previous annual Q[12] survey to better reflect the different needs and drivers of our diverse, multi-generational workforce

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 was 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 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 judgment-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.

We have invested in technology to make better use of our core global HR platforms.

Our brand promise, Here for good, unifies our people to act with conviction and to uphold the highest standards of conduct and integrity.

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 the way 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 have started to move from quarterly sales plans, which are largely 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 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 the 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 WB Client Coverage Relationship Managers and staff; and Foreign Account Tax Compliance Act training for nearly 20,000 CB 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 judgments, 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 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, 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

People continued

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 are 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 structure 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.

This work will continue in 2014 as we help the business and functions develop and embed their future organisational models in response to the Group's new structure. In doing so, work to clarify accountabilities at all levels of the organisation will be completed, we will ensure people fully understand what is expected of them and, where roles change or fall away, support them in determining their future career options.

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 more than 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 realigned a number of specialists from our dedicated recruitment team with the geographical and functional priorities of our WB business.

We strive to create an inclusive environment for all our employees, 47 per cent of whom are women.

Reinforcing the importance of conduct within our culture has been a key focus. To date, 98 per cent of our employees have completed our new mandatory training and 97 per cent have reconfirmed their commitment to the Group Code of Conduct.

Promoting diversity and inclusion

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. This activity supports our Group target of 25 per cent of women on our Board by 2017. At the end of 2013, there are three female Directors of Standard Chartered PLC and 48 (16 per cent) of our senior managers are women. This includes a number of female Country Chief Executive Officers (CEOs) in markets such as Nigeria, Tanzania and Thailand, and a regional CEO for Africa.

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 Group 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 judgments. 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, while 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 processes, 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 our 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.

Sustainability

Our social and economic contribution

Our highlights in 2013

- $20.6 billion of financing provided to small and medium-sized enterprises (SMEs) across 32 countries
- $271 million of lending provided to microfinance institutions (MFIs), benefiting more than 1.9 million people
- 11 per cent expansion of our Commodity Traders and Agribusiness portfolio totalling $35.9 billion
- $20 billion of Islamic financing arranged for our clients and customers
- A top two trade bank
- $945 million provided and supported for renewable energy and clean technology
- Updated our Position Statements to align with leading international environmental and social standards
- 22 per cent reduction in customer complaints
- 98 per cent of staff completed mandatory training on our Group Code of Conduct with 97 per cent recommitting to the Code
- 5 per cent reduction in energy consumption
- Over 90,300 employee volunteering days, an increase of 5 per cent
- $6 million raised for Seeing is Believing, with a cumulative total of $63 million raised and 45 million people reached since 2003
- 39,000 girls empowered through Goal, our girls' education programme, with more than 86,000 girls reached since 2006

Our priorities in 2014

- Make progress on our commitment to increase financing to SMEs by 45 per cent to $30 billion between 2013 and 2018
- Advance our Power Africa commitment to finance $2 billion in power projects by 2018
- Continue to improve the accessibility of our Islamic banking services to customers
- Train employees on our refreshed Position Statements
- Promote our target to reduce water use intensity by 71 per cent of 2008 levels by 2019
- Progress our pledge to train 5,000 micro and small businesses by 2018
- Reach $70 million fundraising mark for Seeing is Believing
- Introduce technology and digital education modules to Goal curriculum
- Develop a refreshed three-year Living with HIV strategy

Sustainability and our business

Sustainability is integrated into how we do business. It guides everything we do, from the services we provide to our clients and customers, to the way we run our bank and support the local communities in which we live and work. Our approach to sustainability is captured in our brand promise, Here for good.

Our business strategy focuses on banking the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East. Our core markets are continuing to see strong economic growth, with rising incomes and increasing demand for financial services. This represents a massive opportunity for our business and, with it, the opportunity to promote sustainable, balanced and inclusive growth in our markets.

As a major international financial institution, our commitment to society goes beyond creating value for our shareholders. We seek to ensure that the financing we provide is sustainable and supports economic and social development for all stakeholders. Our approach focuses on three key priorities: contributing to sustainable economic growth, being a responsible company and investing in communities.

Contributing to sustainable economic growth

Through our business of banking, we fuel economic activity and job creation in our markets. Over the past five years, we have increased lending to clients and customers by nearly 70 per cent to $382 billion, making a substantial contribution to individual economies.

The credit and other financial services we provide help businesses to set up, trade and expand, and help people buy their own homes, save and protect their wealth for the future. We believe that by providing these services efficiently and responsibly, we can make a real impact on sustainable development in our markets, contributing to economic growth for the long term.

Access to financial services

Our financing supports households, businesses and economies. In 2013 alone, we provided $109.2 billion in lending to individuals, of which $69.8 billion was in mortgages, and a further $20.6 billion in lending to SMEs.

We allocate capital to key sectors that enable economic growth. Through trade finance, we promote growth across our markets, and in 2013 were a top two trade bank by SWIFT data. We also continued to support the agriculture sector as a key provider of jobs across our footprint, growing our Commodity Traders Agribusiness portfolio by 11 per cent to $35.9 billion.

Reliable infrastructure is a prerequisite for economic growth. In 2013, we joined Power Africa, the US government-led initiative to promote access to electricity across Sub-Saharan Africa, with a pledge to finance $2 billion in power projects by 2018. We continue to promote financing for the clean technology and renewable energy sector, providing and supporting financing of more than $945 million in 2013.

Through our business of banking, we fuel economic activity and job creation in our markets.

Our community investment activities focus on health and education, with youth as a target demographic.

We share our expertise to help countries deepen their financial systems and attract investment. In 2013, we offered more than 30 workshops to central banks and ministries of finance on topics such as the internationalisation of the renminbi, Islamic finance, debt capital markets and the use of derivatives to manage financial risks. We also support governments in realising their economic development goals by acting as a sovereign ratings adviser. In 2013, we contributed to the Philippines achieving its inaugural investment grade rating.

We are committed to extending finance to people who are un-served, or under-served, by financial institutions. In 2013, we provided $271 million to MFIs, taking our cumulative MFI lending since 2006 to $1.2 billion and impacting 8.3 million people across 18 countries. We expanded our Islamic banking operations, under the Standard Chartered Saadiq brand, to Africa and increased our lending globally to $20 billion. We also provided $20.6 billion in financing to SMEs, and pledged at the Clinton Global Initiative (CGI) to increase our financing to SMEs by 45 per cent to $30 billion by 2018.

Sustainable finance

We recognise that managing and protecting limited natural resources is essential to maintaining economic growth over the long term. Our Position Statements set out the environmental and social standards that we expect of ourselves and encourage from our Wholesale Banking (WB) clients and SME Banking customers. In 2013, we refreshed our existing Position Statements and added new statements covering renewable energy, infrastructure, agribusiness, fisheries and chemicals and manufacturing, bringing our total number of statements to 20. While our preference is to engage with clients and customers to meet our standards, we will turn down transactions where certain environmental and/or social risks and impacts cannot be successfully mitigated.

Being a responsible company

Our commitment to sustainability is not just about the economic activity we finance, but also about how we run our business. Our focus is on effective corporate governance, underpinned by strong processes and the right values and culture. By creating a great place to work for our people, selling our products and services responsibly, tackling financial crime and mitigating the environmental impact of our operations, we believe that we can make a greater positive contribution to the communities in which we operate.

Governance

Strong governance is the foundation for establishing trust and promoting engagement between a company and its stakeholders. The right culture, values and behaviour must be adopted by the Board and actively promoted by the Group Chief Executive and managers at all levels. The Brand and Values Committee (BVC) of the Board continues to have oversight of sustainability, including environmental and social governance.

More detail on the BVC can be found in Corporate governance on pages 167 to 171.

Our social and economic impact in Africa

Having opened our first branch in Africa 150 years ago, we continue to invest for the long term, supporting the people and businesses driving trade, investment and the creation of wealth across the continent.

We believe that banks, working with governments, regulators and local communities, can and should help to drive real social and economic development in the markets where we work.

In 2013 we commissioned an independent study to measure the role of Standard Chartered, and banking more broadly, in generating trade, growth and jobs across Africa – one of the fastest-growing regions of the world – and to find out what we can do better.

By measuring ripple effects through the economy, the study shows that our operations and financing support 1.2 per cent of GDP and some 1.9 million jobs, or 0.6 per cent of the total workforce, in 13 of the 15 markets where we operate in Sub-Saharan Africa.

The study also highlights how we help to remove barriers to growth and job creation, by using our footprint as an international bank focused on Asia, Africa and the Middle East to mobilise offshore capital for crucial infrastructure investment, train local talent, introduce innovation and help to develop local financial markets.

The study confirms that small and medium-sized enterprises (SMEs) are powerful job creators. We will invest more time in looking at how we can work with our large corporate clients to support more African SMEs through the supply chain. We will also explore how we can help create greater inter-linkages between different economic sectors in Africa, from farming to manufacturing and distribution, in order to increase our impact on real development.

The study on Africa, led by Professor Ethan Kapstein, is our fourth and most comprehensive impact study to date, following country-specific reports on Ghana, Indonesia and Bangladesh.

Read the full study on www.sc.com/ImpactAfrica

Sustainability continued

People and values

We are focused on building a culture that is based on responsibility and accountability and aligned with our values. Our diverse and collaborative workforce and deep commitment to doing the right thing is what makes our culture stand out. Our brand promise, Here for good, helps our people to act with conviction, nurture relationships with our clients and customers and uphold the highest standards of conduct and integrity. For more than 10 ten years, our performance reviews have taken into account the extent to which our employees demonstrate our values through their everyday actions.

As set out in our Human Rights statement, we respect human rights in our operations and adhere to all relevant, international and local, legal obligations in the countries where we operate. Human rights are taken into account in our procurement decisions, as set out in our Supplier Charter. We also consider human rights in our financing decisions, guided by our Position Statements, which address the rights of children, workers and communities in relation to specific industry-sector risks.

Financial crime prevention

Financial crime impedes economic progress. We strive to limit the risk of financial crime within our business by having strong policies and procedures. These are underpinned by important programmes to continually enhance our systems and controls and to raise awareness of the critical role of employees in combating financial crime. In 2013 we refreshed our Group Code of Conduct (the 'Code') which sets out the standards we expect of our employees. Staff participated in team training sessions and 98 per cent completed mandatory e-learning to understand how the Code applies to their day-to-day activities.

Responsible selling and marketing

Delivering appropriate products and services to our clients and customers is fundamental to our business. In 2013 we continued to assess our WB policies and procedures against the impact of regulatory changes to ensure that we meet our clients' needs and adhere to regulatory guidelines. In Consumer Banking, our Customer Charter outlines our commitment to treat customers fairly, and we regularly convene Customer Experience Councils across our markets to identify areas in which we can improve. We reduced the number of customer complaints we received by 22 per cent from 2012 to 2013.

Environment

We seek to minimise the environmental impact of our operations, and have targets in place to reduce the rate of our energy, water and paper consumption. While our energy use intensity remains at similar levels, in 2013 we reduced our total energy consumption by 5 per cent through efficiency measures, such as the installation of LED lighting across our properties. We lowered our water intensity by 20 per cent between 2008 and 2013. We have also reduced our office paper use per full-time employee (FTE) from 50 kg per FTE in 2008 to 20.4 kg in 2013.

Celebrating 10 years of Seeing is Believing

In 2003, we founded Seeing is Believing (SiB) with a simple mission: to help people see. 10 years later, we have reached more than 45 million people.

An estimated 39 million people across the world are blind, and a further 246 million people are visually impaired. SiB has helped tackle this issue by providing quality eye-care for people who have little or no access to health services.

Set up in response to a call from our employees to help local communities, SiB is a collaboration between Standard Chartered, the International Agency for the Prevention of Blindness and leading eye-care organisations.

Making an impact

So far, we have raised more than $63 million, with the Group matching all contributions dollar for dollar. Our employees contribute greatly to the programme by donating, fundraising and volunteering their time at local eye-care projects.

Through a total of 84 projects in 25 countries, SiB has helped fund over 2.91 million cataract operations and surgical interventions, protected 3.9 million people from Vitamin A deficiency and river blindness, distributed 494,000 pairs of spectacles and trained more than 100,000 community health workers.

We are committed to raising $100 million by 2020, through donations and matching by the Group. In 2013, we further extended our support for eye health by pledging $20 million to support the work of The Queen Elizabeth Diamond Jubilee Trust in helping to eliminate avoidable blindness.

For more information see www.seeingisbelieving.org

Environmental assurance

PwC is our independent third-party assurance provider for Greenhouse gas (GHG) emissions. In 2013, PwC assured our Scope 1 and Scope 2 GHG emissions using data collected from our properties over 10,000 square feet (measured emissions). These data are gathered through our internal Global Environmental Management System. The assured measured emissions are extrapolated to provide a scaled up total which includes properties under 10,000 square feet. For additional information, review the Independent Assurance Report at on.sc.com/EnvironmentalAssurance.


We seek to minimise the environmental impact of our operations.


We are focused on building a culture that is based on responsibility and accountability and aligned with our values.

More detail on our Scope 1 and 2 GHG emissions can be found in the Report of the directors on page 220.

Further details on our methodology can be found at on.sc.com/EmissionsCriteria.

Suppliers

We support businesses across our footprint through our network of more than 27,000 suppliers. We continue to embed our Supplier Charter, launched in 2012, which sets out the standards and values we expect of our suppliers. In 2013, we refreshed our procurement management policies and practices to strengthen risk awareness and transparency around our supplier expenditure globally. In addition, we created a preferred supplier base across 33 markets, allowing us to drive sustainable standards and better manage risk.

Investing in communities

Promoting the social and economic well-being of communities is a critical component of our strategy to support sustainable development in our markets. Our community investment activities focus on health and education, with youth as a target demographic. In 2013, we invested $54.1 million, or the equivalent of 0.79 per cent of our 2012 operating profit, in communities, including both direct investment and volunteering by our employees.

Community programmes

The economic prosperity of a community is closely linked to the health of its population. Our health programmes address avoidable blindness and HIV and AIDS. In 2013 Seeing is Believing, our flagship community investment programme, celebrated its 10th anniversary. Over the last decade, we raised more than $63 million to help eliminate avoidable blindness, reaching more than 45 million people. Our Living with HIV programme provides education on HIV and AIDS to our staff and the communities where we operate. In 2013, we raised awareness among more than 12,000 people through our ‘You, Me and HIV’ e-booklet distributed on World AIDS Day.

Education builds skilled and productive communities and improves livelihoods. Our education initiatives focus on developing the financial capability of young people – particularly adolescent girls – and small business owners in order to help them make the most of the opportunities offered by economic growth. Goal, our leading education programme, combines sports training with life skills, financial education and workforce development to empower adolescent girls. Goal reached more than 39,000 girls in 2013, bringing the cumulative number of girls reached to more than 86,000 since 2006. In 2013 we made a commitment at the CGI to reach an additional 500,000 girls between 2013 and 2018.

Our performance

We maintain regular dialogue with our stakeholders to gather their feedback on our sustainability strategy and performance, and to understand the issues that matter most to the communities where we operate. Our stakeholders include non-governmental organisations, industry bodies, governments, regulators and socially responsible investors.

Our sustainability performance is evaluated by trade publications and ratings agencies specialised in the socially responsible investment market.

Dow Jones Sustainability Index

For the fourth consecutive year, we were included in the Dow Jones Sustainability Index (DJSI) World Index and Europe Index. We were noted for our strong performance in stakeholder engagement, brand management, customer relationship management, environmental risk management and financial inclusion.

FTSE4Good

We are listed in the FTSE4Good index, designed to measure the performance of companies that meet globally recognised corporate responsibility standards.

Carbon Disclosure Project

We were selected for the FTSE350 Climate Disclosure Leadership Index for the second time. The leadership index recognises our performance among the top 10 per cent of FTSE 350 companies.

In 2013, we created a global financial education curriculum for young people and piloted the programme in five markets. We also developed an Education for Entrepreneurs curriculum to provide financial education to small business owners across our markets. The curriculum will be rolled out as part of another CGI commitment we announced in 2013 to provide training to 5,000 small businesses between 2013 and 2018.

Employee volunteering

We support our local communities by volunteering our time and skills, and seek to maximise our impact by encouraging skills-based volunteering. All of our employees are entitled to three days of paid volunteering leave annually. In 2013 we reached a record number of more than 90,300 volunteering days, an increase of 5 per cent on 2012.

Our performance in our markets

Supporting clients and customers

Our strategy

We are headquartered in London and have operated for over 150 years in some of the world's most dynamic markets. Our focus continues to be on the growth markets of Asia, Africa and the Middle East while also increasingly leveraging our presence in Europe and the Americas to facilitate cross-border business and trade intermediation between the West and the East.

Our performance

- Highly diversified income stream, with 25 markets generating income in excess of $100 million
- Double-digit income growth in Hong Kong and Africa offset by income pressure in Korea and Other Asia Pacific region
- Wholesale Banking (WB) continues to support the growth aspirations of our clients, with overall client income rising 4 per cent, representing over 80 per cent of income
- Consumer Banking (CB) further developed and expanded its digital distribution capabilities, with over three million active internet users, in addition to expanding the branch network in markets like Africa and China
- Hong Kong remains our largest market with income up 11 per cent and operating profit up 16 per cent, to $1.9 billion

The following commentary excludes the impact of the $106 million own credit adjustment in 2013.

Hong Kong

Hong Kong, with a network of 84 branches and 329 ATMs, continues to be our largest geography in terms of operating income and profit. We remain focused on Hong Kong and on its role as a hub into and out of China. Both WB and CB achieved strong growth in income and profit, and the balance sheet continues to be highly liquid and well positioned to support the growth ambitions of our clients and customers. In CB, income increased 11 per cent and operating profit was up 15 per cent as we gained market share in new mortgage sales coupled with good growth in Wealth Management. In WB, income grew 12 per cent and operating profits increased 16 per cent. This was driven by a 14 per cent increase in client income, underpinned by strong income growth across Financial Markets, reflecting the increasing internationalisation of the renminbi (RMB), and Corporate Finance.

Singapore

Our global CB and WB operations are headquartered in Singapore and 9 per cent of our employees are based there. Operating profit at $0.9 billion was 7 per cent lower than 2012, impacted in part by margin compression from the high levels of liquidity in the market. On 7 October 2013 we incorporated our retail and small and medium-sized enterprise (SME) banking operations into a new Singapore subsidiary, reaffirming the Group's long-term commitment to our Singapore franchise. CB income rose to just under $1 billion, with growth in Deposits and Wealth Management. WB income of $1.1 billion was down 9 per cent as strong client activity was offset by margin compression.

Korea

In line with the industry as a whole, our income and profits fell in the year. Income was 16 per cent lower than 2012, resulting in an operating loss of $15 million for the year. In CB, income fell 12 per cent and we reported an operating loss of $163 million as we tightened underwriting criteria and absorbed elevated levels of loan impairment. Standard Chartered Bank Korea has one of the Group's largest distribution networks, with 343 branches and 2,793 ATMs, and we have a market-leading digital banking capability. In WB, income was down 23 per cent with operating profit down 58 per cent, as income from all product groups apart from Corporate Finance declined from 2012. Korean clients continued, however, to direct an increasing amount of business to the Group outside of Korea reflecting the strength of our network.

Other Asia Pacific

We have a strong presence in the growth markets of this region, which includes China, Indonesia, Malaysia and Taiwan, and during 2013, we reopened in Myanmar. In China, our partnership with Agricultural Bank of China (ABC) continues to develop and we have announced that we will jointly provide RMB clearing services with ABC in the UK. Income is well diversified across both businesses although income across the region fell 6 per cent. This was primarily driven by lower income in WB, down 12 per cent, due to margin compression despite good levels of client activity. This was partly offset by a 2 per cent rise in CB income, reflecting growth in Mortgages and Wealth Management in China and higher income from unsecured lending, Wealth Management and Deposits in Malaysia. In Taiwan and Indonesia, where we operate through both our branch and our joint venture with Permata Bank, income fell across both CB and WB.

India

Although India continues to be impacted by a weak macroeconomic environment, with the rupee depreciating by 10 per cent over 2013, income rose 7 per cent with growth in both businesses and overall operating profit was up 3 per cent. Indian clients continue to be a significant driver of income across the Group's network, with income from supporting these activities growing at a double-digit rate compared with 2012. Additionally, the Group has the largest network among foreign banks in India, with 99 branches and India is also the location of the Group's global shared service centre, SCOPE.

Percentage of total Group profit before taxation by region in 2013[1]

🟩	Hong Kong	28%
🟩	Singapore	13%
🟩	Korea	–
🟩	Other Asia Pacific	16%
🟦	India	10%
🟦	Middle East and Other South Asia	15%
🟦	Africa	9%
🟦	Americas, UK & Europe	9%

Middle East and Other South Asia (MESA)

This region includes our markets in the UAE, Pakistan, Bangladesh and Bahrain, of which the UAE continues to be the largest, accounting for over 50 per cent of the region's income. Income in the year fell 1 per cent, as a good broad-based performance in CB was offset by lower WB income. Operating profit, however, was up 35 per cent as loan impairment levels reduced as the region continues to show improved economic growth. Income in Bangladesh grew strongly, particularly in Trade Finance. We also continued to build our Islamic Banking franchise under the 'Saadiq' brand, growing income in the MESA region across both businesses.

Africa

Income within this region is highly diversified, with four markets delivering over $100 million of income and three over $200 million. Nigeria, Kenya, Ghana and Zambia continued to be our largest markets and each grew income at over 10 per cent. CB grew income by 10 per cent, despite currency depreciation in the period, driven by good growth in payroll-linked lending. We continue to invest in our Africa business including adding 10 branches to our distribution network. WB income was also up 10 per cent although an impairment on a small number of accounts resulted in a fall in profits in the period. As at end 2013, the Group is present in 14 Sub-Saharan markets. In December 2013, we completed our acquisition of Absa Bank's custody business in South Africa and in January 2014 we announced the opening of a subsidiary in Angola together with ENSA, a leading Angolan insurance company.

Americas, UK & Europe

In addition to being the location of our Group headquarters, the region is strategically important to us as we support our global client base, financing trade and investment flows from and to our footprint markets of Asia, Africa and the Middle East. Over 90 per cent of the Group's income in this region is WB, with CB income primarily derived from Private Banking. Income for the region fell 6 per cent, with lower income in both CB and WB.

For more information on our CB and WB businesses, see pages 46 to 61.

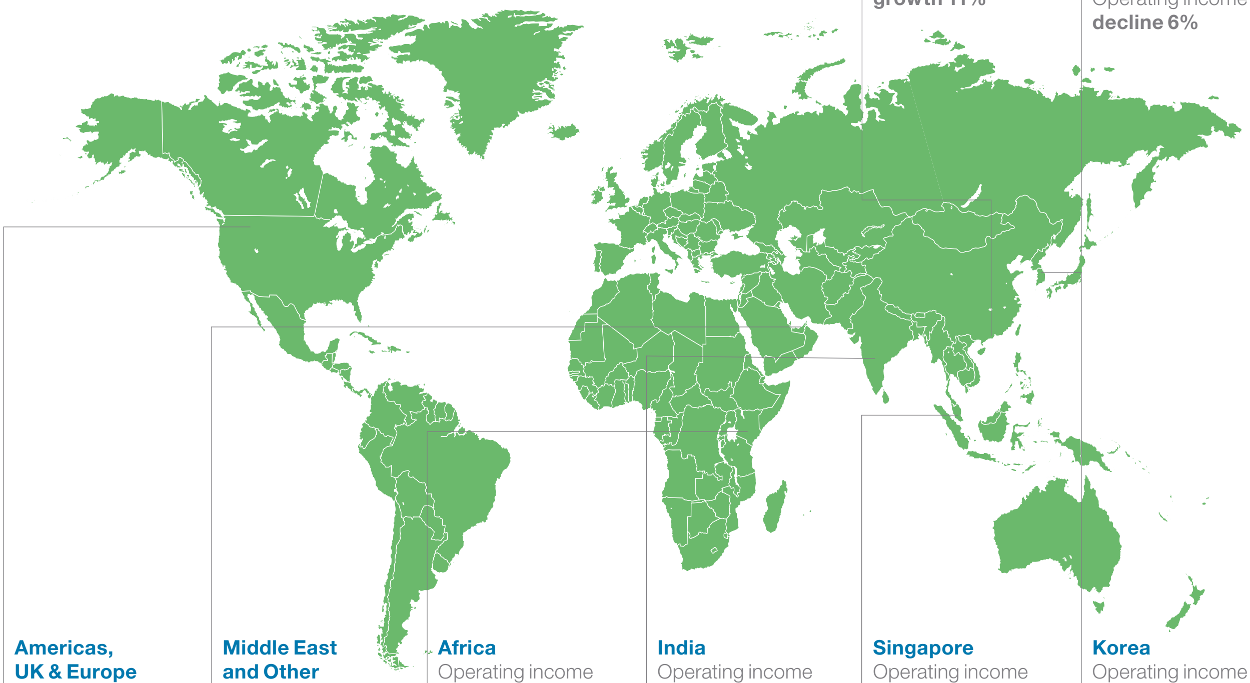
Total operating income $18,671 million[2]

Hong Kong
Operating income
$3,725 million

Operating income
growth 11%

Other Asia Pacific
Operating income
$3,457 million

Operating income
decline 6%



Americas, UK & Europe
Operating income
$2,167 million

Operating income
decline 6%

Middle East and Other South Asia
Operating income
$2,209 million

Operating income
decline 1%

Africa
Operating income
$1,751 million

Operating income
growth 10%

India
Operating income
$1,696 million

Operating income
growth 7%

Singapore
Operating income
$2,103 million

Operating income
decline 5%

Korea
Operating income
$1,563 million

Operating income
decline 16%

[1] Excluding the impact of a $106 million own credit adjustment (OCA) and goodwill impairment of $1 billion

[2] Excludes the impact of a $106 million OCA

The Group in 2013

Strong balance sheet, resilient performance

Richard Meddings
Group Finance Director

"Despite turbulence in the global economy, we delivered a resilient performance, managing costs and risks tightly and supporting the growth and activities of our clients and customers. Our balance sheet remains strong, highly liquid, and conservatively funded. We have sharpened our strategic focus and flexed our financial framework to strike the right balance between growth, returns and managing for capital accretion."

Our highlights and achievements in 2013

- Diversified income streams across clients and customers, products and geographies
- Continued to support the growth and activities of clients and customers by leveraging the Group's network, with Wholesale Banking client income remaining resilient despite turbulence in the global economy
- Disciplined management of costs in both businesses, while delivering targeted investments in our franchise
- Credit quality remains good in both businesses, underpinned by a robust risk management process
- Strong, conservatively positioned balance sheet and strong capital ratios, with a Core Tier 1 ratio of 11.8 per cent. We have a highly liquid and stable mix of deposits and an advances-to-deposits ratio of 75.7 per cent. The Group's funding structure remains conservative with limited refinancing required over the next few years

Our priorities in 2014

- We will continue to focus on the basics of banking and maintaining our capital and liquidity strength
- We will be disciplined in the deployment of resources and will grow profit after taxation faster than risk-weighted asset growth
- We will continue to build strong relationships with our clients and customers through our three client segment groups: Corporate & Institutional Clients, Commercial & Private Banking, and Retail Customers

Key performance

Operating income[1]

$18,777m

2012: $18,783m[3]

Profit before taxation[1,2]

$6,064m

2012: $6,851m[3]

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[1] On a statutory basis operating income in 2013 includes a credit of $106 million (2012: $nil) relating to an own credit adjustment (OCA)

[2] Profit before taxation in 2013 includes OCA and a goodwill impairment charge of $1 billion. 2012 includes a charge of $667 million in respect of the 2012 settlements with the US authorities. The US authorities comprise The New York Department of Financial Services (DFS), the Office of Foreign Assets Control (OFAC), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Federal Reserve (NYFED)

[3] Amounts have been restated. See note 43 on page 303

The following commentary 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 236 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 operating and financial review excludes the impact of OCA to better reflect the underlying performance of the Group.

Group summary

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

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

Profit before tax, excluding OCA and the impact of a $1 billion impairment charge relating to our Korea business (see page 286 for further details) for 2013 and the 2012 settlements with the US authorities[4], fell 7 per cent to $6,958 million. The fall in profit is primarily due to lower levels of Transaction Banking income in Wholesale Banking (WB) and higher levels of impairment in the unsecured book in Consumer Banking (CB).

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

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

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

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

Normalised earnings per share fell 9 per cent to 204.0 cents and normalised return on shareholders' equity reduced to 11.2 per cent from 12.8 per cent as at 31 December 2012. Further details of basic and diluted earnings per share are provided in note 14 on pages 256 and 257.

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 small number of large exposures 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.

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[4] 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)

The Group in 2013 continued

Operating income and profit

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

Group performance

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

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

WB income was 2 per cent lower, at $11,492 million although client income remained resilient, rising 4 per cent. Transaction Banking income fell despite good levels of client activity due to margin compression across most of our markets. This was offset by a strong performance from Corporate Finance and Foreign Exchange (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 and Liability Management.

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

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

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

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

Other operating income, which primarily comprises gains arising on sale from the investment securities portfolio, aircraft and shipping lease income, fixed asset realisations and dividend income, fell $178 million, or 15 per cent, to $1,006 million. Higher operating lease rental income, up $138 million, was offset by lower realisations from the available-for-sale portfolio, down $88 million, and a fair value loss of $49 million relating to entities held for sale in Korea. 2012 also benefited from a gain of $90 million from the repurchase of subordinated debt.

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

Pre-provision profit (excluding the impact of the 2012 settlements with the US authorities[5]) was lower by $250 million, or 3 per cent, at $8,478 million.

Loan impairment increased by $421 million, or 35 per cent, to $1,617 million. Impairment in CB, which has a largely secured loan book, increased by $360 million, driven primarily by the expected seasoning impact of the growth in the unsecured loan book, the impact of PDRS in Korea and lower levels of loan sales, particularly impacting the Other Asia Pacific region. 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 2012 settlements with the US authorities[5] fell $560 million, or 7 per cent, to $6,958 million. Hong Kong remained our largest profit generator, growing operating profit by 16 per cent, while Middle East and Other South Asia (MESA) grew profits 35 per cent. This helped to offset the performance in Korea, which moved from a profit of $514 million in 2012 to a loss of $12 million in 2013.

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

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[5] 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)

The Group in 2013 continued

Group Summary Consolidated Balance Sheet

	2013 $million	2012[1] $million	Increase/ (decrease) $million	Increase/ (decrease) %
Assets				
Advances and investments				
Cash and balances at central banks	**54,534**	60,537	(6,003)	(10)
Loans and advances to banks	**83,702**	67,797	15,905	23
Loans and advances to customers	**290,708**	279,638	11,070	4
Investment securities held at amortised cost	**2,828**	3,851	(1,023)	(27)
	431,772	411,823	19,949	5
Assets held at fair value				
Investment securities held available-for-sale	**99,888**	95,374	4,514	5
Financial assets held at fair value through profit or loss	**29,335**	27,076	2,259	8
Derivative financial instruments	**61,802**	49,495	12,307	25
	191,025	171,945	19,080	11
Other assets	**51,583**	47,440	4,143	9
Total assets	**674,380**	631,208	43,172	7
Liabilities				
Deposits and debt securities in issue				
Deposits by banks	**43,517**	36,427	7,090	19
Customer accounts	**381,066**	372,874	8,192	2
Debt securities in issue	**64,589**	55,979	8,610	15
	489,172	465,280	23,892	5
Liabilities held at fair value				
Financial liabilities held at fair value through profit or loss	**23,030**	23,064	(34)	–
Derivative financial instruments	**61,236**	47,192	14,044	30
	84,266	70,256	14,010	20
Subordinated liabilities and other borrowed funds	**20,397**	18,588	1,809	10
Other liabilities	**33,704**	31,029	2,675	9
Total liabilities	**627,539**	585,153	42,326	7
Equity	**46,841**	46,055	786	2
Total liabilities and shareholders' funds	**674,380**	631,208	43,172	7

[1] Amounts have been restated as explained in note 43

Balance sheet

The Group remains disciplined in its focus on sustaining a strong balance sheet, which continues to be highly liquid, diversified and conservatively positioned. Growth has been robust on both sides of the balance sheet and we continued to focus on the principle of 'funding before lending'. The Group is predominantly deposit funded and our advances to deposits ratio remains low at 75.7 per cent, up from 73.9 per cent in 2012. We continue to be a net lender into the interbank market, particularly in Hong Kong and in the Other Asia Pacific and Americas, UK & Europe regions. We continue to see good demand for our paper and our funding structure remains conservative, with limited levels of refinancing required over the next few years.

The Group remains well capitalised and our Core Tier 1 ratio of 11.8 per cent was slightly higher than 2012, due to equity generation.

The profile of our balance sheet remains stable, with 71 per cent of our financial assets held on amortised cost basis, which reduces the risk of short-term distress shocks, and 58 per cent of total assets have a residual maturity of less than one year. The Group has low exposure to problem asset classes, no direct sovereign exposure (as defined by the European Banking Authority (EBA)) to Greece, Ireland, Italy, Portugal and Spain and immaterial direct exposure to the remainder of the eurozone.

Further details of our eurozone exposures are set out in the Risk review on page 107.

Total assets/liabilities grew by $43.2 billion, or 7 per cent, during the year. On a constant currency basis, growth was 6 per cent as some of the Asian currencies depreciated in the second half of 2013 against the US dollar, particularly the Indian rupee and the Korean won. Balance sheet growth was largely driven by an increase in lending to banks and customers. Surplus liquidity was held with central banks, deployed in net interbank funding, or held in liquid investment securities that meet the more stringent regulatory liquidity requirements. Derivative mark-to-market increased, largely reflecting higher 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 $31 billion, or 9 per cent, to $384 billion.

CB portfolios, which represents 44 per cent of the Group's customer advances as 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 the 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 the Americas, UK & Europe.

Treasury bills, debt and equity securities

Treasury bills, debt and equity securities, including those held at fair value, grew by $3.7 billion to $124.3 billion, largely due to more stringent liquidity requirements, especially in the UK, which have necessitated higher holdings. The maturity profile of our investment book is largely consistent with 2012, with around 45 per cent (2012: 49 per cent) of the book having a residual maturity of less than 12 months.

Derivatives

Unrealised mark-to-market asset positions were $12 billion higher compared to 2012, reflecting higher levels of client activity but lower levels of volatility across interest rate, commodity and foreign exchange contracts. Our risk position continues to be largely balanced, resulting in a corresponding increase in negative mark-to-market positions of $14 billion. Of the $62 billion asset mark-to-market positions, $46 billion is available to offset through master netting agreements.

Deposits

The Group has continued to see good deposit growth in both businesses. Deposits by banks and customers, including those held at fair value, increased by $13 billion, of which the increase in deposits by banks was $7 billion. Customer deposit growth was primarily driven by Hong Kong, and in the Americas, UK & Europe and Africa regions, which more than offset lower deposits in a number of other regions. Current and savings accounts 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 17 per cent to $71.4 billion as we continued see strong demand for our paper. This included the issue of 30-year subordinated notes in the first half of the year. Subordinated debt increased by $1.8 billion, or 10 per cent, on the back of primarily US dollar-denominated issuances during the year.

Equity

Total shareholders' equity increased by $0.8 billion to $46.8 billion due to profit accretion and gains on available-for-sale securities, which were partly offset by foreign exchange translation losses and dividends paid to shareholders.

Consumer Banking

Sharpening our focus and execution to build competitive advantage

Steve Bertamini
Group Executive Director and
CEO Consumer Banking

"Here for good underpins our culture and conduct, guides our decisions and makes banking easier for our customers in all aspects of our business."

Resilient performance

Consumer Banking (CB) delivered a resilient financial performance in 2013, with income up 2 per cent to $7,179 million, or up 5 per cent excluding Korea. Operating profit was down 11 per cent, and up 8 per cent excluding Korea.

Our income and balance sheet remain well diversified by customer segment, product and geography. We saw strong performances in SME Banking, Priority & International Banking, Mortgages, and Credit Cards and Personal Loans (CCPL), as well as across a number of our key markets and regions, including Hong Kong, India, Africa, and the Middle East and Other South Asia (MESA). We have a strong, high-quality balance sheet consisting of an outstanding deposit franchise, as evidenced by our current and savings accounts (CASA), which grew from 58 to 60 per cent of our deposits in 2013. Our secured lending as a percentage of our total book improved further to 73 per cent.

Our focus on the financial needs of our clients and customers, coupled with our broad-based product offering, has enabled us to deepen relationships across our high-value segments. This resulted in the mix of revenues from high-value segments shifting from 35 per cent in 2008 to 47 per cent in 2013.

Through our shift to digital, we have become globally recognised for our best-in-class mobile and internet banking services. We have also transformed our branch network and made substantial progress in integrating our distribution network.

We remain focused on managing both risk and costs tightly to create room for investment in the business. In 2013, CB once again achieved positive cost to income jaws. We have continued enhancing our distribution network, technical competencies, online and internet banking capabilities and marketing activities.

Key highlights

Operating income

$7,179m

2012: $7,021m[1]

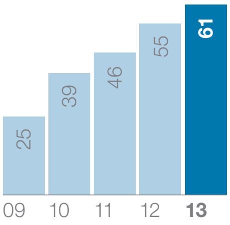
[1] Amount has been restated as explained in note 43 on page 303

Secured lending as % of the total book

73%

2012: 72%

Net Promoter Score (NPS)[2] Index



[2] 'Net Promoter Score' and 'NPS' are trademarks of Satmetrix Systems Inc., Bain & Company, and Fred Reichheld. Standard Chartered uses Bain methodology recalibrated for financial services to calculate NPS. NPS scores provided are for the fourth quarter. Previous reports are based on third-quarter data

Sharpening our focus to capture the opportunities in our footprint

We remain confident in the significant growth potential of our markets and in our competitive strengths.

Our footprint extends across some of the world's fastest-growing economies. We believe the fundamentals across Asia, Africa and the Middle East remain strong, with economic growth expected to drive 60 per cent of total global revenue growth for the consumer banking industry.

Private wealth in Asia, Africa and the Middle East alone will surpass the US and Europe by 2017, led by China, India, Indonesia and Nigeria. SMEs, which employ the majority of the workforce across our footprint, are a key contributor to the economic growth of our markets.

In 2013, we remained consistent in the execution of our strategy in each of our chosen markets and segments, while sharpening our focus, so that we can respond quickly and appropriately to evolving market conditions and the increasing volume of regulatory changes across our markets.

We are increasing our scale and relevance in key cities, running these as we do our larger markets, to build economies of scale. We are able to compete effectively by leveraging our digital capabilities and alliances and maximising our resources without having to expand our physical infrastructure.

By maintaining our focus on productivity, we have looked at staff, real estate and technology. Actions taken have included increased automation of end-to-end processes, branch network reconfiguration and the simplification and standardisation of systems. We have also revisited how we view risk-weighted assets (RWA) allocation and there is now a disproportionate allocation of RWA and expense capacity as we seek to establish sufficient scale and balance sheet and franchise strength in key markets and cities.

We have also placed greater emphasis on delivering on our brand promise, Here for good, and on building our digital capabilities.

Supporting the renminbi needs of our customers

Using our cross-border capabilities to support our customers' renminbi (RMB) needs

As part of our commitment to meet our customers' retail, investment and business banking needs, we offer a broad range of RMB solutions, including RMB-denominated deposits, mutual funds, structured products, and insurance and bonds for our retail and high net worth customers.

Standard Chartered Hong Kong is among the first banks to offer RMB-denominated accounts to non-HK residents, making it easier for them to access their RMB accounts in China.

Within 10 months of domestic banks becoming eligible to offer RMB-related services in Taiwan, Standard Chartered collected deposits of over RMB138 billion from local customers seeking to allocate assets in RMB. In April 2013, Standard Chartered China launched direct cross-border RMB remittance for Taiwanese residents, allowing them to open special accounts for RMB remittances from Taiwan.

We also offer onshore and offshore RMB solutions to SMEs, such as trade settlement and invoicing. In the third quarter of 2013, a People's Bank of China sub-branch announced a new policy allowing RMB cross-border lending and borrowing between Taiwanese-owned companies and those registered in Kunshan, China. As a result of this ruling, we were able to provide our Taiwanese SME clients with a cross-border RMB lending transaction capability to help them deliver on their business ambitions.

Consumer Banking continued

A responsible and sustainable business

Faced with rapidly evolving regulatory change, we have sharpened our strategic focus on the key areas that will differentiate us as a responsible and sustainable business.

The principles of Treating Customers Fairly underpin our approach to doing business. For several years, we have promoted prudent practices in the selling of Payment Protection Insurance. We have also continued to make changes to our compensation structures to drive the right behaviours.

We have embedded our brand promise further in the way we approach, communicate and manage our business, so that it guides our decisions and makes banking easier for our clients and customers.

In 2013, following the refresh of our Group Code of Conduct, we reiterated our commitment to conducting our business to the highest standards of ethics and integrity. We invested more in controls to ensure robust risk and capital management frameworks. We also strengthened our governance, increased our operational transparency and enhanced our due diligence. At the same time, we continued to simplify our operations, standardise our processes and procedures and introduce innovation, to make it easier for our clients and customers to bank with us, while creating a more efficient and productive working environment.

Building deep and trusted relationships

Five years ago, we embarked on a fundamental transformation to build a business that consistently puts clients and customers at the heart of our decisions and actions. Today, our Customer Charter and the way we address the needs of our clients and customers, the SCB Way, are an integral part of how we do business. They help us understand and meet the diverse needs and preferences of our clients and customers and build deep relationships, while ensuring that we uphold our commitment to treat our customers fairly.

Our Private Bank has grown to become one of the top 10 global banks in Asia by assets under management. In 2013, we were named as the Outstanding Private Bank in South Asia by Private Banker International, in addition to Best Private Bank Middle East and India at The Banker Global Private Banking Awards. The awards recognised our leadership in growing and protecting our clients' wealth.

Our SME Banking business continues to grow and remains critically important to the Group as we seek to facilitate trade and the deepening of financial markets across our footprint. This segment remains critically important to the Group as we seek to facilitate trade and the deepening of financial markets across our footprint.

Priority & International Banking, which supports wealth and cross-border needs through a relationship-manager model, has also continued to see progress year-on-year as we deepen and build trusted relationships with our customers.

In Personal Banking, our integrated distribution model has allowed us to digitise our products and services and reconfigure our branch network to better suit the needs of our customers.

Continued investment in the digitisation of our business has allowed us to enhance our core systems and processes, take further steps towards eliminating paper-based transactions and create digital-first solutions through alliances and mobile payment partnerships.

By automating many of our processes, we are able to reduce human errors in manual processes, strengthen our control environment, improve our productivity, shorten our turnaround times and provide an enhanced experience for our customers, whether they bank with us remotely through online and mobile channels or in a branch. Across nine of our key markets, we now capture over 90 per cent of customer requests digitally, 52 per cent of which are processed automatically.

Our clients and customers are increasingly comfortable with banking digitally and conducting their banking transactions online. We are well positioned to capture this shift in behaviour, and our award-winning online and mobile solutions have helped us to increase our number of online customers by over 20 per cent, and mobile customers by 60 per cent year-on-year. We have also seen significant growth in online sales for credit cards, online bill payments and online trading, which grew from 2012 at 26 per cent, 68 per cent and 63 per cent, respectively year-on-year.

Leveraging the potential of one bank

We remain positive about the significant opportunity within our markets in Asia, Africa and the Middle East. Our clear and consistent strategy, coupled with our local knowledge and international expertise, is a competitive advantage.

The strength of a one bank approach is evident in the success of our Employee Banking and Wholesale Banking partnership. We leverage our one bank capabilities to offer comprehensive, reliable and hassle-free banking solutions that are structured to meet the diverse banking needs of our corporate clients and their employees. Our commitment to build deep relationships with our clients and customers remains the foundation of our business. In 2014, with the reorganisation of our business, we will be even better placed to meet their evolving needs.

More detail on the reorganisation can be found on investors.sc.com

We will continue to invest in our franchise and our digital agenda, as well as raising the bar on our conduct to deliver on our Here for good brand promise.

Digitising banking

Digitisation is taking banking back to basics – meeting consumers' needs in an integrated and seamless way

We are digitising our business to improve how we serve our clients and customers, and to make our operations more efficient.

We are integrating our IT systems and simplifying and automating our processes to increase productivity, ensure a robust control environment and free up our frontline staff. This enables them to spend more time with our clients and customers.

Several years ago, with the launch of our award-winning mobile banking app, Breeze, we responded to a shift in consumer behaviour, allowing our clients and customers to bank where and when they wanted. We coined the phrase 'Digital Main Bank' to capture our aspiration and have been making steady progress each year.

Since then, we have been focusing on improving and bringing consistency to every part of our business. Our Express Banking Centres (EBC) help connect clients and customers with a full suite of automated and digitised processes and trained service ambassadors are on hand to assist them bank swiftly and efficiently.

Digitisation has also allowed us to simplify our application and documentation processes, making it easier and faster for new customers to open an account with us.

Our Digital Education Programme empowers staff to help clients and customers with their introduction or transition to digital banking. The programme coaches staff on how to walk clients and customers through their first digital transaction seamlessly and confidently.

Concern around security is often a barrier to digital banking. We understand this concern and maintaining the highest levels of security and protection is our priority. We offer regular SMS and email alerts, automatic logouts, advanced second factor authentication and 128-bit secure socket layer to ensure a safe and secure experience.

We have seen a significant shift to digital in terms of customer usage, number of transactions and products applied for through digital channels. The feedback from our clients and customers remains very positive and our online Net Promoter Score for digital channels exceeds all other channels. In 2013, for the third consecutive year, we were recognised as the World's Best Consumer Internet Bank (Global Finance).

Consumer Banking continued

Consumer Banking

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

2013

	Hong Kong $million	**Singapore $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas, UK & Europe $million**	**Consumer Banking Total $million**
Operating income	**1,561**	**982**	**1,046**	**1,620**	**466**	**801**	**529**	**174**	**7,179**
Operating expenses	**(795)**	**(546)**	**(835)**	**(1,183)**	**(304)**	**(496)**	**(330)**	**(143)**	**(4,632)**
Loan impairment	**(139)**	**(78)**	**(371)**	**(310)**	**(38)**	**(63)**	**(22)**	**(13)**	**(1,034)**
Other impairment	**–**	**–**	**(2)**	**(1)**	**(4)**	**–**	**–**	**–**	**(7)**
Profit from associates and joint ventures	**–**	**–**	**–**	**43**	**–**	**–**	**–**	**1**	**44**
Operating profit/(loss)	**627**	**358**	**(162)**	**169**	**120**	**242**	**177**	**19**	**1,550**

2012

	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Consumer Banking Total $million
Operating income	1,410	974	1,183	1,596	440	753	482	183	7,021
Operating expenses	(771)	(553)	(795)	(1,209)	(318)	(493)	(306)	(151)	(4,596)
Loan impairment	(95)	(62)	(223)	(186)	(27)	(51)	(20)	(10)	(674)
Other impairment	–	–	(1)	(36)	–	–	–	(8)	(45)
Profit from associates and joint ventures	–	–	–	43	–	–	–	–	43
Operating profit	544	359	164	208	95	209	156	14	1,749

An analysis of CB income by product is set out below:

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

Performance in 2013

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

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

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

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

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

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

Product performance

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

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

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

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

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

Geographic performance

Hong Kong

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

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

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

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

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

Singapore

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

Consumer Banking continued

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

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

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

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

Korea

Income was down $137 million, or 12 per cent, to $1,046 million. On a constant currency basis, income fell 14 per cent. Excluding the $49 million fair value loss for businesses classified as held for sale in 2013 and a $39 million property gain in 2012, income fell 4 per cent. CCPL income increased although volumes declined as we tightened underwriting standards. Mortgages continued to be affected by a number of regulatory 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 volumes industry-wide as new tax law changes took effect. Income from SMEs fell due to margin compression and increased competition from local banks.

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

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

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

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

Other Asia Pacific

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

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

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

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

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

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

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

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

India

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

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

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

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

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

Middle East and other South Asia (MESA)

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

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

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

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

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

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

Africa

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

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

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

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

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

Americas, UK & Europe

The business in this region is primarily Private Banking in nature and focuses on delivering our product suite to international customers from across our network.

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

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

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

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

Wholesale Banking

Strengthening our business to better support our clients

Mike Rees
Group Executive Director and
CEO Wholesale Banking

"Through listening closely to the needs and expectations of our clients, we understand the importance of being a force for good in society and look to continuously raise the bar on our conduct."

Clients at the centre of everything we do

In a challenging external environment, particularly in our footprint, Wholesale Banking (WB) delivered a resilient performance. The year was marked by the deterioration of sentiment towards emerging markets, a continued decline in commodity prices and the effects of excess liquidity from the US, Europe and Japan. For our footprint, this led to a weakening of foreign exchange rates and uncertainty as businesses and investors waited for further direction.

While the year was difficult for the industry, WB's performance reflected the relevance of our relationship-focused strategy and the strength of our underlying business with clients. We continued to increase our market share by placing clients at the centre of everything we do.

Core to our approach is our focus on building sustainable, long-term relationships with our clients and being their trusted adviser, supporting their different needs across our footprint. As a result, income from clients increased by 4 per cent, and accounted for 86 per cent of total income.

Total WB income fell 2 per cent to $11.5 billion in 2013, affected by significant headwinds from market uncertainty and regulatory change resulting in a sharp decline in own account income in the second half of the year. Against this backdrop, strong control of expenses limited the decline in operating profit to 4 per cent to $5.6 billion.

Key highlights

Operating income

$11,492m[1]

2012: $11,672m[2]

Profit before taxation

$5,643m[1]

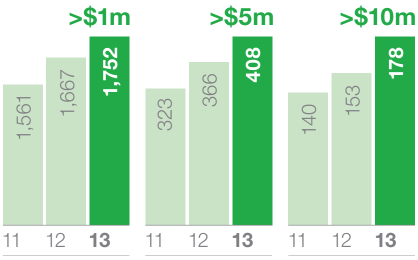
2012: $5,186m[3]

Total assets

$529 billion

2012: $484 billion

Core bank – number of client relationships



The metric charts our progress towards becoming the core bank to more clients by measuring the number of client relationships where total global income exceeds the threshold amount. The bar chart displays solid growth and the deepening of client relationships year after year

[1] Excludes own credit adjustment of $106 million

[2] Amounts have been restated as explained in note 43 on page 303

[3] Includes the settlements of $667 million with the US authorities. The US authorities comprise The New York Department of Financial Services (DFS), the Office of Foreign Assets Control (OFAC), the New York County District Attorney's Office (DANY), the United States Department of Justice (DOJ) and the Federal Reserve (NYFED)

Continued focus on embedding our strategy

We have made significant progress in embedding our client-led strategy since the formation of the WB business in 2002. Since we started on this journey, we have grown operating profit seven times from just $795 million in 2002. We did this by focusing on building trusted relationships with our clients – anticipating our clients' needs and building the relevant product capability to support them – and carefully establishing sufficient scale and strength across our geographic footprint.

We are confident that we will continue to deliver sustainable and profitable growth by sharpening our focus on delivering our strategy.

In 2013, we placed greater emphasis on the conduct of our business, and further embedded what it means to live our Here for good brand promise in our daily work, with the refresh of our Group Code of Conduct. We recognise that we have to focus on delivering the right outcome for the long-term interests of our clients, our business and society and we ensure we do this through the decisions we make and through the business activities we support.

To better align the business for growth, we made changes to our senior team structures, reinforcing global decisions with local insights by appointing regional heads to the management groups. We also strengthened collaboration and interdependence across business teams, through a number of senior cross-business moves.

Our consistent focus on our clients is reflected in the continued growth in client income, demonstrating progress in our efforts to improve overall returns by gradually increasing product depth and geographic breadth in our client relationships.

We are also becoming the core bank to more of our clients. Income from our top 600 clients rose 8 per cent in 2013 and we now have 178 clients that generate more than $10 million in income, compared to 140 in 2010.

We maintained diversity across four client segments. Global Corporates, Local Corporates and Financial Institutions each contribute about 30 per cent of overall client income with Commodity Traders and Agribusiness making up the remaining 10 per cent.

The three largest client segments recorded good growth driven by strong client activity for our Commercial Banking and Corporate Finance solutions. Global Corporates grew 12 per cent driven by robust demand for Corporate Finance services as we supported our clients across our footprint. Local Corporates and Financial Institutions grew 6 per cent and 3 per cent respectively. Commodity Traders and Agribusiness grew 1 per cent impacted by lower commodity prices.

International network, local scale

Supporting the growing cross-border needs of our clients

With more than 150 years of experience driving investment, trade and the creation of wealth across our footprint, we provide our clients with an unmatched international network across Asia, Africa and the Middle East, coupled with on-the-ground expertise to support the cross-border and in-country needs of clients.

Our strong track record for standing by our clients and doing the right thing has established us as a trusted partner to support our clients' growth ambitions as they expand into new markets.

In Asia, we have been working with the UK Government, Myanmar's Ministry of Finance and the Central Bank of Myanmar to establish a UK-Myanmar Financial Services Taskforce. The taskforce will support the development of the country's financial sector. In early 2013, we reopened our representative office in Yangon, reflecting Myanmar's reintegration into the global economy.

We are now the only major international bank with a presence in all of the 10 Association of Southeast Asian Nations (ASEAN) countries. Myanmar assumes the role of ASEAN chair in 2014 and our strong partnership with the UK and Myanmar governments, together with our presence across ASEAN, is enabling the Group to play a key role in the country's economic integration with the wider region.

Since our re-entry into Myanmar, we have steadily built a broad base of clients across different sectors, as clients seek a reliable global banking partner with a local presence to support their investments. We are also extending our support to our existing clients wishing to do business in the country. In November 2013, we extended financing to Navigat Group, Indonesia's leading power plant operator, which is helping to expand power generation capacity in Myanmar through the construction and operation of efficient gas-fired power plants.

In the Middle East, we were the first international bank to establish a full branch in Iraq with the opening of our Baghdad office in November. We have operated in Iraq through a representative office since 2006 and our growing local presence reflects strong demand for our services from clients in the power, oil, telecommunications and infrastructure sectors. The Group will be opening additional branches in Erbil and Basra in 2014.

In Africa, we opened our representative office in Angola in 2010. In January 2014, we upgraded our presence to an onshore banking subsidiary, the first major international bank with an onshore presence in the country. The subsidiary, with the Group as a majority shareholder, will enable us to provide both onshore and offshore financing to support the growing needs of our clients.

Wholesale Banking continued

Sharpening our focus in our footprint

Further deepening our client relationships first requires us to have relevant and consistent banking solutions to support the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East.

Our strength in Commercial Banking across the footprint has enabled us to steadily build a suite of product capabilities to support our clients' needs and this will remain firmly at the core of our business. We believe this combination of trade financing, commercial payments and foreign exchange gives us the opportunity to institutionalise deep, long-term relationships with our clients. According to SWIFT data, we are a top two trade bank. We will continue to grow and strengthen our leadership in trade financing and commercial payments across our footprint.

Commercial Banking contributed about half of client income. Transaction Banking, comprising Trade Finance and Cash Management and Custody services, continued to grow market share, backed by double-digit growth in client volumes. However significant margin compression resulted in an overall decline in income. We continued to strengthen our lead as the primary bank for corporates' Asian transaction banking operations, with a high degree of client loyalty and client satisfaction[4].

In Financial Markets, our client-led strategy enabled us to deliver a resilient performance despite significant challenges in the markets. Client income grew at a mid-single digit rate driven by strength in Foreign Exchange (FX). This helped to offset the impact of our own account weakness in the second half arising from the challenging market conditions. Foreign Markets continues to benefit from the liberalisation of the renminbi (RMB). Our RMB-related business achieved double-digit growth and now contributes 15 per cent of Financial Markets' income.

Corporate Finance achieved a strong performance in 2013 and continues to be instrumental in taking our client relationships to the next level. Our performance from this product group is well diversified by the types of solutions we provide and the steady growth in the number of smaller deals from a wider range of clients.

Principal Finance, which provides Equity and Mezzanine financing solutions to our clients, undertook a review to better align our investment decisions to support our clients' growth ambitions, by partnering with client coverage teams and other product specialists. Gains from an increased number of disposals were offset by lower mark-to-market gains due to lower equity market valuations in our investment footprint resulting in a significant decline in income.

Our geographic network across Asia, Africa and the Middle East is a key differentiator for us and provides income diversity and stability. No single market contributes more than one-fifth of income. We carefully evaluate and respond to the evolving and long-term needs of our clients by expanding into new markets within our footprint, such as Myanmar and Iraq, while establishing sufficient scale and strength to ensure relevance and influence in our key markets.

We continued to make progress in supporting more of our clients across our footprint. Network income expanded to contribute 54 per cent of client income in 2013. Network income from India, Singapore and Europe recorded double-digit growth.

Becoming the world's best international bank

We have steadily built our presence within our footprint for over 150 years. We understand and believe in the growth potential of our markets in Asia, Africa and the Middle East. We trust in our strategy to realise the potential.

The next stage of our journey, working as one bank with disciplined execution, will sharpen our focus and help our people collaborate closely across teams to better meet the needs of our clients and customers. We want to grow together with them, banking the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East.

For our shareholders, we remain committed to our growth story and believe our path to becoming the world's best international bank is centred on our brand promise to be Here for good.

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[4] According to East & Partners Asian Institutional Transaction Banking Market report (November 2013) which covered 937 of the Top 1,000 revenue ranked firms in Asia

Wholesale Banking

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

2013

	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Wholesale Banking Total $million
Operating income[1]	**2,164**	**1,121**	**517**	**1,837**	**1,230**	**1,408**	**1,222**	**1,993**	**11,492**
Operating expenses	**(871)**	**(583)**	**(285)**	**(935)**	**(395)**	**(588)**	**(532)**	**(1,137)**	**(5,326)**
Loan impairment	**4**	**(10)**	**(56)**	**(105)**	**(157)**	**(4)**	**(248)**	**(7)**	**(583)**
Other impairment	**(4)**	**10**	**(27)**	**(2)**	**(101)**	**–**	**–**	**2**	**(122)**
Profit from associates and joint ventures	**–**	**–**	**–**	**181**	**–**	**–**	**–**	**1**	**182**
Operating profit[1]	**1,293**	**538**	**149**	**976**	**577**	**816**	**442**	**852**	**5,643**

2012

	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Wholesale Banking Total $million
Operating income	1,938	1,229	669	2,076	1,145	1,481	1,111	2,023	11,672
Operating expenses	(801)	(616)	(286)	(1,049)	(435)	(607)	(478)	(1,680)	(5,952)
Loan impairment	(14)	(4)	(26)	(35)	(138)	(265)	(18)	(22)	(522)
Other impairment	(7)	(2)	(7)	(121)	9	(32)	–	9	(151)
Profit from associates and joint ventures	–	–	–	138	–	–	–	1	139
Operating profit	1,116	607	350	1,009	581	577	615	331	5,186

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

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

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

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

[2] Excludes $106 million in respect of own credit adjustment

Wholesale Banking continued

Performance in 2013

Operating income fell $180 million, or 2 per cent, to $11,492 million while operating profit rose $457 million, or 9 per cent, to $5,643 million. Excluding the $667 million cost relating to the 2012 settlements with the US authorities[5], operating profit fell 4 per cent.

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

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

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

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

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

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

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

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

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

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

Product performance

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

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

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

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

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

FX income rose 11 per cent, with good growth in FX option volumes driven by client flows in Northeast 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.

[5] 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)

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

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

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

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

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

Geographic performance

Hong Kong

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

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

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

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

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

Renminbi internationalisation

Supporting business needs as the renminbi (RMB) moves to the mainstream

2013 set a new high point for the internationalisation of the RMB, fuelled by China's growing trade and investment ties across the globe. The RMB was the 10th most used payments currency globally according to SWIFT data and passed the euro as the second most used trade finance currency. The Standard Chartered Renminbi Globalisation Index recorded its fastest growth in 16 months in November 2013.

Standard Chartered's comprehensive capabilities, deep market knowledge and cross-border strengths enable clients to take full advantage of opportunities presented by the RMB.

To better capture new opportunities from the internationalisation of the RMB and support the rapidly expanding demand for the Group's RMB business, Standard Chartered created an RMB Solutions team to deliver bespoke client solutions, and established the Global RMB trading team, made up of traders across key markets in Singapore, Shanghai, Hong Kong, Taiwan, London and New York, to offer seamless and consistent client coverage around the clock.

In May 2013, Standard Chartered Hong Kong completed the first ever CNH HIBOR Fixed Interest Rate Swap transaction with a Hong Kong-based corporate client. Shortly after the People's Bank of China simplified cross-border lending denominated in RMB, we completed a cross-border financing deal to enable a global manufacturing client to use surplus RMB funds on the mainland to support its offshore RMB needs.

The steady growth of RMB liquidity pools and availability of clearing services in global financial hubs, including Hong Kong, Taiwan, Singapore and London, are also encouraging companies to adopt the RMB as one of their working capital currencies.

The Group is playing a leading role in supporting London as an RMB hub with its partnership with the Agricultural Bank of China to offer London-based RMB clearing services. In Singapore, the Group was the first to issue a RMB 1 billion bond that was locally listed, cleared and settled on the Singapore Exchange.

To boost RMB-denominated trade flows, the Group also launched a first-ever funding partnership with the International Finance Corporation. The programme is expected to generate about RMB 36 billion in incremental trade by delivering affordable credit to support exports from emerging markets across Asia, Africa and the Middle East to China.

We closed the year as the leading foreign bank in China in providing RMB nostro clearing services to overseas financial institutions for cross-border RMB transactions, and ranked second on the Dim Sum Bond Issuance league tables (Bloomberg).

Wholesale Banking continued

Singapore

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

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

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

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

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

Korea

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

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

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

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

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

Other Asia Pacific

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

Income in China fell 13 per cent to $613 million primarily due to margin compression offsetting strong client activity. Client income fell 5 per cent as strong growth in Cash, Trade and Financial Markets transaction volumes were more than offset by lower margins following interest rate cuts in 2012 and spread compression in Financial Markets 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 Financial Markets, where increased FX income, driven by RMB products, offset a lower Rates performance.

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

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

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

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

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

India

Income rose $85 million, or 7 per cent, to $1,230 million. On a constant currency basis, income rose 17 per cent. Despite a deteriorating credit environment and intense pricing pressures, client income increased 2 per cent (up 12 per cent on a constant currency basis) driven by Corporate Finance, FX and Lending. Flow FX continues to grow strongly, leveraging Transaction Banking relationships, and FX Options income also rose with increased levels of client hedging reflecting the volatility in exchange rates seen in the second half of 2013.

Our strategic report from pages 2 to 61 has been reviewed and approved by the Board.

Peter Sands
Group Chief Executive
5 March 2014

Transaction Banking income was impacted by lower margins although this was partly offset as average balances increased. Own account income rose, benefiting from the de-risking of the portfolio. Cross-border activity from our Indian clients remained strong, with income booked across our network growing at a double-digit rate.

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

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

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

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

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

MESA

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

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

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

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

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

Africa

Income rose $111 million, or 10 per cent, to $1,222 million. On a constant currency basis, income was up 16 per cent.

This region continues to be diversified across products, client groups and countries and income growth was driven by higher Financial Markets income from increased FX and Rates volumes and an increase in Corporate Finance income as we closed a greater number of transactions. This was partly offset by lower income from Transaction Banking which was impacted by lower Cash margins.

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

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

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

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

Americas, UK & Europe

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

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

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

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

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

Operating profit rose $521 million to $852 million. Excluding the impact of the 2012 settlements with the US authorities[6], operating profit fell 15 per cent.

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[6] 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)

Risk review

Standard Chartered provided $20.6 billion of financing to small and medium-sized enterprises across 32 countries in 2013.


benefi
ral oils
KIMBO

Risk review

Our risk profile is in line with our strategy

Risk profile		
Highly diversified and short tenor portfolio	■ We have a well diversified portfolio of loans and advances and income streams across geographies, industry sectors and products; no individual country accounts for more than 21 per cent of our loans and advances to customers or operating income ■ In Consumer Banking 73 per cent of assets are secured and the average loan-to-value ratio on our mortgage portfolio is less than 48 per cent ■ In Wholesale Banking 64 per cent of loans and advances are short-term and we hold a diverse mix of collateral, valued conservatively	■ 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 ■ We have low exposure to asset classes outside our core markets and customer base; our exposure to commercial real estate, Asset Backed Securities and leveraged loans is non-material from a Group perspective ■ Our asset quality remains good
Strong capital and liquidity position	■ We remain well capitalised and our balance sheet remains highly liquid ■ We have a strong advances-to-deposits ratio ■ We remain a net provider of liquidity to interbank markets	■ Our customer deposit base is diversified by type and maturity ■ We have a substantial portfolio of liquid assets which can be realised if a liquidity stress occurs
Robust risk governance structure and experienced senior team	■ We have a clear statement of risk appetite which is aligned to the Group's strategy; it is approved by the Board and informs the more granular risk parameters within which our businesses operate ■ We continuously monitor our risk profile to ensure it remains within our risk appetite and regularly conduct stress tests ■ We review and adjust our exposures, underwriting standards and limits in response to observed and anticipated changes in the external environment and expectations	■ We have a very experienced senior risk team and our risk committees are staffed by the Group's most senior leaders ■ We have a robust risk management framework which assigns accountability and responsibility for the management and control of risk ■ We maintain a consistent and highly selective approach to large corporate credit underwriting

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 71.

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 72.

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

The following parts of the Risk review form part of the financial statements:

- 'Regulatory compliance, review, requests for information and investigations' and 'Risk of fraud and other criminal acts' on pages 67 and 68
- From the start of the 'Risk management' section on page 69 to the end of the 'Pension risk' section on page 125, excluding:
  - Asset Backed Securities, page 106
  - Mapping of market risk items to the balance sheet, page 113
  - Encumbered assets, page 117
  - Liquidity Coverage Ratio and Net Stable Funding Ratio, page 119
- From the start of the 'Capital management' section on page 128 to the end of 'Current compliance with Capital Adequacy Regulations' on page 129
- From the start of the 'Capital base' section on page 131 until the end of 'Movement in total capital' on page 132

- 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 109
- 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 107. 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 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 106.

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 provided on page 110.

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 115 to 123.

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 69, and an experienced senior team. Members of our most senior executive body (the Court) sit on our principal risk executive committees, which ensures that risk oversight is a strong focus for all our executive directors, while common membership between these committees helps us address the inter-relationships between risk types. Board committees provide additional risk management oversight and challenge.

We continue to build on the Group's culture of risk management discipline. During 2013 we refreshed and re-communicated the Group 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 123 to 125.

Impairment review

The total impairment charge (excluding goodwill impairment) for 2013 has increased by $354 million compared to 2012. The increase has primarily been in 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 are set out on pages 72 to 77.

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 254.

Risk review continued

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 107).

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[1] 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 $667 million, 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 advisers 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.

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 45 on page 307.

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[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)

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 Northeast 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 71.

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 a challenge for all organisations.

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

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

The Group's controls to address money laundering risks are under review as part of the Group's Financial Crime Risk Mitigation Programme, referred to in the section headed 'Regulatory compliance, reviews, requests for information and investigations' 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 45 on page 307.

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 the 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 and committee or 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 sections on market risk on page 110 and liquidity risk on page 115.

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, an 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 81.

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. Analyses of the loan portfolio by product and counterparty are set out on page 89 for CB and page 96 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.

Risk review continued

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 pre-settlement 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 76.

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 76 to 123 and related analyses reflect the restatement of balances as at 31 December 2012 for the impact of equity accounting Permata, the Group's joint venture business in Indonesia (within the Other Asia Pacific 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 as 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 77. 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.

Risk review continued

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

[1] An analysis of credit quality is set out on page 79. Further details of collateral held by businesses and held for past due and individually impaired loans are set on page 83

[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, result in a single amount owed by or to the counterparty through netting the sum of the positive and negative mark-to-market values of applicable derivative transactions

[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 117.

The Group has entered into credit default swaps for portfolio management purposes, referencing loan assets with a notional value of $21.4 billion (2012: $22.1 billion). These credit default swaps are accounted for as guarantees as they meet the accounting requirements set out in IAS 39. The Group continues to hold the underlying assets referenced in the credit default swaps as it continues to be exposed to related credit and foreign exchange risk on these assets.

Derivatives financial instruments

Cash collateral includes collateral called under a variation margin process from counterparties if total uncollateralised mark-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. With certain counterparties, the CSA is reciprocal and requires us to post collateral if the overall mark-to-market value 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 86). 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 85). In both businesses, credit risk is mitigated to some degree through collateral, further details of which are set out on page 83.

Pages 78 to 82 set out a high level overview of the Group's loans to banks and customers, segmented by business and by credit quality type (neither past due not impaired; past due; and impaired). The Group manages its loan portfolio between those assets that are performing in line with their contractual terms (whether original or renegotiated) and those that are non-performing.

Review of key credit risk tables

	Group	Consumer Banking	Wholesale Banking
	Page reference	Page reference	Page reference
Overview	78	89	96
Geographic analysis	78	90	96
Maturity analysis			
By business	78	–	–
By category of borrower	–	90	97
Credit quality analysis			
By business, internal credit grades and days past due	80	–	–
By product and geography	–	91	98
Credit risk mitigation			
Collateral by business and credit quality	83	–	–
Analysis of secured/unsecured loans by category of business	–	92	–
Collateral held by type	–	–	101
Geographic analysis of mortgage and commercial real estate loan-to-value ratios	–	93	101
Problem credit management and provisioning			
Policies on credit management and provisioning	84	84	84
Non-performing loans			
Definition	84	–	–
By business	84	–	–
By geography	–	95	104
Movement in non-performing loans and total impaired loans by business	84,86	84,86	84,86
Loan impairment			
Movement in total impairment provisions	87	–	–
Movement in individual impairment provision by geography	87	–	–
Loan impairment charge – by geography	–	94	102
Loan impairment movement – by category of borrower	–	94	104
Renegotiated and forborne loans			
Definition	88	–	–
By business	–	89	89

Risk review continued

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 89 to 95 and WB on pages 96 to 104.

Geographic analysis

Loans and advances to customers grew by $11.4 billion since 31 December 2012 to $296 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 31 December 2012. The increase was noted primarily in Singapore and Hong Kong across a number of sectors. Loans and advances to banks have increased by $17.6 billion since 31 December 2012 to $86.1 billion mainly in the Americas, UK and Europe and Other Asia Pacific regions with an increase in reverse repurchase trades and negotiated credit bills.

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

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Consumer Banking	31,324	27,567	28,587	26,702	5,190	5,418	1,710	3,919	130,417
Wholesale Banking	21,515	28,321	7,710	22,526	6,827	14,672	6,327	47,023	154,921
Portfolio impairment provision	(74)	(47)	(132)	(166)	(39)	(138)	(63)	(63)	(722)
Total loans and advances to customers[1,2]	52,765	55,841	36,165	49,062	11,978	19,952	7,974	50,879	284,616
Total loans and advances to banks[1,2]	19,356	6,205	4,633	8,133	571	3,172	378	26,123	68,571

[1] Amounts net of impairment provision include financial instruments held at fair value through profit or loss (see note 15 on page 258)

[2] Loans and advances to customers in the above table are presented on the basis of booking location of the loan. The analysis of loans and advances by geography presented on page 245 in note 2 to 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	**106,951**	**48,449**	**11,509**	**166,909**
Portfolio impairment provision				**(696)**
Total loans and advances to customers				**296,015**

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

Credit quality

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

			Impairment provisioning			
Credit quality loan status	**Analysis**	**Risk management**	**CB specific**	**CB PIP[3] collective**	**WB Specific**	**CB and WB PIP[3]**
Neither past due nor impaired	Credit grade	Performing	○	○	○	●
Up to 90 days past due, with no other evidence of impairment	Past due	Performing	○	●	○	●
Renegotiated loans where there has been no loss or principal haircut[1]	Business	Performing	○	○	○	●
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	●	○	●	●
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	●	○	●	○
Evidence of impairment on a specific loan		Non-performing	●	○	●	○
Over 90 days past due[2]	Business/geography within non-performing disclosure	Non-performing	●	●	●	○
Over 150 days past due[2]		Non-performing	●	○	●	○

● Yes ○ No

[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 represent 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) comprise provisions to cover losses inherent in the neither past due/impaired portfolio and also a collective portfolio provision for the past due portfolio based on the number of days past due. WB PIP only represents losses inherent in the neither past due nor impaired portfolio

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 88.

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 WB customers

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

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

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

Consumer Banking

As 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.

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

Risk review continued

The following table sets out loans and advances held at fair value through profit and loss which are included within the table on page 81.

	2013				2012			
		Loans to customers				Loans to customers		
	Loans to banks $million	**Wholesale Banking $million**	**Consumer Banking $million**	**Total $million**	Loans to banks $million	Wholesale Banking $million	Consumer Banking $million	Total $million
Neither past due nor individually impaired								
Grades 1–5	**2,271**	**1,026**	**–**	**1,026**	555	1,237	–	1,237
Grades 6–8	**196**	**3,321**	**–**	**3,321**	219	3,048	–	3,048
Grades 9–11	**–**	**211**	**–**	**211**	–	692	–	692
Grade 12	**–**	**25**	**–**	**25**	–	1	–	1
	2,467	**4,583**	**–**	**4,583**	774	4,978	–	4,978
Past due but not individually impaired loans								
Up to 30 days past due	**–**	**405**	**–**	**405**	–	–	–	–
Individually impaired loans (including forborne loans)	**–**	**319**	**–**	**319**	–	–	–	–

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

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

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 73 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. As at 31 December 2013, collateral coverage increased from 23 per cent to 25 per cent reflecting a 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 101, was $197 billion (2012: $186 billion).

Further details on collateral are explained in the CB and WB sections on page 92 and 101 respectively.

	Consumer Banking			Wholesale Banking			Total		
	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million	Total $million	Past due but not individually impaired loans $million	Individually impaired loans $million
As at 31 December 2013									
Collateral	**89,536**	**2,889**	**564**	**63,390**	**642**	**695**	**152,926**	**3,531**	**1,259**
Amount outstanding[1]	**129,802**	**3,897**	**1,279**	**253,080**	**3,398**	**5,693**	**382,882**	**7,295**	**6,972**
Of which:									
Loans to customers	**129,802**	**3,897**	**1,279**	**166,909**	**3,381**	**5,486**	**296,711**	**7,278**	**6,765**
Loans to banks	**–**	**–**	**–**	**86,171**	**17**	**207**	**86,171**	**17**	**207**
As at 31 December 2012									
Collateral	88,119	2,799	563	51,594	1,823	573	139,713	4,622	1,136
Amount outstanding[1]	130,417	4,490	1,232	223,494	4,609	4,709	353,911	9,099	5,941
Of which:									
Loans to customers	130,417	4,490	1,232	154,921	4,606	4,400	285,338	9,096	5,632
Loans to banks	–	–	–	68,573	3	309	68,573	3	309

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

Collateral and other credit enhancements possessed or called upon

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

The table below details the carrying value of collateral possessed and held by the Group as at 31 December 2013 and 31 December 2012:

	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

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 89.

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 85.

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 as 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).

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 95 and 104 for CB and WB respectively.

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

[1] The difference to total individual impairment provision reflects provisions against performing forborne loans that are not included within non-performing loans as they have been performing for 180 days. Details on renegotiated and forborne are set out on page 89

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 judgment, 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:

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

IIP provisions are based on the estimated present values of future 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 is fully impaired after 720 days past due.

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

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

Risk review continued

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 IIP 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 CB, 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 WB, 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 IIP has not been raised.

Impaired loans

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

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

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

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

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 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 sets out the movements in total IIPs and PIPs:

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

The table below sets out the movement in IIPs by geography:

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

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Provisions held as 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 as at 31 December	74	89	246	437	270	1,173	49	95	2,433

Risk review 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.

As 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 73.

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. As 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.

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

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

Consumer Banking loan portfolio

The 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.

Risk review continued

Geographic analysis

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

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Loans to individuals									
Mortgages	21,441	14,278	16,686	14,832	2,284	1,629	256	1,221	72,627
Other	6,843	10,038	6,936	6,387	806	2,902	1,152	2,696	37,760
Small and medium enterprises	3,040	3,251	4,965	5,483	2,100	887	302	2	20,030
	31,324	27,567	28,587	26,702	5,190	5,418	1,710	3,919	130,417
Portfolio impairment provision	(50)	(26)	(116)	(140)	(20)	(44)	(22)	(4)	(422)
Total loans and advances to customers	31,274	27,541	28,471	26,562	5,170	5,374	1,688	3,915	129,995

Maturity analysis

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

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

Credit quality analysis

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

	2013								
	Hong Kong $million	**Singapore $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas, UK & Europe $million**	**Total $million**
Neither past due nor individually impaired loans	**33,622**	**28,245**	**22,263**	**23,636**	**4,587**	**6,025**	**2,006**	**4,884**	**125,268**
Past due but not individually impaired loans	**419**	**454**	**778**	**1,251**	**472**	**386**	**52**	**85**	**3,897**
Individually impaired loans	**88**	**82**	**322**	**416**	**58**	**209**	**39**	**65**	**1,279**
Individual impairment provisions	**(24)**	**(19)**	**(185)**	**(154)**	**(32)**	**(164)**	**(14)**	**(50)**	**(642)**
Portfolio impairment provision	**(57)**	**(28)**	**(93)**	**(124)**	**(21)**	**(45)**	**(25)**	**(3)**	**(396)**
Total loans and advances to customers	**34,048**	**28,734**	**23,085**	**25,025**	**5,064**	**6,411**	**2,058**	**4,981**	**129,406**

Risk review continued

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $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

Credit risk mitigation

A secured loan is one where the borrower pledges an asset as collateral of 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.

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

[1] Amounts net of individual impairment provisions

Mortgage loan-to-value ratios by geography

The following table provides an analysis of loan-to-value (LTV) ratios by geography for the mortgages portfolio. LTV ratios are determined based on the ratio of the current mortgage outstanding to the current fair value of the properties on which they are secured.

Overall the average LTV ratio for the portfolio is 47.7 per cent compared to 47.8 per cent in 2012. Our major mortgage markets of Hong Kong, Singapore and Korea have an average LTV of less than 50 per cent. The proportion of the portfolio with average LTVs in excess of 100 per cent has declined from 0.5 per cent to 0.3 per cent primarily within the MESA region due to improving economic conditions, particularly in UAE, in the current year. In Hong Kong, average LTVs increased reflecting an increased focus on first time buyers in 2013.

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

	2012								
	Hong Kong %	Singapore %	Korea %	Other Asia Pacific %	India %	Middle East & Other S Asia %	Africa %	Americas, UK & Europe %	Total %
Less than 50 per cent	75.4	52.5	49.0	37.9	55.8	24.1	28.2	25.4	54.3
50 per cent to 59 per cent	11.4	18.4	24.6	19.1	15.4	15.9	13.9	32.8	18.2
60 per cent to 69 per cent	6.1	13.8	18.5	21.0	12.7	17.3	20.1	21.1	14.3
70 per cent to 79 per cent	3.2	12.7	5.0	14.5	10.5	13.3	18.8	20.7	8.5
80 per cent to 89 per cent	3.2	2.6	2.0	5.9	4.7	8.0	17.0	–	3.5
90 per cent to 99 per cent	0.7	–	0.7	1.3	0.9	5.2	1.2	–	0.8
100 per cent and greater	–	–	0.2	0.3	–	16.2	0.8	–	0.5
Average portfolio loan-to-value	41.2	46.1	48.9	54.1	45.6	72.1	63.9	50.9	47.8
Loans to individuals – Mortgages ($million)	21,441	14,278	16,686	14,832	2,284	1,629	256	1,221	72,627

Loan impairment

Consumer Banking

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.

	2013								
	Hong Kong $million	**Singapore $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas, UK & Europe $million**	**Total $million**
Gross impairment charge	**162**	**104**	**457**	**447**	**53**	**115**	**30**	**16**	**1,384**
Recoveries/provisions no longer required	**(30)**	**(27)**	**(87)**	**(127)**	**(18)**	**(54)**	**(12)**	**(4)**	**(359)**
Net individual impairment charge	**132**	**77**	**370**	**320**	**35**	**61**	**18**	**12**	**1,025**
Portfolio impairment provision charge/(release)	**7**	**1**	**1**	**(10)**	**3**	**2**	**4**	**1**	**9**
Net impairment charge	**139**	**78**	**371**	**310**	**38**	**63**	**22**	**13**	**1,034**

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Gross impairment charge	135	109	289	352	43	122	29	13	1,092
Recoveries/provisions no longer required	(44)	(49)	(72)	(157)	(19)	(52)	(12)	(3)	(408)
Net individual impairment charge	91	60	217	195	24	70	17	10	684
Portfolio impairment provision charge/(release)	4	2	6	(9)	3	(19)	3	–	(10)
Net impairment charge	95	62	223	186	27	51	20	10	674

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

	Impairment provision held as at 1 January 2013 $million	**Net impairment charge 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

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:

2013

	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Loans and advances									
Gross non-performing loans	84	86	360	333	69	237	39	66	1,274
Individual impairment provision[1]	(24)	(14)	(185)	(107)	(32)	(164)	(14)	(50)	(590)
Non-performing loans net of individual impairment provision	60	72	175	226	37	73	25	16	684
Portfolio impairment provision									(396)
Net non-performing loans and advances									288
Cover ratio									77%

[1] The difference to total individual impairment provision as 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 84

2012

	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Loans and advances									
Gross non-performing loans	67	70	376	344	65	253	26	65	1,266
Individual impairment provision[1]	(24)	(14)	(141)	(100)	(29)	(165)	(12)	(40)	(525)
Non-performing loans net of individual impairment provision	43	56	235	244	36	88	14	25	741
Portfolio impairment provision									(422)
Net non-performing loans and advances									319
Cover ratio									75%

[1] The difference to total individual impairment provision as at 31 December 2012 reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days in line with the definition provided on page 84

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 287) and income generated is 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

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

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Agriculture, forestry and fishing	54	806	4	392	13	261	785	2,079	4,394
Construction	374	484	487	508	629	1,183	259	659	4,583
Commerce	4,983	11,773	665	3,937	815	4,428	768	6,229	33,598
Electricity, gas and water	510	407	–	552	7	366	251	2,723	4,816
Financing, insurance and business services	2,702	2,184	52	4,272	378	2,295	455	10,149	22,487
Governments	50	790	651	765	2	319	47	630	3,254
Mining and quarrying	700	1,938	–	928	394	778	602	9,495	14,835
Manufacturing	6,018	3,845	4,182	8,690	2,864	2,893	2,208	8,941	39,641
Commercial real estate	3,524	2,296	1,354	1,413	1,270	1,082	64	540	11,543
Transport, storage and communication	2,400	3,330	194	920	447	965	809	5,411	14,476
Other	200	468	121	149	8	102	79	167	1,294
	21,515	28,321	7,710	22,526	6,827	14,672	6,327	47,023	154,921
Portfolio impairment provision	(24)	(21)	(16)	(26)	(19)	(94)	(41)	(59)	(300)
Total loans and advances to customers	21,491	28,300	7,694	22,500	6,808	14,578	6,286	46,964	154,621
Total loans and advances to banks	19,356	6,205	4,633	8,133	571	3,172	378	26,123	68,571

Maturity analysis

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	**5,077**	**5,599**	**3,477**	**14,153**
Other	**968**	**927**	**103**	**1,998**
	106,951	**48,449**	**11,509**	**166,909**
Portfolio impairment provision				**(300)**
Total loans and advances to customers				**166,609**

Risk review continued

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

Credit quality analysis

The tables on the following pages 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 $12.5 billion in line with portfolio growth, and the growth is primarily concentrated within the commerce and manufacturing sectors and within credit grades 1–5.

Loans past due but not individually impaired decreased by $1.2 billion compared to 2012. This was primarily due to the renegotiation in 2013 of a small number of exposures which were reported with the 60–90 days past due category in 2012 within financing, insurance and business services sectors in Hong Kong, 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 the Other Asia Pacific region.

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

	2013				2012			
	Neither past due nor individually impaired $million	**Past due but not individually impaired $million**	**Individually impaired loans $million**	**Total $million**	Neither past due nor individually impaired $million	Past due but not individually impaired $million	Individually impaired loans $million	Total $million
Agriculture, forestry and fishing	**2,410**	**87**	**420**	**2,917**	4,286	54	83	4,423
Construction	**3,502**	**238**	**295**	**4,035**	4,121	301	233	4,655
Commerce	**42,413**	**544**	**940**	**43,897**	33,027	306	933	34,266
Electricity, gas and water	**5,272**	**113**	**35**	**5,420**	4,735	4	85	4,824
Financing, insurance and business services	**20,670**	**256**	**1,259**	**22,185**	18,897	2,616	1,139	22,652
Governments	**1,645**	**54**	**–**	**1,699**	3,254	–	–	3,254
Mining and quarrying	**14,918**	**1,074**	**158**	**16,150**	14,253	574	17	14,844
Manufacturing	**40,249**	**686**	**1,731**	**42,666**	38,342	684	1,176	40,202
Commercial real estate	**13,580**	**14**	**67**	**13,661**	11,379	30	158	11,567
Transport, storage and communication	**13,534**	**297**	**518**	**14,349**	14,105	25	543	14,673
Other	**1,956**	**18**	**63**	**2,037**	1,280	12	33	1,325
	160,149	**3,381**	**5,486**	**169,016**	147,679	4,606	4,400	156,685
Individual impairment provision				**(2,107)**				(1,764)
Portfolio impairment provision				**(300)**				(300)
Total loans and advances to customers				**166,609**				154,621
Loans and advances to banks	**86,047**	**17**	**207**	**86,271**	68,364	3	309	68,676
Individual impairment provision				**(100)**				(103)
Portfolio impairment provision				**(2)**				(2)
Total loans and advances to banks				**86,169**				**68,571**

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

Loans to customers

	2013								
	Hong Kong $million	**Singapore $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas, UK & Europe $million**	**Total $million**
Neither past due nor individually impaired	**24,982**	**32,586**	**6,606**	**23,798**	**5,923**	**12,607**	**5,614**	**48,033**	**160,149**
Past due but not individually impaired loans	**37**	**826**	**5**	**68**	**239**	**442**	**167**	**1,597**	**3,381**
Individually impaired loans	**173**	**48**	**213**	**659**	**930**	**2,264**	**556**	**643**	**5,486**
Individual impairment provisions	**(38)**	**(9)**	**(136)**	**(277)**	**(324)**	**(1,042)**	**(260)**	**(21)**	**(2,107)**
Portfolio impairment provision	**(29)**	**(31)**	**(13)**	**(32)**	**(17)**	**(55)**	**(42)**	**(81)**	**(300)**
Total loans and advances to customers	**25,125**	**33,420**	**6,675**	**24,216**	**6,751**	**14,216**	**6,035**	**50,171**	**166,609**

Risk review continued

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Neither past due nor individually impaired	20,674	28,036	7,554	22,171	6,186	12,697	6,212	44,149	147,679
Past due but not individually impaired loans	769	160	–	87	134	657	20	2,779	4,606
Individually impaired loans	122	199	261	487	748	2,326	132	125	4,400
Individual impairment provisions	(50)	(74)	(105)	(219)	(241)	(1,008)	(37)	(30)	(1,764)
Portfolio impairment provision	(24)	(21)	(16)	(26)	(19)	(94)	(41)	(59)	(300)
Total loans and advances to customers	21,491	28,300	7,694	22,500	6,808	14,578	6,286	46,964	154,621

Loans to banks

	2013								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Neither past due nor individually impaired loans	17,648	4,488	4,192	14,805	399	2,274	742	41,499	86,047
Past due but not individually impaired loans	4	13	–	–	–	–	–	–	17
Individually impaired loans	6	–	–	165	–	–	–	36	207
Individual impairment provisions	–	–	–	(78)	–	–	–	(22)	(100)
Portfolio impairment provision	–	–	–	(1)	–	(1)	–	–	(2)
Total loans and advances to banks	17,658	4,501	4,192	14,891	399	2,273	742	41,513	86,169

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Neither past due nor individually impaired loans	19,349	6,205	4,633	8,048	570	3,076	378	26,105	68,364
Past due but not individually impaired loans	2	–	–	–	1	–	–	–	3
Individually impaired loans	5	–	–	164	–	97	–	43	309
Individual impairment provisions	–	–	–	(78)	–	–	–	(25)	(103)
Portfolio impairment provision	–	–	–	(1)	–	(1)	–	–	(2)
Total loans and advances to banks	19,356	6,205	4,633	8,133	571	3,172	378	26,123	68,571

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 73) 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 constantly 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.

	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

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**

Risk review continued

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

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 the 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.

	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/(release)	**(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

Impairment provisions on loans and advances

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

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

	Impairment provision held as at 1 January 2012 $million	Net impairment charge 2012 $million	Amounts written off/other movements 2012 $million	Impairment provision held as at 31 December 2012 $million
Agriculture, forestry and fishing	24	–	5	29
Construction	65	19	(12)	72
Commerce	464	136	68	668
Electricity, gas and water	6	–	2	8
Financing, insurance and business services	167	118	(120)	165
Mining and quarrying	1	–	8	9
Manufacturing	542	101	(82)	561
Commercial real estate	24	–	–	24
Transport, storage and communication	40	162	(5)	197
Other	29	4	(2)	31
Individual impairment provision against loans and advances to customers	1,362	540	(138)	1,764
Portfolio impairment provision against loans and advances to customers	321	(23)	2	300
Total impairment provisions on loans and advances to customers	1,683	517	(136)	2,064
Individual impairment provision against loans and advances to banks	82	6	15	103
Portfolio impairment provision against loans and advances to banks	2	(2)	2	2
Total impairment provisions on loans and advances to banks	84	4	17	105

Risk review continued

Non-performing loans

Gross non-performing loans in WB, the definition of which is set out on page 84, 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:

	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 as 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 84

	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 as at 31 December 2012 reflects provisions against restructured loans that are not included within non-performing loans as they have been performing for 180 days in line with the definition provided on page 84

Debt securities and treasury bills

Debt securities and treasury bills are analysed as follows:

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

[1] See notes 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 measurement on page 72.

Debt securities in the AAA rating category increased by $3.0 billion to $23.8 billion in 2013 mainly due to an increase in higher quality corporate bonds in Hong Kong and Singapore. This was offset by a 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.

Risk review continued

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 ABS 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			
Charge to available-for-sale reserves	**26**	**–**	**26**
Credit to the profit and loss account	**(1)**	**–**	**(1)**
31 December 2012			
Credit to available-for-sale reserves	(3)	–	(3)
Charge to the profit and loss account	5	–	5

Selected European country exposures

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

Total gross exposure represents the amount outstanding on the balance sheet (including any accrued interest but before provisions) and positive mark-to-market amounts on derivatives before netting. To the extent gross exposure does not represent the maximum exposure to loss, this is disclosed separately. Exposures are assigned to a country based on the country of incorporation of the counterparty as at 31 December 2013.

The Group has no direct sovereign exposure (as defined by the 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.

Country	Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
As at 31 December 2013						
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 as at 31 December 2013	**14**	**950**	**741**	–	**284**	**1,989**
Total net exposure as 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

Risk review continued

The Group's exposure to GIIPS as at 31 December 2013 is analysed by financial asset as follows:

At 31 December 2013	Greece $million	Ireland $million	Italy $million	Portugal $million	Spain $million	Total $million
Loans and advances						
Loans and receivables	9	143	265	–	11	428
Held at fair value through profit or loss	–	–	11	–	–	11
Total gross loans and advances	9	143	276	–	11	439
Collateral held against loans and advances	(1)	(4)	(53)	–	(2)	(60)
Total net loans and advances	8	139	223	–	9	379
Debt securities						
Trading						
Designated at fair value	–	–	–	–	36	36
Available-for-sale	–	51	–	–	–	51
Loans and receivables	–	–	–	–	6	6
Total gross debt securities	–	51	–	–	42	93
Collateral held against debt securities	–	–	–	–	–	–
Total net debt securities	–	51	–	–	42	93
Derivatives						
Gross exposure	–	212	24	–	168	404
Collateral/netting[1]	–	(204)	(23)	–	(168)	(395)
Total derivatives	–	8	1	–	–	9
Contingent liabilities and commitments	6	752	517	–	233	1,508
Total net exposure (on- and off-balance sheet)[1]	14	950	741	–	284	1,989
Total balance sheet exposure	9	406	300	–	221	936
As at 31 December 2012						
Net loans and advances	18	53	294	20	22	407
Net debt securities	–	51	–	–	119	170
Net derivatives	2	33	5	–	5	45
Contingent liabilities and commitments	9	1,254	311	1	75	1,650
Total net exposure (on- and off-balance sheet)[1]	29	1,391	610	21	221	2,272

[1] Based on International Swaps and Derivatives Association netting

Other selected eurozone countries

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

	France $million	Germany $million	Netherlands $million	Luxembourg $million	Total $million
Direct sovereign exposure	**–**	**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 as at 31 December 2013	**4,516**	**5,390**	**7,735**	**1,916**	**19,557**
Total net exposure as at 31 December 2012	3,738	12,809	12,114	2,594	31,255

The Group's lending to these selected eurozone countries primarily takes the form of repurchase agreements, inter-bank loans and bonds. The substantial majority of the Group's total gross exposures to these selected countries have a tenor of less than three years, with over 57 per cent having a tenor of less than one year. The Group's exposure in Germany is primarily with the central bank.

Other than all these specifically identified countries, the Group's residual net exposure to the eurozone is $3 billion, which primarily comprises bonds and export structured financing to banks and corporates.

Country cross-border risk

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

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

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

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

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

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

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

Cross-border exposure to the 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.

Risk review continued

The table below, which is based on our internal cross-border country risk reporting requirements, shows cross-border exposures that exceed 1 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 while 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 per cent 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 at 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 the end of 2012. This again was primarily due to the increase in market volatility observed after 22 May 2013 rather than increases in positions.

Risk review continued

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

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

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

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

1 Trading book for market risk is defined in accordance with the relevant section of the PRA Handbook's Prudential Sourcebook for Banks, Building Societies and Investment Firms. On 1 January 2014 this regulation will be superseded by the EU Capital Requirements Regulation (CRD IV/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 IA S39 *Financial Instruments: Recognition and Measurement*

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

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

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

5 Actual one-day VaR at year-end date

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

	2013 $million	2012[2] $million
Trading		
Interest rate risk[2]	**4.7**	5.2
Foreign exchange risk	**5.5**	5.1
Commodity risk	**1.5**	1.6
Equity risk	**0.5**	0.4
Total	**12.2**	12.3
Non-trading		
Interest rate risk	**2.8**	3.8
Equity risk	**0.5**	0.1
Total	**3.3**	3.9

1 Reflects total product income which is the sum of client income and own account income. Includes elements of trading income, interest income and other income which are generated from market risk related activities

2 Comparatives have been restated to exclude certain items of fee income

Market risk VaR coverage

Interest rate risk from non-trading book portfolios is transferred to Financial Markets where it is managed by local 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 (see RWA table on page 132). 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 in 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	**61,802**	**61,059**	**743**
Loans and advances to banks	**86,169**	**13,472**	**72,697**
Loans and advances to customers	**296,015**	**8,643**	**287,372**
Debt securities	**86,073**	**11,638**	**74,435**
Treasury bills	**31,404**	**5,151**	**26,253**
Equities	**6,800**	**1,348**	**5,452**
Other assets	**36,080**	**10,918**	**25,162**
Total	**604,343**	**112,229**	**492,114**
Financial liabilities			
Deposits by banks	**44,526**	**–**	**44,526**
Customer accounts	**390,971**	**–**	**390,971**
Debt securities in issue	**71,412**	**–**	**71,412**
Derivative financial instruments	**61,236**	**60,563**	**673**
Short positions	**5,293**	**5,139**	**154**
Total	**573,438**	**65,702**	**507,736**

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 on the following page).

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

Risk review continued

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. As 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 the 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 1 per cent change in the US dollar exchange rates adjusted to incorporate the impacts of correlations of these currencies to the US dollar. The impact on the positions above would be an increase or decrease in value of $247 million (2012: $255 million). Changes in the valuation of these positions are taken to reserves.

Derivatives

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

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

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

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

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

Hedging

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

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

The notional value of interest rate swaps for the purpose of fair value hedging increased by $6 billion as 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 fulfil our obligations as they fall due. The principal uncertainties for liquidity risk are that customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the expected maturity date. To mitigate these uncertainties, our funding base is diverse and largely customer-driven, while customer assets are of short tenor (50 per cent of assets have a contractual maturity of less than one 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 provides 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.

Risk review 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.

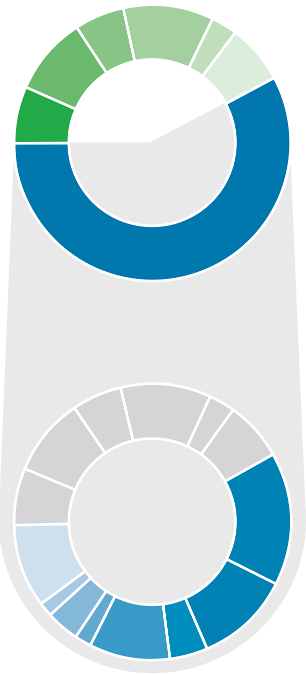
Customer assets are as far as possible funded in the same currency. Where mismatches arise, they are controlled by limits in each country on the amount of foreign currency that can be swapped to local currency and vice versa. Such limits are therefore a means of controlling reliance on foreign exchange 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
- The local regulatory environment, particularly the presence or risk of imposition of foreign exchange controls

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

Debt refinancing levels are low. In the next 12 months approximately $6.7 billion of the Group's senior and subordinated debt is falling due for repayment either contractually or callable by the Group. Further details of the Group's senior and subordinated debt by geography are provided in note 2 to the financial statements on page 248.

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



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

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

Encumbered assets

Encumbered assets represent those on-balance sheet assets pledged or used as collateral in respect of certain Group liabilities. Hong Kong government certificates of indebtedness which secure the equivalent amount of Hong Kong currency notes in circulation, and cash collateral pledged against derivatives are classified as encumbered and included within other assets. Taken together, these encumbered assets represent 3.1 per cent (2012: 2.2 per cent) of total assets, continuing the Group's historical low level of encumbrance.

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

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

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

Readily available to secure funding

Readily available to secure funding includes unencumbered assets that can be sold outright or under repo within a few days, in line with regulatory definitions. The Group's readily available assets 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 metrics

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

Advances-to-deposits ratio

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

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

[1] See note 19 to the financial statements on page 277

[2] See note 30 to the financial statements on page 289

Risk review continued

Liquid asset ratio (LAR)

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

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

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

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

	2013								
	Hong Kong $million	**Singapore $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas, UK & Europe $million**	**Total $million**
Cash and balances at central banks	2,099	2,074	887	12,716	700	2,439	1,621	31,998	54,534
Restricted balances	(6)	(2,028)	(542)	(4,361)	(478)	(1,591)	(644)	(296)	(9,946)
Loans and advances to banks – net of non-performing loans	17,652	4,501	4,192	14,804	399	2,273	742	41,499	86,062
Deposits by banks	(2,091)	(4,792)	(1,479)	(6,926)	(459)	(1,574)	(566)	(26,639)	(44,526)
Treasury bills	10,244	3,627	6,794	1,618	2,167	1,620	2,777	2,557	31,404
Debt securities	20,273	11,391	5,271	15,179	2,495	4,387	2,803	24,274	86,073
of which :									
Issued by governments	4,256	2,988	3,664	12,590	1,760	3,784	1,307	3,525	33,874
Issued by banks	11,207	3,750	935	1,560	327	265	267	13,860	32,171
Issued by corporate and other entities	4,810	4,653	672	1,029	408	338	1,229	6,889	20,028
Illiquid securities and other assets	(170)	(348)	–	–	(769)	(43)	–	(1,051)	(2,381)
Liquid assets	48,001	14,425	15,123	33,030	4,055	7,511	6,733	72,342	201,220
Total assets	141,261	117,296	62,018	110,753	22,747	41,914	19,346	159,045	674,380
Liquid assets to total asset ratio (%)	34.0	12.3	24.4	29.8	17.8	17.9	34.8	45.5	29.8

	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	Group $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 impairment	19,351	6,205	4,633	8,047	571	3,075	378	26,105	68,365
Deposits by banks	(1,585)	(2,005)	(1,769)	(5,628)	(441)	(1,934)	(540)	(23,493)	(37,395)
Treasury bills	5,454	4,102	9,119	2,737	1,996	1,928	2,260	2,099	29,695
Debt securities	21,207	11,352	4,299	14,303	3,617	4,472	2,810	22,362	84,422
of which :									
Issued by governments	4,916	3,152	2,194	11,961	2,651	3,721	1,134	3,959	33,688
Issued by banks	12,537	4,453	1,083	1,497	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 assets	(357)	(655)	–	(320)	(828)	(27)	–	(1,353)	(3,540)
Liquid assets	45,946	19,172	16,594	26,445	5,189	8,169	5,863	65,370	192,748
Total assets	129,821	111,997	69,173	106,406	23,812	40,779	17,495	131,725	631,208
Liquid assets to total asset ratio (%)	35.4	17.1	24.0	24.9	21.8	20.0	33.5	49.6	30.5

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

The Group monitors the LCR and NSFR 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.

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities

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

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

	2013								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	44,309	264	–	–	–	–	–	9,961	54,534
Derivative financial instruments	6,820	7,376	8,403	4,514	3,612	9,085	13,453	8,539	61,802
Loans and advances to banks[1]	36,890	21,705	13,349	5,543	5,153	1,647	1,798	84	86,169
Loans and advances to customers[1]	73,036	29,469	23,541	10,772	11,677	22,549	48,297	76,674	296,015
Investment securities	11,496	13,948	12,567	7,252	11,241	21,052	30,844	15,877	124,277
Other assets	14,677	10,964	2,316	44	318	35	201	23,028	51,583
Total assets	187,228	83,726	60,176	28,125	32,001	54,368	94,593	134,163	674,380
Liabilities									
Deposits by banks[1]	36,084	4,873	1,489	394	276	173	521	716	44,526
Customer accounts[1]	279,638	48,630	26,473	12,864	10,793	2,574	6,310	3,689	390,971
Derivative financial instruments	6,922	7,306	9,405	4,195	3,418	8,480	12,802	8,708	61,236
Senior debt	478	291	3,485	430	19	7,020	10,121	3,335	25,179
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	3,260	962	432	544	1,117	11,258	38,997
Subordinated liabilities and other borrowed funds	–	–	–	–	–	6	4,785	15,606	20,397
Total liabilities	345,995	83,017	55,628	20,267	16,876	19,938	37,648	48,170	627,539
Net liquidity gap	(158,767)	709	4,548	7,858	15,125	34,430	56,945	85,993	46,841

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 258)

	2012								
	One month or less $million	Between one month and three months $million	Between three months and six months $million	Between six months and nine months $million	Between nine months and one year $million	Between one year and two years $million	Between two years and five years $million	More than five years and undated $million	Total $million
Assets									
Cash and balances at central banks	51,201	–	–	–	–	–	–	9,336	60,537
Derivative financial instruments	4,787	5,705	4,365	3,079	2,079	6,762	12,272	10,446	49,495
Loans and advances to banks[1]	30,392	16,313	6,275	3,514	9,127	1,635	1,125	190	68,571
Loans and advances to customers[1]	61,261	28,393	21,819	12,678	9,796	20,566	49,221	80,882	284,616
Investment securities[1]	8,205	16,578	13,609	7,520	12,912	15,695	31,575	14,455	120,549
Other assets	9,663	12,529	1,901	602	277	82	207	22,179	47,440
Total assets	165,509	79,518	47,969	27,393	34,191	44,740	94,400	137,488	631,208
Liabilities									
Deposits by banks[1]	32,869	2,541	1,023	114	157	159	438	94	37,395
Customer accounts[1]	264,949	49,271	29,693	10,605	12,674	6,045	4,828	7,052	385,117
Derivative financial instruments	4,887	5,190	4,685	3,355	2,110	6,149	11,418	9,398	47,192
Senior debt[1]	279	1,339	1,732	768	213	5,173	10,366	1,786	21,656
Other debt securities in issue[1]	7,961	15,862	4,889	2,278	2,723	1,693	1,454	2,724	39,584
Other liabilities	9,671	7,273	3,500	1,360	528	715	889	11,685	35,621
Subordinated liabilities and other borrowed funds	488	129	–	–	944	–	3,496	13,531	18,588
Total liabilities	321,104	81,605	45,522	18,480	19,349	19,934	32,889	46,270	585,153
Net liquidity gap	(155,595)	(2,087)	2,447	8,913	14,842	24,806	61,511	91,218	46,055

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 258)

Behavioural maturity of financial assets and liabilities

The cash flows presented on page 120 reflect the cash flows which will be contractually payable over the residual maturity of the instruments. However, contractual maturities do not necessarily reflect the timing of actual repayments or cash flow. In practice, certain asset and liability instruments behave differently from their contractual terms and, especially for short-term customer accounts, extend to a longer period than their contractual maturity. Such behavioural adjustments are identified in each country through analysis of the historic behaviour of balances. The Group's expectation of when assets and liabilities are likely to become due is provided in the table below:

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

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 258)

Risk review continued

2012

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

[1] Amounts include financial instruments held at fair value through profit or loss (see note 15 on page 258)

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.

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**
Deposits by banks	**36,084**	**4,873**	**1,489**	**394**	**276**	**269**	**588**	**729**	**44,702**
Customer accounts	**279,638**	**48,630**	**26,473**	**12,864**	**10,793**	**2,820**	**6,972**	**4,359**	**392,549**
Debt securities in issue	**10,592**	**13,543**	**15,001**	**4,020**	**3,348**	**9,625**	**12,113**	**8,920**	**77,162**
Subordinated liabilities and other borrowed funds	**8**	**243**	**273**	**278**	**256**	**998**	**6,504**	**28,787**	**37,347**
Other liabilities	**12,759**	**8,665**	**3,260**	**962**	**432**	**544**	**1,117**	**11,258**	**38,997**
Total liabilities	**339,081**	**75,954**	**46,496**	**18,518**	**15,105**	**14,256**	**27,294**	**54,053**	**590,757**

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
Deposits by banks	32,869	2,585	1,062	148	187	237	442	94	37,624
Customer accounts	264,949	49,271	29,693	10,605	12,674	7,219	5,002	8,021	387,434
Debt securities in issue	8,334	17,201	6,836	3,046	3,460	8,718	13,308	4,658	65,561
Subordinated liabilities and other borrowed funds	488	224	228	83	944	273	4,958	26,253	33,451
Other liabilities	9,671	7,273	3,500	1,360	528	715	889	11,685	35,621
Total liabilities	316,311	76,554	41,319	15,242	17,793	17,162	24,599	50,711	559,691

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 of 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.

	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**
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 $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
Derivative financial instruments	230,192	215,322	193,576	45,166	35,069	208,875	13,449	46,977	988,626

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 and 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

Risk review continued

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

In the second line of defence, Group Operational Risk is responsible for setting and maintaining the standards for operational risk management and control. In addition, specialist operational risk control owners have responsibility for the control of operational risk arising from the management of the following activities Group-wide: people, technology, vendor, property, security, accounting and financial control, tax, legal processes, corporate authorities and structure and regulatory compliance, as described further in the table below.

Operational risk control area	
People management	Recruiting, developing, compensating and managing employees
Technology management	Developing, maintaining and using information technology, and information security
Vendor management	Procurement, licensing, outsourcing and supplier management
Property management	Managing property assets, projects and facilities
Security management	Protecting the security of staff and customers
Regulatory compliance	Maintaining relationships with regulators, evidencing compliance with banking and securities regulations and managing regulatory change
Legal processes	Effective documentation of material transactions and other material contractual agreements, controlling the rights pertaining to material assets of the Group, and managing material claims and legal disputes
Accounting 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.

Summary of differences between Pillar 3 disclosures and Risk review

The Group's Pillar 3 disclosures as at 31 December 2013 (more information can be found at investors.sc.com/en/showresults.cfm), provide details from a regulatory perspective on certain aspects of credit risk, market risk and operational risk. The quantitative disclosures in the Pillar 3 disclosures will not, however be directly comparable to those in the Risk review as they are largely based on internally modelled risk metrics such as probability of default (PD), loss given default (LGD) and exposure at default (EAD) under Basel rules, whereas the quantitative disclosures in the Risk review are based on International Financial Reporting Standards (IFRS). EAD differs from the IFRS exposure primarily due to the inclusion of undrawn credit lines and off-balance sheet commitments. In addition, a number of the credit risk disclosures within the Pillar 3 disclosures are only provided for the internal ratings based portfolio, which represents 80 per cent of loans and advances to customers.

Topic	Annual Report and Accounts	Pillar 3 Report
Basis of requirements	■ The Group's Annual Report is prepared in accordance with the requirements of IFRS, the UK Companies Act 2006, and the UK, Hong Kong and India Listing rules	■ The Group's Pillar 3 disclosures provide details on risk from a regulatory perspective to fulfil Basel II rule requirements which have been implemented in the UK through the Prudential Regulation Authority (PRA) General Prudential Sourcebook (GENPRU) and its Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU)
Basis of preparation	■ The quantitative credit risk disclosures in the Risk review are based on IFRS ■ Loans and advances are analysed between Consumer Banking (CB) (split by product), Wholesale Banking (WB) (split by standard industry classification codes) ■ Market risk disclosures are presented using VaR methodology for the trading and non-trading books	■ Provides details from a regulatory perspective on certain aspects of Credit risk, Market risk and Operational risk. For Credit risk this is largely based on internally modelled risk metrics such as probability of default, loss given default (LGD) and exposure at default (EAD) under Basel rules ■ Loans and advances are analysed between those that are internal ratings basis (IRB) and standardised, split by standard BIPRU categories ■ Market risk and Operational risk disclosure are based on the capital required
Coverage	■ All external assets which have an exposure to credit risk ■ Market risk exposure in the trading and non-trading books ■ Liquidity risk analysis of contractual maturities, liquid assets and encumbered assets	■ A number of the Credit risk disclosures within the Pillar 3 disclosures are only provided for the IRB portfolio, which represents 80 per cent of loans and advances to customers and derivatives. The remainder of the portfolio is on the standardised rules as prescribed in the BIPRU handbook

Summary of cross-references between the Pillar 3 disclosure and the Risk review

Topic	Annual Report and Accounts	Pillar 3 Report
Credit rating and measurement	■ Overview of credit risk management, credit grading and the use of IRB models is on page 72 ■ Maximum exposure to credit risk set out on page 75 ■ Internal credit grading analysis provided by business for loans neither past due nor impaired is on page 72 ■ External credit grading analysis for unimpaired Treasury bills and debt securities is set out on page 72	■ Details of IRB and standardised approach to credit risks is set out on page 19 ■ A more detailed explanation of IRB models is set out on pages 20 and 21 ■ For the IRB portfolio, pages 41 to 43 provide an indicative mapping of the Group's credit grades in relation to Standard & Poor's credit ratings ■ Minimum regulatory capital requirements for credit risk are set out on page 23 ■ Credit grade analysis provided for the IRB portfolio only. EAD within the IRB portfolio after credit risk mitigation (CRM), undrawn commitments, exposure weighted average LGD and weighted average risk weight by internal credit grade on page 34 to 40
Credit risk mitigation	■ CRM approach is on page 73 ■ Overview of fair value of collateral held and other credit risk mitigants for the loan portfolio, with further details on CB collateral on page 92 and WB collateral on page 101 ■ Quantitative overview of other risk mitigants including: – Securitisations include disclosures of both retail transferred and synthetic securitisation – Master netting, CSAs and cash collateral for derivatives	■ Provides details on CRM from a regulatory perspective by providing EAD after CRM by IRB exposure class. Explanation is given on what constitutes eligible collateral including explanations of funded and unfunded protection. The main type of collateral for the Group's standardised portfolio is also disclosed. See pages 31 and 32 ■ Extensive disclosures and carrying securitisation including notional amounts, details of securitisation programmes where the Group is an originator, the accounting and governance of securitisation activities and retained exposures and carrying value risk weight bands and by geography. See pages 47 to 53 ■ EAD for items subject to counterparty credit (CCR) risk pre- and post-credit mitigation is disclosed. The products that are covered under CCR include repo style transactions and derivative transactions. Please refer to pages 45 and 46
Loan portfolio	■ Group overview of the loan portfolio provided by business by geography is on page 78. A more detailed analysis by CB product is set out on page 89 and by WB counterparty (based on standard industry classifications) on page 96 ■ Maturity analysis is provided on pages 78, 90 and 97	■ EAD by geography, split between IRB and Standardised portfolios (page 26) and by industry types (as specified by BIPRU) on page 27 ■ Maturity of EAD, split by IRB and standardised on page 29
Problem credit management and provisioning	■ Provisioning approach is set out on page 85 and definition of non-performing loans on page 84 ■ Disclosures of non-performing loans, neither past due nor impaired, past due and impaired loans, individual impairment charge and portfolio impairment charge by geography, product and industry	■ Disclosures around the expected loss model used for regulatory purposes and a tabular disclosure showing the regulatory expected loss against the net individual impairment charge. Please see page 33
Market risk	■ Details of the VaR methodology, and VaR (trading and non-trading) is disclosed by risk type on pages 111 to 113 ■ Details on Group Treasury's market risk including a table showing a parallel shift in the yield curves is on page 114	■ Provides details of the internal model approvals like the Capital Adequacy 2 (CAD 2) that the PRA has granted the Group including the extension of the CAD 2 scope to include coal market risk ■ Market risk capital requirements for the trading books are disclosed by risk type on page 56

Capital

Maintaining a strong capital position to support our clients and business strategy, and to meet our regulatory requirements

Proactively managing the capital base to ensure strong foundations

Our highlights and achievements in 2013

- Well capitalised, with a focus on Core Tier 1 and Total Capital, to support our business strategy
- Our capital position, allied with strong liquidity and a conservative, diversified balance sheet, continues to allow us to support our clients and customers
- Proactively managing our financial framework to best position the Group to meet, and stay ahead of, evolving regulatory capital requirements

The Group's Pillar 3 Disclosures for 31 December 2013 provide further detail on regulatory capital, the Group's capital structure and the impact of Basel III which can be found at investors.sc.com/en/showresults.cfm

The following sections on Capital form part of the audited financial statements: from the start of 'Capital management' on this page to the end of 'Current compliance with Capital Adequacy Regulations' on page 129, and from the 'Capital base' table on page 131 until the 'Movement in capital' table on page 132.

Capital management

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

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

- Current regulatory capital requirements and our assessment of future standards
- Demand for capital due to business growth forecasts, loan impairment outlook and market shocks or stresses
- Forecast demand for capital to support credit ratings
- Available supply of capital and capital raising options

The Group formulates a capital plan with the help of internal models and other quantitative techniques. The Group uses a capital model to assess the capital demand for material risks, and supports this with our internal capital adequacy assessment. Other internal models help to estimate potential future losses arising from credit, market and other risks, and, using regulatory formulae, the amount of capital required to support them. In addition, the models enable the Group to gain an enhanced understanding of its risk profile, for example, by identifying potential concentrations and assessing the impact of portfolio management actions. Stress testing and scenario analysis are an integral part of capital planning, and are used to ensure that the Group's internal capital adequacy assessment considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events and how these could be mitigated through appropriate management actions. The capital modelling process is a key part of our management discipline.

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

The Group's capital position, including its relationship to the Group's Risk Appetite Statement, is regularly considered by the Board Risk Committee (BRC).

Further details of the BRC's activities in relation to capital are available in the Corporate governance section on pages 163 to 165.

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 62 to 127.

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 131 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 50 bps.

CRD IV

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

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

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

G-SIB

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

Capital buffers

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

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

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

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

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

Pillar 2

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

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

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

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

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

Primary loss absorbing capacity (PLAC)

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

Capital base

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

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

[2] Excess of expected losses in respect of advanced IRB portfolios is shown gross of tax benefits

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

[4] The amount for 2012 does not agree with note 33 as the prior period was re-stated due to the use of equity accounting for associates and joint ventures

Capital continued

Movement in total capital

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

Risk-weighted assets and capital ratios

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

Risk-weighted assets by business and geography

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

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

Risk-weighted contingent liabilities and commitments[1]

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

1 These amounts are included in total risk-weighted assets

Capital continued

Movement in risk-weighted assets

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

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

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

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

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

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

Operational risk RWA increased by $2.5 billion, or 8 per cent. This is primarily determined by the change in income over a rolling three-year time horizon. The growth reflects the strong performance of the Group over that period and the change in consolidation approach for the Group's Permata joint venture in the Other Asia Pacific region.

CRD IV estimate

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

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

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

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

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

Reconciliation of Core Tier 1 and Common Equity Tier 1

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

Reconciliation of Basel II risk-weighted assets to CRD IV

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

Future capital requirements

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

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

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

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

The Group's Pillar 3 Disclosures 2013 provide further information on the CRD IV capital position and leverage ratio and can be found at investors.sc.com/en/showresults.cfm

Corporate governance

Goal was launched in Jordan in January 2011. To date, the programme has reached more than 7,000 girls in different rural areas in Jordan. Goal is an award-winning development programme which uses sport and life skills education to transform the lives of adolescent girls across nine countries.

Corporate governance

Board of directors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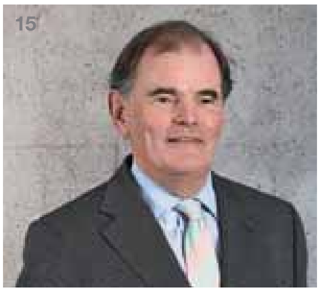
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The Board is accountable for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. It provides leadership through oversight and review, and by providing guidance while setting the strategic direction.

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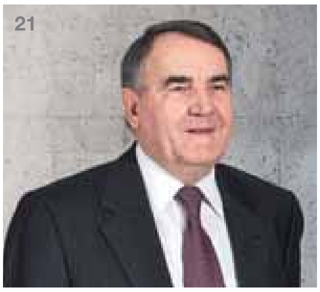

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1. Sir John Peace
Chairman

Sir John joined the Board in 2007 as Deputy Chairman and was appointed Chairman in 2009. Sir John is also chairman of Burberry Group plc and Experian plc and between 2000 and 2006, he was chief executive of GUS plc, having joined the board in 1997. He has strong financial services and retailing background and chairmanship experience. He is committed to supporting his local community and has a long-standing interest in education. For 10 years he was the chairman of the board of governors of Nottingham Trent University. He has been a trustee of the Djanogly City Academy in Nottingham since 1999, is Lord-Lieutenant of Nottinghamshire, a Fellow of the Royal Society of Arts and has an honorary doctorate from The University of Nottingham. Sir John brings extensive international experience and exemplary governance credentials. Sir John was knighted in 2011 for services to business and the voluntary sector. Age 65.

2. Peter Sands
Group Chief Executive

Peter was appointed Group Chief Executive in November 2006. He joined the Board as Group Finance Director in May 2002 and is based in London. Before his appointment as Group Chief Executive he was responsible for Finance, Strategy, Risk and Technology and Operations. Prior to joining Standard Chartered, Peter was a director with worldwide consultants McKinsey & Company where he worked extensively in the banking and technology sectors in a wide range of international markets. Peter is also lead non-executive director of the board of the Department of Health. Peter sits on the World Economic Forum's Foundation Board and is a Director of the Institute of International Finance. Age 52.

3. Ruth Markland
Senior Independent
Non-Executive Director

Ruth was appointed to the Board in November 2003. She is also Senior Independent Director. She is a non-executive director of The Sage Group plc, a member of the supervisory board of Arcadis NV, and until November 2012 she was chairman of the board of trustees of the WRVS charity. Previously, Ruth was managing partner, Asia for the international law firm Freshfields Bruckhaus Deringer, responsible for the firm's eight offices in Asia between 1996 and 2003. Prior to that, Ruth worked for Freshfields in London and Singapore. She first joined Freshfields in 1977 and became a partner in 1983. Ruth has significant expertise in Asia and a deep understanding of the regulatory environment. Age 61.

Board of directors continued

4. Christine Hodgson

Non-Executive Director

Christine was appointed to the Board in September 2013. She is currently the chair of Capgemini UK plc, part of one of the world's largest IT and professional services companies. She is also a non-executive director of Ladbrokes plc and serves on the boards of two charities – The Prince of Wales' Business in the Community and MacIntyre Care. Christine joined Capgemini in 1997 and has held a variety of roles including CFO for Capgemini UK plc and CEO of Technology Services for North West Europe. Prior to joining Capgemini, Christine was corporate development director of Ronson plc and held senior positions at Coopers & Lybrand. Christine brings strong business leadership, accounting, finance and technology experience to the Board. Age 49.

5. Naguib Kheraj

Non-Executive Director

Naguib joined the Board in January 2014. He now spends the majority of his time in the not-for-profit sector and serves on a number of international boards within the Aga Khan Development Network. He is the chairman of its endowment fund and an adviser to the Aga Khan Fund for Economic Development. Naguib is also a member of the Investment Committee of Wellcome Trust. Naguib has served in a number of senior roles over the course of 12 years at Barclays, including as group finance director and vice-chairman and in various business leadership positions in Wealth Management, Institutional Asset Management and Investment Banking. Naguib was also a Barclays nominated non-executive director of Absa Group in South Africa and of First Caribbean International Bank. He was chief executive officer of JP Morgan Cazenove, a leading London-based investment banking business, and has also held senior positions at Lazard, Robert Fleming and Salomon Brothers, where he started his banking career in 1986. Naguib has also previously served as a non-executive director of NHS England, as a senior adviser to Her Majesty's Customs and Revenue Service and to the Financial Services Authority in the UK. Naguib brings significant banking and finance experience to the Board. Age 49.

6. Om Bhatt

Non-Executive Director

Om was appointed to the Board in January 2013. He is currently an independent non-executive director of Hindustan Unilever Ltd., Oil and Natural Gas Corporation, Tata Steel and Tata Consultancy Services. He is also a governor on the board of the Center for Creative Leadership, a US non-profit leadership development organisation. Until March 2011, Om was chairman of the State Bank Group, which includes the State Bank of India (SBI), India's largest commercial bank. In a career spanning 38 years with SBI, Om held a number of roles beginning with the lead bank department, which pioneered financial inclusion. He led the project team that pioneered SBI's technology initiative in the 1990s, undertook assignments at SBI's London and Washington offices and general management roles between 2004 and 2006. He became managing director of SBI in 2006, culminating in his appointment as chairman in the same year. Om has also served as chairman of the Indian Banks' Association. He has extensive banking, financial services and leadership acumen with deep knowledge and experience across India, one of our largest markets. Om is based in India. Age 63.

7. Jaspal Bindra

Group Executive Director

Jaspal was appointed to the Board in January 2013. Based in Hong Kong, he is Chief Executive Officer, Asia. He joined Standard Chartered in 1998 and has held senior positions in the Group, such as Global Head of Client Relationship for Wholesale Bank and Chief Executive Officer for India. Before joining Standard Chartered, Jaspal was with UBS Investment Banking. He began his career with Bank of America in 1984, and working across treasury markets and consumer banking in India and Singapore. Jaspal also leads Standard Chartered's award-winning work on diversity and inclusion. He sits on the board of governors of XLRI Business School, is a member of the City of London Advisory Council for India and is a board director of the US-India Business Council. Age 53.

8. Dr Kurt Campbell

Non-Executive Director

Kurt was appointed to the Board in June 2013. He is currently chairman and chief executive officer of The Asian Group LLC, a strategic advisory and investment group specialising in the Asia Pacific region. From 2009 to 2013, Kurt served as the US Assistant Secretary of State for East Asian and Pacific Affairs. He was widely credited as being a key architect of the 'pivot to Asia'. Kurt was a central figure in advancing the US-China relationship, building stronger ties to Asian allies and in the opening of Myanmar. Previously, Kurt was the chief executive officer and co-founder of the Center for a New American Security. From 2003 to 2009 he was the founder and chairman of StratAsia, a strategic advisory firm focused on Asia. Prior to that, he served in several capacities in the US government. This included deputy assistant secretary of Defense for Asia and Pacific Affairs and director on the National Security Council Staff in the White House. He was also an associate professor at Harvard's John F Kennedy School of Government. Kurt has a wealth of experience of the US political environment and significant experience of some of our key markets, notably across Asia. Age 56.

9. Dr Louis Cheung

Non-Executive Director

Louis joined the Board in January 2013. He is currently the chief executive officer of Boyu Capital Advisory Co., a China-focused private equity investment firm. He is also an independent non-executive director of Fubon Financial Holding Company and a fellow and council member of the Hong Kong Management Association. He was with the Ping An Insurance Group from 2000 to 2011 and became group president in 2003 and executive director in 2006 after working through several senior roles, including chief financial officer. Prior to joining Ping An he was a global partner of McKinsey & Company and a leader in its Asia Pacific financial institutions practice. He has strong general financial services and investor relations credentials, particularly in a Greater China context. Louis is based in Hong Kong. Age 50.

10. Simon Lowth

Non-Executive Director

Simon joined the Board in May 2010. He is chief financial officer and executive director of BG Group. Simon was an executive director and chief financial officer of AstraZeneca PLC from 2007 to 2013. Prior to AstraZeneca, he was finance director at Scottish Power PLC following two years as executive director, corporate strategy and development. As finance director, Simon led Scottish Power's group-wide performance and risk management processes and played a critical role in the strategic transformation of Scottish Power. Simon's move to Scottish Power in 2003 followed 15 years' experience with the global management consultancy, McKinsey & Company, latterly as a senior director responsible for the firm's UK industrial practice where he advised leading multi-national companies on a wide range of strategic, financial and operational issues. Simon brings significant financial and risk management experience to the Board. Age 52.

11. Dr Han Seung-soo, KBE

Non-Executive Director

Dr Han is a former prime minister of the Republic of Korea and joined the Board in January 2010. He has a distinguished political, diplomatic and administrative career serving as deputy prime minister and minister of finance, foreign affairs, and industry and trade before serving as prime minister in 2008 and 2009. He also served as Korean ambassador to the US, chief of staff to the president, president of the 56th Session of the United Nations (UN) General Assembly, special envoy of the UN Secretary-General on Climate Change and chairman of the 2009 OECD Ministerial Council Meeting in Paris. He is currently UN Secretary-General's Special Envoy for Disaster Risk Reduction and Water, on the UN Secretary-General's Advisory Board on Water and Sanitation, is the founding chair of the High-Level Expert Panel on Water and Disaster/UNSGAB, as well as the founding chairman of the Global Green Growth Institute and chairman of the International Advisory Board of the International Finance Forum of China. Dr Han is based in Korea and brings with him valuable knowledge of Asia and economics. Age 77.

12. John Paynter

Non-Executive Director

John joined the Board in October 2008. He is chairman of Standard Life Investments Holdings and is senior independent director of Standard Life plc. He was appointed senior adviser to Greenhill & Co., Inc. in April 2009 and was previously vice-chairman of JP Morgan Cazenove. He joined Cazenove in 1979, was appointed partner in 1986, and later headed corporate finance, Cazenove's largest business. Following Cazenove's merger with JP Morgan in 2005, John was appointed vice-chairman where his responsibilities were predominantly external facing, acting on behalf of major clients and handling all aspects of the broking relationship. John brings a wealth of experience in the fields of corporate broking, financial advisory and institutional investor knowledge. John was previously a non-executive director of Jardine Lloyd Thompson Group plc. He has a deep understanding of financial markets and the corporate sector. Age 59.

13. Mike Rees

Group Executive Director

Mike was appointed to the Board in August 2009. He is based in London and is Chief Executive Officer, Wholesale Banking. On 1 April 2014 Mike will be appointed Deputy Group Chief Executive and will take responsibility for the integrated Wholesale Banking and Consumer Banking businesses. Mike joined Standard Chartered in 1990 as the Chief Financial Officer for Global Treasury. In October 1994, he was appointed Regional Treasurer in Singapore, responsible for the South East Asia Treasury businesses. In late 2000, Mike was appointed Group Head of Global Markets. In November 2002, he was promoted to Chief Executive Officer, Wholesale Banking, responsible for all Commercial Banking products in addition to his responsibilities for Global Markets products. Mike is a member of the International Advisory Board of Mauritius and the Mayor of Rome's business advisory council. Age 58.

14. V. Shankar

Group Executive Director

Shankar joined the Board in January 2012. Based in Dubai, he is Chief Executive Officer, Europe, Middle East, Africa and Americas. He joined Standard Chartered in 2001 as Group Head of Corporate Finance, was appointed Group Head of Origination and Client Coverage in 2007 and promoted to his current role in 2010. Before joining Standard Chartered, Shankar was with Bank of America for 19 years. In addition to his responsibilities at Standard Chartered, Shankar is a non-executive director of Majid Al Futtaim Holding LLC, on the board of trustees of SINDA and a member of the UK-UAE Business Council. Age 56.

15. Oliver Stocken, CBE

Non-Executive Director

Oliver joined the Board in June 2004. He is chairman of Stanhope Group Holdings Limited, the MCC and the chairman of the board of trustees of CARE International UK. Previously, Oliver was chairman of Home Retail Group plc, Oval Limited, the Natural History Museum, deputy chairman of 3i Group plc and was group finance director at Barclays PLC until September 1999. He joined Barclays Merchant Bank in 1979 as head of corporate finance and became managing director in 1984. He joined the Board of BZW at its inception, later becoming finance director. He started his career with Arthur Andersen and later joined N M Rothschild, where he became a director in corporate finance. Oliver's financial, banking and international experience makes him a valuable contributor to the Board. Age 72.

16. Dr Lars Thunell

Non-Executive Director

Lars was appointed to the Board in November 2012. He is currently a director of Kosmos Energy, a senior adviser to the Blackstone Group, which includes being a non-executive director and vice-chairman of Sithe Global LLP and Fisterra Energy LLP, two international power development companies (which are part of the Blackstone Group). He is also senior adviser to the Center for Strategic and International Studies, a US foreign policy think-tank and a board member of the Middle East Investment Initiative, an independent non-profit organisation. Lars is also a founding director of Africa Risk Capacity Limited, a mutual not-for-profit weather index insurance company. Until June 2012, Lars was chief executive officer and executive vice-president of the International Finance Corporation (IFC), a member of the World Bank Group. In this role, Lars led the IFC's overall strategic direction in its mission to promote sustainable private sector development. From 1997 to 2005, Lars was chief executive officer of SEB, Sweden's leading corporate bank. From 1994 to 1997 he was chief executive officer of Trygg-Hansa and from 1992 to 1994, president and chief executive officer of Securum, the Swedish Government 'bad bank'. His previous non-executive directorships include Statoil AS (Norway), AkzoNobel N.V. (Netherlands), Nobel Biotech, SCA, Astra AB and chairman of the Swedish Bankers Association. Lars has a highly developed understanding of banking and risk management in a financial services context. Age 65.

17. Richard Meddings

Group Finance Director

Richard was appointed Group Finance Director in November 2006, having joined the Board as a Group Executive Director in November 2002. He is responsible for Finance and Group Corporate Treasury. Immediately prior to his appointment as Group Finance Director, Richard had been Group Executive Director for growth and governance across Africa, the Middle East, Pakistan, Europe and the Americas. Before that, he was Group Executive Director with responsibility for risk, group special assets management and legal and compliance. As announced on 9 January 2014, Richard will be stepping down from the Board by 30 June 2014. Before joining Standard Chartered, Richard was chief operating officer, Barclays Private Clients and prior to that he was group financial controller at Barclays PLC. Richard was group finance director of Woolwich PLC before the acquisition of Woolwich PLC by Barclays PLC. In this role, his responsibilities included finance, strategy, investor relations, risk, compliance and treasury. Richard is a non-executive director of 3i Group plc and is a member of the Governing Council of the International Chamber of Commerce UK. Richard is chairman of Seeing is Believing, a Standard Chartered community investment programme for the elimination of avoidable blindness for hundreds of thousands of individuals and also communities around the world. Richard is based in London. Age 56.

Board of directors continued

18. Steve Bertamini

Group Executive Director

Steve joined Standard Chartered as Group Executive Director and Chief Executive Officer, Consumer Banking in May 2008 and was appointed to the Board in June 2008. From 2013, he became the executive sponsor driving the diversity and inclusion agenda for the Group and was the executive sponsor for employee volunteering for the Group in 2010. As announced on 9 January 2014, Steve will be stepping down from the Board at the end of March 2014. Before his appointment at Standard Chartered, he spent 22 years with GE, most recently as chairman and chief executive officer of GE North East Asia. He was also responsible for GE's acquisition and merger business in the Asia Pacific region from 2004 and president of GE Capital Asia from January 2001. Prior to that, Steve was chief executive officer of GE Australia and New Zealand. He led the establishment of GE's consumer finance business in Asia in 1993 and was its managing director from 1994 to 1998. He is a member of YPO, Global 50, Global Executive Group, Chief Executives Organisation and Visa's senior client council. Steve is based in Singapore. Age 49.

19. Jamie Dundas

Non-Executive Director

Jamie became a member of the Board in March 2004 and is chairman of Jupiter Fund Management plc. Jamie was previously chief executive of the UK property company MEPC and finance director of the Airport Authority Hong Kong. He is deputy president (and former chairman) of Macmillan Cancer Support, the UK's largest cancer care charity and non-executive director of The Francis Crick Institute. He began his career as a merchant banker with Morgan Grenfell, where he became deputy head of banking. Jamie brings to the Board significant high-level experience in Hong Kong and a strong background in banking, including a deep understanding of the wholesale banking marketplace. Age 63.

20. Rudy Markham

Non-Executive Director

Rudy joined the Board in February 2001. Rudy is a non-executive director of Legal and General Group plc, AstraZeneca PLC, United Parcel Service, Inc, the Operational Board of the Foreign and Commonwealth Office and non-executive chairman of Moorfields Eye Hospital. He is also chairman of the Supervisory Board of Corbion nv. Rudy was previously financial director of Unilever PLC and Unilever NV until his retirement. He joined Unilever in 1968 and from 1989 to 1998 he was based in East Asia, latterly as business group president of Northeast Asia based in Singapore. He joined the board of Unilever as strategy and technology director and became a member of the executive committee in May 1998. He has also been a member of the board of the Financial Reporting Council. Rudy has demonstrated excellent chairmanship skills as Chairman of the Audit Committee and as a result of his length of service and commitment, provides an in-depth knowledge of the Group which is invaluable to the Board, the Audit, the Board Risk and the Nomination Committees. Age 68.

21. Paul Skinner, CBE

Non-Executive Director

Paul was appointed to the Board in November 2003. Paul is also a non-executive director of the Tetra Laval Group and L'Air Liquide SA. In addition, Paul is a member of the public interest body of PwC. He was chairman of Rio Tinto Plc from 2003 to 2009 and Chairman of Infrastructure UK, HM Treasury from 2009 to 2013. He was formerly a director of The Shell Transport and Trading Company plc and group managing director of the Royal Dutch/Shell Group of companies. During his Shell career he worked in all of Shell's main businesses with assignments in the UK, Greece, Nigeria, New Zealand and Norway. Paul was a UK business ambassador over the period 2008 to 2012. He also served as a member of the Defence Board of the Ministry of Defence and as chairman of both the Commonwealth Business Council and International Chamber of Commerce UK. Paul has extensive experience of customer-facing global businesses across our geographical footprint and of managing a large global commodities trading business. Age 69.

22. Annemarie Durbin

Group Company Secretary

Annemarie joined Standard Chartered in 1995. She has held senior roles in Wholesale Banking, including Head of Financial Institutions for Europe and Africa, and had global responsibility for the Development Organisation client segment. Annemarie has held Consumer Banking head roles in the Philippines and Thailand and has been Chief Executive Officer in both countries. Since returning to the UK in 2006, Annemarie has held a number of group support function roles including Head of Resourcing and Reward (within Human Resources) and Group Head of Corporate Affairs. Annemarie was appointed Group Company Secretary and Group Head of Secretariat in 2007. In February 2012, this role expanded to cover the Group's Corporate Real Estate Services function. With effect from 1 April 2013, she assumed administrative oversight of the Group's Internal Audit function. Annemarie is a non-executive director of WH Smith PLC, is a qualified barrister and solicitor and has an MSc in executive coaching. Age 50.

Senior management

The Court of Standard Chartered Bank is the executive decision-making body of the Group and delegates its authority to a number of key committees. As at 5 March 2014, the Court comprises the executive directors of Standard Chartered PLC and the following senior executives:


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1. Tracy Clarke

Tracy joined Standard Chartered in 1985 and was appointed a Director of Standard Chartered Bank in January 2013. She is Director, Compliance, People and Communication and a diversity and inclusion ambassador. In 2013, she assumed responsibility for the Legal and Compliance functions in addition to her responsibilities for Human Resources and Corporate Affairs. She has previously held the positions of Group Head of Corporate Affairs, Head of the Group Chief Executive's Office and other banking roles in the UK and Hong Kong. She is a non-executive director of British Sky Broadcasting Group plc and also became a trustee of WORKing for YOUth, a charitable fund established in May 2012 aimed at tackling youth unemployment. She is a fellow of the Chartered Institute of Personnel Development and a member of the Institute of Financial Services. Tracy also holds an MBA from Henley Management College and Brunel University. Age 47.

2. Richard Goulding

Richard joined Standard Chartered in 2002 and was appointed a Director of Standard Chartered Bank in January 2013. Richard is Group Chief Risk Officer and is responsible for managing Credit, Market and Operational Risk across the Group. He was previously the Chief Operating Officer of Wholesale Banking. Prior to joining the Group, he was at the Old Mutual Group where he was chief operating officer of their global financial services division based in London and Boston. Prior to that, he was a member of the global executive board of UBS investment banking division, chaired the operating committee and took responsibility for programme and regional management. Richard qualified as a chartered accountant with Arthur Andersen and Company, having previously obtained a Bachelor of Commerce degree and a postgraduate degree in finance from the University of Natal in South Africa. Age 54.

3. Jan Verplancke

Jan joined Standard Chartered in 2004 and was appointed a Director of Standard Chartered Bank in January 2013. He is Chief Information Officer and Group Head of Technology and Operations and is responsible for all systems development, technology support and banking operations. He is non-executive director of Scope International Private Limited and Standard Chartered Bank (China) Limited. Prior to joining Standard Chartered, Jan was Chief Information Officer – EMEA at Dell. As well as having overall systems responsibility for EMEA, he was responsible for the expansion of Dell's business in terms of new markets and consolidation of back-office operations. Jan was previously a non-executive director of Monitise Plc. Age 50.

Corporate governance

Exemplary governance is key to our long-term success, enabling us to deliver sustainable shareholder value

Sir John Peace
Chairman

> "Exemplary governance is key to our long-term success of the company. Through exemplary governance we can create and deliver sustainable shareholder value."

Dear Shareholder

We believe that good governance contributes to the long-term success of a company, creating trust and engagement between the company and its stakeholders. Exemplary governance standards and ethics are core to our strategic intent, and we have clear, well understood governance practices throughout the Group. From supporting our clients and customers to investing in local communities, we can be a powerful force for good.

However, we recognise that a strong governance framework alone is not enough to achieve our long-term ambitions. Strong internal controls, values and culture, all of which are embedded across the Group and reflected in the behaviour of our employees every day, are also of vital importance. In 2013, we intensified our focus on conduct. Getting conduct right is essential if we are to strengthen trust in the banking industry. During the year, the Board endorsed an updated Group Code of Conduct which is more closely aligned with the Group's values and strategic intent.

For many years we have measured and rewarded performance both in terms of what employees achieve and how they achieve it, and we have ample evidence that this has a positive effect on how well our culture and values are embedded across the Group. In addition to our values, key elements of Standard Chartered's culture include a spirit of transparency, open-mindedness, inquiry, collaboration and constructive challenge.

On 9 January 2014 we announced that, with effect from 1 April 2014, we are integrating our two businesses, Wholesale Banking and Consumer Banking, to form one business. The combined business will be led by Mike Rees. Reorganising our business is an important step as we implement our new strategic aspirations as outlined at our Investor Day in November 2013.

In addition, we announced that Steve Bertamini, Chief Executive Officer Consumer Banking, and Richard Meddings, Group Finance Director, will be stepping down from the Board on 31 March 2014 and by 30 June 2014 respectively. I would like to thank both Richard and Steve for their valuable contributions to the Board over the past 11 and six years respectively, and wish them well for the future.

Board diversity, in all its respects, remains a key consideration for us and we continue to take a forward-looking approach to refreshing our Board composition. Our Board has a diverse mix of nationalities, skills, experience and geographic exposure, to maximise its effectiveness and enable us to respond appropriately to the greater demands currently being placed on Board members. During the year, we approved a Board Diversity Policy, including a Board gender target, and have set out how we plan to achieve this target by 2017.

In line with our multi-year Board succession plan, the membership of our Board has continued to evolve and during 2013 the Board was at the height of its transition phase, balancing longevity with new joiners to our Board. Since November 2012, there have been seven new joiners to the Board and by the end of 2014, eight members of the Board will have stepped down. However, we cannot be complacent and we will continue to refresh our Board membership to ensure that it retains the right dynamics.

I am delighted to welcome Om Bhatt, Louis Cheung, Christine Hodgson, Kurt Campbell and Naguib Kheraj who have joined the Board since 1 January 2013. They bring significant business leadership, political, financial and accounting experience to the Board and complement our existing Board membership.

On behalf of the Board, I would like to thank Margaret Ewing who stepped down in January 2014 due to ill-health. We wish her all the best for the future. I would also like to thank Rudy Markham, Jamie Dundas and Oliver Stocken who are stepping down this year, for their considerable contribution to Standard Chartered. Their continuity of service and commitment has provided an in-depth knowledge and understanding of the Group which has been of enormous value over the years.

The 2013 Board Effectiveness Review reaffirmed the benefits of our ongoing Board succession plan. During 2014, we will be conducting an externally facilitated review, the findings of which will be reported next year.

Sir John Peace
Chairman
5 March 2014

Corporate governance continued

Our approach to corporate governance disclosures

We seek to deliver exemplary corporate governance across the Group. Our aim is to provide insight into how we meet the spirit of corporate governance through adopting a discursive approach to our disclosures. We apply the provisions of the UK Financial Reporting Council's Corporate Governance Code (the 'Code'). We also apply and comply with the provisions of the Hong Kong Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules and have complied with its mandatory provisions.

The Board held nine scheduled Meetings in 2013, exceeding the requirement of Hong Kong Corporate Governance Code which requires every listed issuer to hold board meetings at least four times a year. The composition of the Board, with 12 independent non-executive directors out of the 18-member Board, well exceeds the requirements of the Hong Kong Corporate Governance Code.

The Company has, for some time, had an established Remuneration, Nomination, Audit, Board Risk, Brand and Values and Governance Committees with written terms of reference to oversee particular aspects of the Company's affairs. The Terms of Reference for all of our board committees are available on the Group website.

Copies of the Code and the Hong Kong Listing Rules can be found at www.frc.org.uk and www.hkex.com.hk respectively.

The directors consider that the Group has complied with the provisions of the Code during the year ended 31 December 2013 with the exception of conducting an externally facilitated Board effectiveness review. The rationale for not conducting an externally facilitated review is set out on page 150. Throughout this Corporate governance section we have provided a narrative statement as to how the principles set out in the Hong Kong Listing Rules and the main principles of the Code have been applied to enable evaluation of their application.

To the extent applicable, information required by paragraphs 13(2)(c), (d), (f), (h) and (i) of Schedule 7 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 is available in the Report of the directors on page 213.

Who is on our Board

The Board has been evolving in 2013 as part of our multi-year Board succession plan, (the 'Plan'). In line with the Plan, during 2013, we were at the height of our transition phase balancing longevity with new joiners to our Board. As at 5 March, there are 21 directors on the Board. However, by the end of May 2014, we will have 18 Board members: the Chairman, five executive directors and 12 non-executive directors. As at 31 December 2013, the average tenure on our Board was just over five years. A list of individual directors and their biographies are set out on pages 138 to 142. Details of board committee membership are set out on page 155 of this report.

We believe in the importance of having a unitary board where the executives who represent the key aspects of the business and markets in which we operate are represented on the Board. We believe that this allows shareholders to have direct line of sight to these executives and that there is greater accountability for these individuals as directors distinct from their executive responsibilities. Feedback from the 2013 Board effectiveness review commented on the value of the Board hearing multiple executive perspectives at Board level, stating that this positively enhanced the Board's effectiveness. In addition to gaining executive perspectives at Board meetings, our independent non-executive directors have unfettered access to management as part of their overseas visits to our markets and through their ongoing induction and engagement programmes.

In 2013, we welcomed Om Bhatt, Louis Cheung, Kurt Campbell and Christine Hodgson to our Board as independent non-executive directors. Their appointments were part of the second phase of the Board's multi-year succession planning exercise designed to enhance the experience, depth and diversity of the Board, as outlined in the 2011 and 2012 Annual Report and Accounts. Kurt has significant US governmental experience and deep knowledge of some of our key markets, notably across Asia. Christine brings strong business leadership, accounting, finance and technology experience to the Board.

Naguib Kheraj was appointed as an independent non-executive director from 1 January 2014 and brings to the Board extensive international banking, finance and business leadership experience.

Margaret Ewing, an independent non-executive director, stepped down from the Board with effect from 31 January 2014 for health reasons. Margaret was appointed to the Board on 1 November 2012 and was a member of both the Audit Committee and Remuneration Committee.

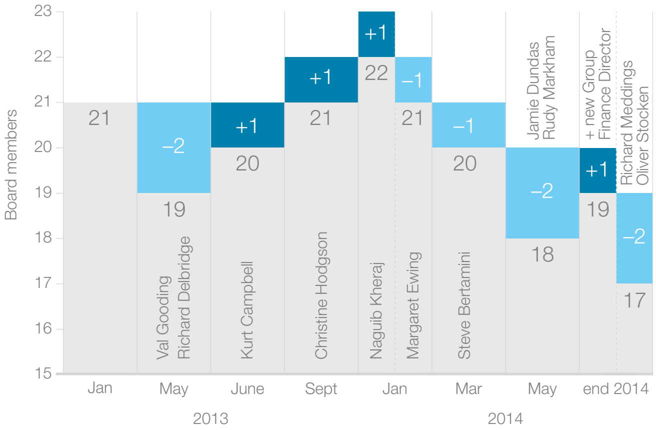
Rudy Markham and Jamie Dundas, both independent non-executive directors, will be stepping down from the Board with effect from 1 May 2014. Naguib Kheraj will become the Chairman of the Audit Committee with effect from 1 May 2014 and Lars Thunell will become Chairman of the Board Risk Committee with effect from 1 April 2014.

Oliver Stocken, an independent non-executive director, will be stepping down from the Board before the end of 2014.

On 9 January 2014, we announced that Steve Bertamini and Richard Meddings will be stepping down from the Board as executive directors with effect from 31 March and by 30 June 2014 respectively. As part of our business reorganisation, also announced on 9 January 2014, Mike Rees's appointment as Deputy Group Chief Executive will take effect on 1 April 2014.

Ruth Markland replaced Rudy Markham as Senior Independent Director from 1 July 2013. Ruth has been an independent non-executive director of the Company since 2003 and has chaired the Remuneration Committee since 2006.

Changes to the Board



Our Board's composition and succession plans

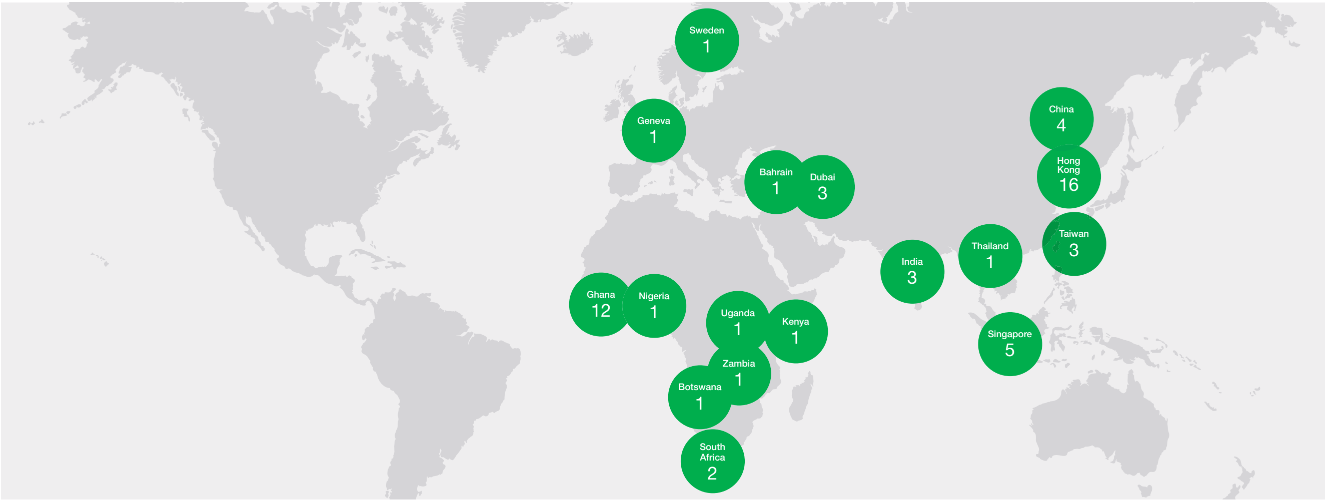
Standard Chartered, with its distinctive footprint, has a long history of diverse Board membership. Currently, we have a diverse mix of ethnicity, gender and experience on the Board, including two women and seven different nationalities. There are 12 directors who have lived and worked across Asia, Africa and/or the Middle East.

Our Board comprises individuals who have diverse skills, knowledge and experiences that combine to provide different perspectives and effective board dynamics. In maximising the Board's effectiveness, we take a long-term, sustainable and measured approach. We believe that all Board appointments should be based on meritocracy and that diversity in all its aspects, including gender diversity, is important.

In accordance with the Capital Requirements Directive IV (CRD IV), while we are reticent to set quotas, we agree that, in the spirit of meritocracy and embracing diversity and inclusion in all its aspects, we will aim to have 25 per cent female representation on the Board of Standard Chartered PLC by the end of 2017. The Nomination Committee will oversee plans to achieve this, balancing all the factors needed to maximise the Board's effectiveness. Further details of how this will be achieved can be found on page 174.

Through our multi-year Board succession plan, we continue to demonstrate our commitment to refreshing the Board's composition regularly. Since November 2012, seven new independent non-executive directors have been appointed to the Board and by the end of 2014, eight members of the Board will have stepped down. In 2014, three of our long-standing independent non-executive directors and two of our executive directors will also step down. We are currently undertaking the process of identifying Richard Meddings' replacement as Group Finance Director, for which both internal and external candidates are being considered. We will continue to refresh our Board membership to ensure that it retains the right dynamics.

Number of independent non-executive directors visiting our markets in 2013



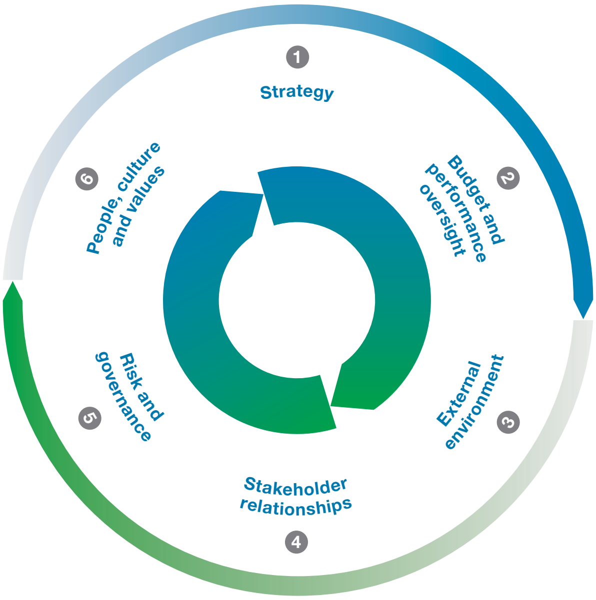
The Group believes that our open and challenging, yet cohesive and collaborative, culture, whereby all of our independent non-executive directors have unfettered access to management and information, has enabled us to achieve high standards of corporate governance. Our independent non-executive directors travel extensively to our markets to have the opportunity to validate our strategy and gain an on-the-ground understanding of the opportunities and risks that we face. To support this, it was notable that our independent non-executive directors made 57 visits to countries across our footprint in 2013.

During 2013, the Group estimates that each independent non-executive director spent at least 30 days on board-related duties and, for those who chaired and sat on multiple committees, up to 100 days.

The diagram on page 148 gives an overview of how the Board as a whole (rather than committees) spent its time in 2013 and the role of the board committees is described on pages 154 to 175.

Corporate governance continued

How the Board spent its time in 2013



①

Strategy

- Held a series of strategy sessions, including our annual two-day offsite, to approve the implementation of our refreshed strategy (including new strategic aspirations and a revised financial performance framework)
- Discussed the opportunities and challenges in serving the medium-sized enterprise and middle-market segments, including the proposition for our clients
- Discussed our strategy in key geographies and regions as part of the Board's overseas visits
- Debated the Group's US strategy and 2016 aspirations
- Considered our progress and aspirations with regard to the renminbi, its potential future development and the implications for the Group
- Reviewed Consumer Banking's progress in executing against its strategy in China and its priorities for 2013
- Continued to focus on how the Group keeps pace with technological change and innovation
- Approved the entry into new geographical territories for the Group, e.g. Mozambique
- Approved the five-year plan and 2014 budget

②

Budget and performance oversight

- Maintained oversight of the Group's performance in line with market expectations
- Flexed our financial metrics with the introduction of a new fifth financial metric for investors around risk-weighted assets (RWA) jaws (earnings growth to be ahead of RWA growth)
- Assessed the strength of the Group's capital and liquidity position
- Focused on key parts of the Group's franchise, including Korea, India and Taiwan, where the external environment and banking market have grown more challenging
- Approved the 2014 budget and capital plan
- Periodically reviewed the Company's share price, performance metrics, register activity and institutional investor and analyst perceptions

③

External environment

- Assessed our overall position in our key businesses and footprint markets and the implications for the Group
- Continued to review the key external themes that will most directly shape the banking industry's outlook and the potential implications for the competitive landscape
- Assessed the competitive and regulatory developments in China's banking landscape more broadly
- Debated the developing global macroeconomic environment with internal and external input
- Considered the appropriate responses to the key regulatory changes faced by the Group and industry as a whole, including the impact of CRD IV

④

Stakeholder relationships (i.e. investors, clients, customers, regulators and communities)

- Engaged with our retail shareholders at the AGM
- Considered the findings of the Prudential Regulation Authority's (PRA) 2013 Periodic Summary Meeting
- Approved the Group's Recovery and Resolution Plan for submission to the PRA
- Engaged with key clients and customers as part of the Board's overseas visits
- Considered external insights and views on the US political and regulatory environment
- Participated in community activities as part of the Board's overseas visits and offsite, including Seeing is Believing, our community investment project that aims to eliminate avoidable blindness

⑤

Risk and governance

- Approved the Board's Risk Appetite Statement and satisfied itself that the 2014 budget was aligned to this
- Received assurance during the year that the Group continued to operate within its approved risk appetite
- Debated the lessons learned from our past compliance with US sanctions and the subsequent settlements with the US authorities[1], with particular focus on what additional improvements should be implemented above those already taken
- Established a new special purpose committee (the Board Regulatory Compliance and Oversight Committee) to provide oversight to the Group's ongoing obligations arising from the settlements with the US authorities
- Following recommendation from the Audit Committee, approved for recommendation to shareholders that, following the external tender process, KPMG Audit Plc be appointed as the Group Statutory Auditors
- Continued to focus on the effective linkages between the Board and its committee
- Received an update on the Group's approach to technology risk
- Discussed the initial findings of the Financial Conduct Authority financial crime assessments

⑥

People, culture and values

- Following input from the Brand and Values Committee, endorsed the refresh of the Group's Code of Conduct which aligned with the Group's values and Here for good brand promise
- Examined the key external influences that are shaping our people agenda
- Discussed some of the key people challenges we face over the next five years and how our thinking on people strategy is evolving
- Approved the appointment of three new independent non-executive directors as part of our multi-year Board succession plan
- Approved a Board Diversity Policy which included a Board gender target and the plans to achieve this
- Continued to focus on the overall effectiveness of the Board and individual directors

The full schedule of matters reserved for the Board together with the board committees' terms of reference are available on www.sc.com

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[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)

The Chairman’s role

The roles of the Chairman and the Group Chief Executive are quite distinct from one another and are clearly defined in role descriptions which are available on our website. The Chairman plays a critical role in ensuring the Board’s overall effectiveness and carries a particular responsibility to monitor and assess the Group’s corporate governance practices. Sir John Peace holds meetings with the independent non-executive directors, without the executive directors, to assess their views. In addition, the non-executive directors have met without the Chairman present to appraise the Chairman’s performance. Such meetings are chaired by the Senior Independent Director.

As part of the Board’s annual effectiveness review feedback, all directors commented on the Chairman’s highly effective and engaging style, stating that he is thoughtful and encourages open dialogue enabling everyone to contribute effectively.

The Board and its committees

The Board is accountable for the long-term success of the Group and for providing leadership within a framework of effective controls. The Board is also responsible for setting strategic targets and for ensuring that the Group is suitably resourced to achieve those targets. In doing so, the Board takes account of its responsibilities to the Group’s stakeholders, including the Group’s employees, shareholders, suppliers and the communities in which it operates.

The Board delegates certain responsibilities to its committees to assist it in carrying out its function of ensuring independent oversight. With the exception of the Board Regulatory Compliance Oversight and Governance Committees, the board committees are made up of independent non-executive directors and play a key role in supporting the Board. An overview of the activities of the Board’s committees can be found on pages 154 to 175.

The Board meets regularly throughout the year. There were nine scheduled meetings this year including two overseas visits to Hong Kong and to Ghana.

Details of individual Board directors’ attendance at meetings in 2013 are set out in the table on page 152.

Board effectiveness

Director induction and ongoing engagement plans

We have a very extensive, robust and tailor-made induction and ongoing development programme in place for our Board members. This has continued to evolve over the last five years. Each engagement programme typically consists of a mix of briefings on specialist topics, attendance at key management meetings and additional visits to our markets. In addition to overseas board meetings, non-executive directors will undertake one or two additional overseas visits during the year. For those independent non-executive directors who bring to the Board non-financial services experience, the induction programmes are very in-depth and cover areas such as the basics of banking, including modules on sources of income, geographic diversity, client distribution, and traditional and modern banking services. Feedback from our 2013 Board effectiveness review commended the opportunities provided to our directors for continued learning and stated that our independent non-executive director induction programmes were comprehensive yet focused for individual needs.

More broadly, the directors are supported by dedicated corporate secretariat resources and have access to independent professional advice at the Group’s expense where they judge it necessary to discharge their responsibilities as directors. Processes are also in place to ensure the timely provision of information to directors.

Directors’ induction and ongoing development

	Induction training*	Briefings on specialist and regulatory topics	Visits to our markets and with local management	Attendance at Audit and Board Risk Committee half-day sessions
Sir John Peace	N/A	●	●	●
P A Sands	N/A	●	●	
O P Bhatt	●	●	●	●
J S Bindra	N/A	●	●	
Dr K M Campbell	●	●	●	
Dr L Cheung	●	●	●	●
J F T Dundas	N/A	●	●	●
C M Hodgson	●	●	●	●
S J Lowth	N/A	●	●	●
R H P Markham	N/A	●	●	●
R Markland	N/A	●	●	●
J G H Paynter	N/A	●	●	●
A M G Rees	N/A	●	●	
Dr Han Seung-soo	N/A	●	●	●
V Shankar	N/A	●	●	
P D Skinner	N/A	●	●	●
O H J Stocken	N/A	●	●	●
Dr L H Thunell	●	●	●	●

* Applicable to new directors who were appointed in 2012 and 2013

Corporate governance continued

Board effectiveness review

We stated in our 2012 Annual Report and Accounts that, all things being equal, the intention was that an externally facilitated Board and committee effectiveness review would be conducted in 2013. Given that seven new independent non-executive directors have joined our Board since November 2012, and five Board members will have stepped down from the Board by the end of May 2014, it was felt that there would be little merit in conducting an externally facilitated review in 2013. Over the coming weeks we plan to invite external board effectiveness facilitators to tender for the 2014 review. We will report the findings of the review in the 2014 Annual Report and Accounts.

In light of this, in 2013 the Board has used a 'free-style' evaluation approach which worked well in 2012. Facilitated by the Group Company Secretary, directors were invited to express their 'top of mind' thoughts and feelings on any aspects of the Board's effectiveness in a 'free-style' format. In addition to the feedback received from directors, the Chairman held one-to-one discussions with each Board member. The Board effectiveness feedback was discussed by the Governance Committee. A discussion then took place within the Board, following which an action plan to address the findings was developed.

Overall, directors felt that the Board remained highly effective in 2013 against a challenging external backdrop. All directors commented on the evolution of the Board's composition, noting the positive aspects of increased diversity and fresh perspectives. Positive feedback was also received regarding the planning for and execution of this transition. Given this backdrop of relative strength, in the spirit of continuous improvement, the directors provided suggestions for Board enhancement as set out in the following table. The Board recognised the Group Chairman's and Group Chief Executive's contribution to ensure the smooth transition. Newer directors commented on the value they gained from the longstanding directors during the transition process.

Summary of the themes identified in the 2013 Board effectiveness review and actions taken/to be taken

2013 Theme/action identified	**Actions taken/to be taken**	2012 Theme/action identified	Actions taken
Continued discussion and focus on Board composition and succession planning	**The Nomination Committee has commenced the process for the appointment of a new Group Finance Director and the identification of suitable candidates for appointment as independent non-executive directors through to 2016** **The Chairman will continue to provide periodic updates to the Board on the Nomination Committee's discussions. He will also continue the practice of meeting with the independent non-executive directors informally to provide updates on the evolving thinking on executive and independent non-executive succession planning**	Ensure that the Board continues to make space to focus on the key strategic issues	Senior management has continued to engage with directors individually and the Board collectively in shaping the Board's strategic agenda As part of the 2013 Strategy Board meeting the Board focused on the challenges facing the Group. Management updated the Board on its current thinking on the Group 'strategic core' (more detail can be found on pages 6 to 11), resulting in a broad-ranging conversation which included consideration on what elements of the Group's business were most critical to its strategic future Guarding against complacency will continue to be a focus for the Board and its committees

Summary of the themes identified in the 2013 Board effectiveness review and actions taken/to be taken

2013 Theme/action identified	**Actions taken/to be taken**	2012 Theme/action identified	Actions taken
Continued focus on the linkages between the Board and its committees	**As part of the transition of new chairs to the Audit Committee and Board Risk Committee, we will review the remit of both these committees during 2014** **We will continue to review the membership of the board committees to ensure there is a sufficient overlap of members with appropriate skills and capabilities**	Ensure the Board remains effective during its transition	Induction programmes for new directors are tailored to enable them to contribute effectively. Commendations were received from our new non-executive directors on the induction process and ongoing support received from Board members, senior management and our Group Secretariat function
Review the Board's strategic rolling agenda in light of the refreshed strategy and organisational changes	**We have refreshed the Board's rolling agenda through to our strategy board in June 2014. This will be further reviewed and updated following the June discussions** **When setting the Board's agenda, we will look to achieve the right balance in terms of allocating time to the different areas of focus**	Ensure the right balance between the nature of risk information and discussions occurring at Board level versus those conducted at the Board Risk Committee	In addition to regular risk information provided to the Board, we have introduced a further periodic risk report to the Board, timed for submission around the Board Risk Committee's assessment against the Group's Risk Appetite Statement. The Group Chief Risk Officer attended the Board meeting for this item
Continued focus on sharpening the information provided to the Board, while balancing this with the need to ensure that directors receive the information necessary to fulfil their duties effectively	**As part of the transition of new chairs to the Audit Committee and Board Risk Committee, we will review the information flows to these committees** **We will continue to review the nature of the information provided to the Board and opportunities for further refinement will be identified and implemented in 2014**		

Corporate governance continued

Number of Board meetings held in 2013

Board members	Scheduled meetings 9	Ad hoc 1
Sir John Peace (Chairman)	9/9	1/1
P A Sands	9/9	1/1
R H P Markham	9/9	1/1
R H Meddings	9/9	1/1
S P Bertamini	9/9	1/1
O P Bhatt	9/9	1/1
J S Bindra	9/9	1/1
Dr K M Campbell[†]	4/5	0/0
Dr L Cheung	9/9	1/1
R Delbridge[*]	3/3	1/1
J F T Dundas[¶]	8/9	1/1
M Ewing	9/9	1/1
V F Gooding[*]	3/3	1/1
Dr Han Seung-soo	9/9	1/1
C M Hodgson[‡]	3/3	0/0
S J Lowth	7/9	1/1
R Markland	9/9	1/1
J G H Paynter[§]	6/9	1/1
A M G Rees	9/9	1/1
V Shankar	9/9	1/1
P D Skinner	9/9	1/1
O H J Stocken	8/9	1/1
Dr L H Thunell	8/9	1/1

[*] Stepped down from the Board with effect from 1 May 2013
[†] Joined the Board on 18 June 2013
[‡] Joined the Board on 1 September 2013
[¶] Absent from one Board meeting due to ill-health
[§] Absent from three Board meetings due to ill-health

External directorships

The Board's executive directors are permitted to hold only one non-executive directorship of a FTSE 100 company. All of our executive and independent non-executive directors are compliant with the requirements under the CRD IV (which will come into effect on 1 July 2014) in terms of the number of executive and non-executive directorships held.

Details of the directors' other directorships can be found in their biographies on pages 138 to 142. We closely monitor the outside business interests of the independent non-executive directors. Before taking on an additional role, both executive and independent non-executive directors will confirm that no conflict arises from that role and provide assurance that the appointment will have no adverse impact on the ability to continue to fulfil his/her role as a director of the Company. Committee chairs are particularly mindful of their obligations. Whenever needed during the year, directors have consistently demonstrated their ability to provide any additional time commitment needed.

Re-election of directors

The performance of all directors is rigorously reviewed on an annual basis and this is used as the basis for recommending re-election of directors to shareholders. Details of the review process can be found on page 173 in the overview of the Nomination Committee's activities.

In line with the UK Financial Reporting Council's UK Corporate Governance Code, for the last two years we have adopted the practice of proposing all of our directors for annual re-election at the Company's AGM. In 2013, the Group held one general meeting, our AGM. All of our Board members attended the AGM with the exception of John Paynter who was not able to attend due to ill-health. At the AGM, all of our directors were re-elected. As Steve Bertamini, Jamie Dundas and Rudy Markham will be stepping down from our Board before our AGM on 8 May 2014, they will not be proposed for re-election. As Oliver Stocken and Richard Meddings will be stepping down from the Board during 2014, they will not be standing for re-election at the AGM. All of the other directors will be standing for election or re-election at our 2014 AGM.

Assessment of director independence

The Board is satisfied that all of our non-executive directors are independent. Our Nomination Committee conducts a rigorous assessment of those independent non-executive directors who have served more than six years. However, given that all of the Nomination Committee members, excluding the Chairman, have served on the Board for more than nine years, it was decided that, on this occasion, it was more appropriate that this matter be dealt with by the Board. The relevant directors, Ruth Markland and Paul Skinner recused themselves from the Board conversation.

The Board noted that Ruth's and Paul's continuity of service and commitment provided an in-depth knowledge and understanding of the Group which was invaluable to the Board. In addition they had demonstrated excellent stewardship as Chairs of the relevant board committees. The Board was unanimous in agreeing that both individuals continued to demonstrate the attributes of an independent non-executive director and there was no evidence that their tenure had impacted on their independence. It was confirmed that each of the directors remain independent.

Subsidiary governance philosophy and linkages

The Group continues to have one governance infrastructure across all countries, irrespective of whether the main activities of the Group are operated through a branch or subsidiary. Governance is managed across the Group's eight geographic regions under the governance oversight of Jaspal Bindra, Group Executive Director and Chief Executive Officer, Asia and V Shankar, Group Executive Director and Chief Executive Officer, Europe, Middle East, Africa and Americas. In addition, Corporate Secretariat is run as a global function with consistent policies and standards.

Management of geographic governance is structured to cover economic and political developments, financial performance, governance and risks, franchise development and people.

As at 31 December 2013, the Group had 28 banking subsidiaries and 65 non-executive directors (excluding our PLC Board independent non-executive directors). The independent non-executive directors on our Board play a critical role through their active engagement with banking subsidiary independent non-executive directors as they travel throughout the Group's footprint. An annual African Chairmen's Conference is held where the chairmen of our African subsidiaries meet. Sir John interacts with the African chairmen at this event.

Peter Sands also hosts an annual call with the independent non-executive directors on our subsidiary boards. For a number of years, Rudy, as Chairman of the Audit Committee, has hosted a call with all of the chairmen of the subsidiary audit committees, and in 2013 Jamie Dundas, as Chairman of our Board Risk Committee, hosted a similar call with all the chairmen of the subsidiary risk committees.

We are continuously looking at ways to improve our model for engagement of our independent non-executive directors so these are well informed and able to make decisions that are aligned to the Group interests.

Directors' securities transactions

The Company confirms that it has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than required by Appendix 10 of the Hong Kong Listing Rules. Having made specific enquiry of all directors, the Group confirms that all directors have complied with the required standards of the adopted code of conduct.

Group Board committee structure

Standard Chartered PLC Board

- **Primary committees**
  - **Audit**: Oversight and review of financial, audit and internal control issues
  - **Board Risk**: Oversight and review of fundamental prudential risks including credit, market, capital, liquidity, operational risk, country cross-border risk and pension risk
  - **Brand and Values**: Oversight and review of brand positioning, treating customers fairly, reputational risk, ethics and sustainability issues
  - **Remuneration**: Oversight and review of remuneration, share plans and other incentives
- **Enabling committees**
  - **Nomination**: Oversight and review of Board and executive succession
  - **Governance**: Oversight of overall Board effectiveness and governance issues
- **Special purpose committee**
  - **Board Regulatory Compliance Oversight**: Oversight of matters relating to the Group's compliance with its obligations under the settlements with the US authorities[2] in relation to US sanctions compliance and related matters

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[2] 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)

Corporate governance continued

Board committees

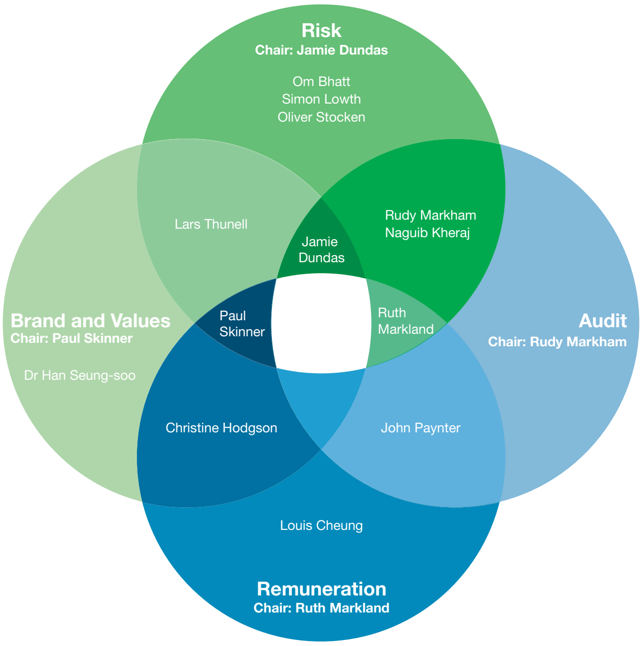
Our Board has made a conscious decision to delegate a broader range of issues to the Board committees. The linkages between the committees and the Board are critical, given that it is impractical for all independent non-executive directors to be members of all the committees.

In addition to there being common committee membership, the Board receives the minutes (or a written summary) of each of the committees' meetings (excluding the Nomination Committee). In addition to the minutes, the committee chairs provide regular updates to the Board throughout the year. Given our multi-year Board succession plan, committee membership is not static and evolves from time to time. As part of balancing stability and benefiting from fresh perspectives in 2013, the membership of five of the Board committees was refreshed. The chairmen of our Audit and Board Risk Committees will also change as Rudy Markham and Jamie Dundas step down as the respective Committee Chairmen, and Naguib Kheraj and Lars Thunell are appointed Chairmen as successors.

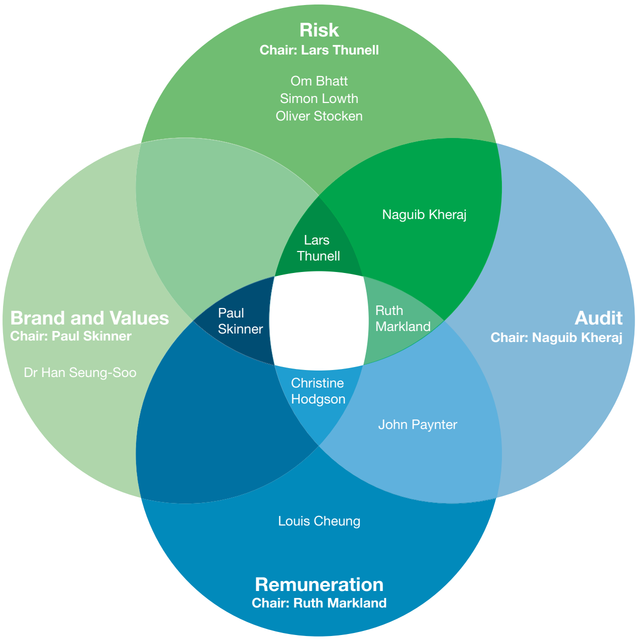
We have effective mechanisms in place to ensure that there are no gaps or unnecessary duplications between the remit of each committee. These mechanisms include overlapping membership between board committees and regular interaction between the committee chairs. The Group also has a dedicated resource within Corporate Secretariat responsible for the effectiveness of each board committee and all of the board committees together in fulfilling their oversight responsibilities.

The Board Risk Committee maintains enterprise-wide oversight of all risk types. Alongside this, each of the board committees takes primary responsibility for relevant risk types. For instance, the Brand and Values Committee has primary oversight of reputational risks. The Remuneration Committee oversees risk arising from remuneration. The Board Risk Committee has primary oversight accountability for credit, capital, market, liquidity, operational, country cross-border and pension risk and the Audit Committee oversees the management of financial and internal controls. The roles of the board committees are described further on pages 154 to 175.

Primary PLC Board Committee membership overlap as at 5 March 2014



Primary PLC Board Committee membership overlap as at 1 May 2014



As part of their individualised engagement programme, during the year our independent non-executive directors are encouraged to attend meetings of committees of which they are not members, to gain greater insight to the work undertaken and the matters discussed. In addition in 2013, four Audit and Board Risk Committees half-day sessions were held to which all independent non-executive directors were invited. These sessions provided the opportunity for more in-depth discussion on key strategic issues of relevance to the committees. In 2013, the opportunity was also taken as part of the two overseas Board meetings in Ghana and Hong Kong for the Brand and Values Committee and Board Risk Committee to hold focused discussions with local management. In Ghana, there was an informal Brand and Values Committee session which provided insight into the Group's socio-economic contribution in Ghana. In Hong Kong, the Board Risk Committee held a focused discussion concerning the shape of China's banking landscape, the Group's strategy towards and exposure to Chinese banks and how this exposure is monitored and controlled and potential local regulatory trends. In 2014, we will continue to focus upon and evolve our approach to ensuring these critical linkages between the Board and its committees.

The Board Regulatory Compliance Oversight Committee was established in 2013 and fulfils a significant role in overseeing, on behalf of the Board, matters relating to the Group's compliance with its obligations under the settlements with the US authorities[2]. This includes its responses to other requests, subpoenas and orders from any Federal or State US, or other relevant authority in respect of such settlements and/or the Group's historic and current compliance with US sanctions regulations. This committee has both executive and independent non-executive director membership, on the basis that the executive directors have oversight responsibilities for the delivery of the obligations under the settlements with the US authorities[3].

Current membership of the Board Committees

	Standard Chartered PLC Board	**Audit Committee**	**Board Risk Committee**	**Nomination Committee**	**Remuneration Committee**	**Brand and Values Committee**	**Governance Committee**	**Board Regulatory Compliance Oversight Committee**
Sir John Peace	🟢			🟢			🟢	🟢
P A Sands	🔵						🔵	
O P Bhatt	🔵		🔵					
J S Bindra	🔵							
Dr K M Campbell	🔵							
Dr L Cheung	🔵				🔵			
J F T Dundas	🔵	🔵	🟢	🔵		🔵		🔵
C M Hodgson	🔵				🔵	🔵		
N Kheraj	🔵	🔵	🔵					
S J Lowth	🔵		🔵					
R H P Markham	🔵	🟢	🔵	🔵				🔵
R Markland	🔵	🔵	🔵	🔵	🟢		🔵	🔵
R H Meddings	🔵							
J G H Paynter	🔵	🔵			🔵			
A M G Rees	🔵							🔵
Dr Han Seung-soo	🔵					🔵		
V Shankar	🔵							🔵
P D Skinner	🔵		🔵	🔵	🔵	🟢		🔵
O H J Stocken	🔵		🔵					
Dr L H Thunell	🔵		🔵			🔵		

🟢 Chairman 🔵 Member

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[3] 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)

Audit Committee

Dear Shareholder

Through its work in 2013, the Committee has provided assurance to the Board with regard to the quality and effectiveness of financial reporting on regulatory, compliance and internal audit matters, thereby protecting the interest of shareholders.

As reported in the 2012 Annual Report and Accounts and in line with the UK Financial Reporting Council's recommendations, in 2013 the Group's statutory audit work was put out to tender and the Committee played a pivotal role in the tender process. Throughout the process, the mindset was one of seeking value from change. Further details can be found on page 160.

As the Group's business has grown and its product portfolio has expanded, the Committee has continued to set aside time to ensure that members remain satisfied that they understand the core business activities and processes. We have sought and received assurance that the Group's internal controls are appropriate, robust and effective. This has been achieved by several means, including holding a number of 'deep dives' into particular areas. These provide an open and transparent environment in which the Committee can ask questions and improve its understanding of the Group's products, any associated potential risks and issues, and how these are addressed through the Group's control systems. Further details of the topics covered are set out on page 161.

Our report sets out the nature of the significant issues relating to the financial statements considered by the Committee over the course of the year, and how the Committee reached a position that it was satisfied that the disclosures of the Group meet the test of the 'fair, balanced and understandable' statement made by the Board. It also sets out how the Committee has satisfied itself that a high-quality audit has been conducted by the Group statutory auditors and that the scope of the audit has been appropriate. Finally, with regard to internal audit, the report summarises the Committee's role in reviewing the internal audit plan, how the Committee assesses the effectiveness of the internal audit and how we have reacted to or followed up on the findings raised by the internal audit.

Each year the Committee undertakes an effectiveness review. The findings from this year's review and the action taken following last year's findings are detailed on page 162. Such reviews provide the Committee with the opportunity to take a step back and look at how we, as an audit committee, are performing. Are we meeting the requirements of our terms of reference? Are we grasping the big issues and not over-focusing on the small ones? Is the Committee focusing on the core issues the Group needs to be concerned about? In conducting this evaluation we also invite comment from the executive team and from our external Group statutory auditors. Over the years, we have found that, in continuously evolving the way in which the Committee assesses its effectiveness, we have been able to sharpen the Committee's approach to discharging its role and responsibilities.

As part of the multi-year Board succession plan, the Committee composition continues to evolve. Naguib Kheraj joined the Committee on 1 January 2014 and brings with him extensive international banking, finance and business leadership experience to the Committee. Naguib will become Committee Chairman with effect from 1 May 2014. In addition, Christine Hodgson and Lars Thunell will also join the Committee in 2014. Margaret Ewing stepped down from the Committee on 31 January 2014. I would like to thank Margaret for her valuable contribution to the Committee.

This is my last report as Chairman of the Audit Committee and I take this opportunity to recognise the immense support that I have received from my colleagues on the Committee, both past and present, in discharging its remit in the interest of the Group and its shareholders. I am delighted that Naguib will be taking over as Committee Chairman. With his lengthy business experience in banking and more widely, he will be of immense value to the Committee.

I can confirm that the information that the Committee has received has been balanced, appropriate and timely and has enabled the Committee to fulfil its remit.

Rudy Markham

Rudy Markham
Chairman of the Audit Committee


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Other attendees at Committee meetings include:
Group Chairman; Group Chief Executive Officer; Group Finance Director; Group Chief Risk Officer; Group Head Internal Audit; Director, Compliance, People and Communication; Group Head Legal and Compliance; Group Company Secretary; Group statutory auditors.

Audit Committee Members

(During 2013)	Scheduled meetings: 7
R H P Markham (Chairman) (1)	7/7
R Delbridge* (2)	3/3
J F T Dundas (3)	7/7
M Ewing† (4)	6/7
R Markland (5)	7/7
J G H Paynter (6)	4/7

*Stepped down on 1 May 2013 †Stepped down on 31 January 2014
Note: There were no ad hoc Committee meetings in 2013

As part of, and in addition to, each formal Committee meeting, the Committee has private members-only meetings.

Role and responsibilities

The Committee's role is to review, on behalf of the Board, the Group's internal financial controls, to identify, assess, manage and monitor financial risks. It is also responsible for the oversight of internal controls and for oversight and advice to the Board on matters relating to financial reporting. In discharging its responsibilities, the Committee acknowledges and embraces its role of protecting the interests of shareholders.

The Group is committed to proving it leads the way in combating financial crime, while providing quality service for our clients. In support of this objective the Group has established a Financial Crime Risk Mitigation Programme (FCRMP), 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 to meet this objective. One key component of the FCRMP is the response to the 2012 settlements with the US authorities[4] regarding historical sanctions compliance. This component is referred to as the US Supervisory Remediation Programme (SRP). The SRP comprises work streams designed to ensure compliance with the remediation requirements contained in all of the settlement agreements. In 2013, oversight of this work was undertaken on behalf of the Board by the Board Regulatory Compliance Oversight Committee, a special purpose Committee established at the beginning of 2013 to oversee matters relating to the Group's compliance with its obligations under the settlements with the US authorities[4]. In 2014, the Committee will have oversight on behalf of the Board of the FCRMP, including the SRP.

Committee membership

As mentioned previously, as part of the multi-year Board succession plan, the Committee composition continues to evolve. As part of the 2013 committee effectiveness review, the Committee's size and composition was considered. It was felt that both its size and composition are appropriate and that the Committee members possess the necessary accounting, financial, legal, banking and investment knowledge skills needed. Naguib Kheraj joined the Committee on 1 January 2014. Naguib will become Committee Chairman with effect from 1 May 2014. In addition, Christine Hodgson and Lars Thunell will also join the Committee in 2014. Christine will bring strong business leadership, accounting, finance and technology experience to the Committee. Lars has a highly developed understanding of banking and risk management in a financial services context. The Board is satisfied that both Naguib and Christine have recent relevant financial experience and that all other Committee members have broad experience and knowledge of financial reporting and international businesses. Details of their experience can be found in their biographies on pages 138 to 142. All of the Committee's members are independent.

Interaction with management

On a regular basis, the Committee meets individually with our Group statutory auditor KPMG Audit Plc (KPMG), the Group Finance Director, Group Head of Internal Audit and Group Head of Compliance. These meetings allow Committee members to discuss freely matters relating to the auditor's remit and issues arising from the audit. During the year the Committee also met privately on two occasions with Group Internal Audit's senior management team.

Interaction with regulators

Early in 2013, the Committee met with one of the Group's UK lead regulators, the Prudential Regulatory Authority (PRA). The purpose of the meeting was to enable the Committee to learn more about the new proposed regulatory architecture when the Financial Services Authority was abolished and its responsibilities were split between two new agencies, the PRA and the Financial Conduct Authority (FCA). In addition, as part of their overseas visits to our markets, Committee members have met with local regulators.

Financial reporting

In recent years there has been an increased focus by the Audit Committee on clarity of disclosure. In discharging its responsibilities, the Committee has been cognisant of the financial reporting response to business model risks and the need to focus its attention accordingly. During 2013, the Committee has also considered the financial control framework within the Group.

The Group financial reporting process for preparing the consolidated Annual Report and Accounts 2013 is managed and controlled using documented accounting policies, and is derived from reporting schedules that agree to underlying books and records for each country reporting unit. Group Finance issues detailed instructions and guidance on reporting requirements to all the reporting entities within the Group in advance of each reporting period end. These are followed up by an extensive dialogue between Group Finance and the reporting units on any new requirements, to clarify understanding and ensure consistency in reporting. Much of the processing and related control activities are carried out in the Group's three main processing hubs and this helps drive efficiencies and consistency in the control environment. The interaction between country reporting teams and the centralised hubs is subject to a rigorous process of evaluation. Where specialist skills or judgment are required, such as credit impairment, financial instruments valuation, goodwill assessment, evaluation of significant legal cases and pension related calculations, centralised teams manage the activity and work with the relevant country teams. The submission of financial information from each reporting entity to Group Finance is subject to certification by the responsible in-country financial officer, and analytical review procedures are carried out both in country and at the Group level.

The Committee receives reports from Group Finance on changes in accounting standards and disclosure requirements, and on significant accounting issues at each reporting period.

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[4] 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)

In addition, the Committee also receives detailed reports from specialist functions such as Group Risk, Valuation Control, Group Legal and Tax. Finance, in common with other functions, is covered by the Internal Audit process and the Committee receives these reports. It also receives reports and updates from KPMG. This year, KPMG has focused particularly on credit, goodwill and valuations. The Committee is therefore made aware of all material relevant issues that have concerned management during the year.

For the 2013 Annual Report and Accounts the Committee paid particular attention to the following issues:

Impairment of loans and advances

The net charge to the profit and loss account in respect of impairment losses on loans and advances and other credit risk provisions for the year ended 31 December 2013 is $1,617 million. Through the year, the Committee requested and received information on specific names and industries based on its assessment of the external environment, developments in footprint markets and areas identified in discussions with the Board Risk Committee. There is some common membership across the Audit Committee and the Board Risk Committee and this ensures that, in addition to an assessment of current adequacy of provisions, the Committee is also afforded a forward-looking view on potential risks and their impact. The Committee also receives reports from the management at each reporting period, detailing, inter alia, the composition of the loan book, provisioning levels and cover ratio by business and the judgment exercised around the individual and portfolio impairment provisions. In 2013, this covered the following key areas:

- In the Wholesale Banking (WB) business, major individual provisions were assessed for adequacy through a review of the assumptions underpinning possible recovery options and related cash flows. For certain significant exposures in the performing book, the Committee was briefed on business plans, management assessment of the potential cash flows and collateral available. Trends in 'early alert accounts' (see page 73) were shared and the concentration of exposures in certain sectors such as Commodities and Real Estate and geographies such as the UAE and India were analysed in further detail. This enhanced the Committee's understanding of the shape of the book including the underlying customer and maturity profiles. Additionally, given the slowdown in the economy, an analysis of the middle market exposures in India was reviewed for adequacy of provisions and an understanding of management's plans including potential exits where relevant
- In the Consumer Banking (CB) business, where provisions are assessed more on a collective basis (other than for Mortgages), an analysis by products and geographies was provided with related delinquency trends. In respect of Korea, the charge driven by the Personal Debt Restructuring Scheme (PDRS) was analysed in respect of the unsecured book with an understanding of the characteristics of products offered, the industry experience and management response on mitigating actions through more stringent underwriting standards. The Committee also continued to gain comfort from the fact that the CB loan book is predominantly secured and the loan-to-value ratio (LTV) on the Mortgage book remains low at 47.5 per cent

The Committee has discussed impairment with the management and the auditors and considers the provisions held within both the WB and CB businesses to be appropriate.

Goodwill impairment testing

The total goodwill carried on the balance sheet as at 31 December 2013 is $5,207 million and, based on the review of forecasts and assumptions by senior management, the Committee considers that the headroom available is sufficient to support the carrying value. This view is also supported by the independent perspective of KPMG. The Group undertakes its annual assessment of goodwill impairment as at 30 September each year and the Committee receives a detailed paper outlining the forecasts used for determining cash flows, the basis of the assumptions used (including any change from previous years), head room availability and sensitivities of the forecast to reasonably possible changes in assumptions. Additionally, for each interim and year-end reporting date, an update is also provided to the Committee, in particular for Cash Generating Units (CGU) where the goodwill held is either material or more prone to pressure in a stress scenario. During the past few years and in 2013, the Committee focused in particular on the goodwill associated with the South Korean business given the deteriorating market environment as reflected in the reduction in forecasts used to determine future cash flows as well as the enhanced sensitivity of these numbers to changes in the discount rate. As at 30 June 2013, management identified a shortfall between the value in use and the net assets of the South Korean CGU and proposed an impairment of $1,000 million in respect of the goodwill associated with it. The Committee reviewed the forecasts and the assumptions used to derive them and agreed that the proposed impairment charge was reasonable. As in the previous year, the Annual Report and Accounts includes a disclosure highlighting the fact that it continues to be possible that certain scenarios (to which the South Korea CGU 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. Based on discussions with management, the Committee agreed that the disclosure continues to be relevant given the continuing uncertainty in the South Korean banking environment.

Valuation of financial instruments

The judgments in relation to valuation of financial instruments is more subjective in respect of Level 3 assets, where the value is based on models that use a significant degree of non-market based inputs. For the Group, the quantum of such assets is very low; of the $191 billion financial assets held at fair value as at December 2013, only $4.5 billion, or 2.3 per cent, were Level 3. The Committee receives reports at each reporting period, detailing the valuation process (which is undertaken by a unit independent of the business) and the amounts reserved to cater for model and projection risks which cover both Level 2 and Level 3 assets. Additionally, through briefing sessions with Valuation Control, the Committee has satisfied itself that liquidity related implications on valuation of Level 1 and Level 2 assets in particular have also been appropriately addressed. In 2013, the Committee was also briefed on the valuation and disclosure changes arising from the implementation of International Financial Reporting Standards 13 which deals with the fair value of financial assets and liabilities.

Further information on level assets can be found in note 15 to the financial statements.

Fair, balanced and understandable

The Committee has reviewed and monitored the appropriateness and completeness of the published financial statements and circulars to shareholders of the Company and any formal announcements relating to the Group's financial performance, including significant financial reporting judgments and estimates made by the Group. On behalf of the Board, the Committee has considered, and has satisfied itself, that the processes and procedures in place ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

This statement is underpinned by the Committee's and the Board's belief that the Annual Report and Accounts does not exhibit any bias and that all important elements have been disclosed and that the descriptions of our business as set out in the strategic report are consistent with those used for financial reporting in the Financial statements.

Key judgments and the significant issues reported are consistent with the disclosures of key estimation uncertainties and critical judgments set out in the financial statements on pages 236 to 244.

As in previous years, we have maintained our discursive style in reporting, with the intention of continuing to enhance engagement with stakeholders.

When it has been necessary to use specialist terms, these have been defined for clarity and consistency in the Glossary on pages 332 to 335.

Tax

The Committee has received updates concerning international tax developments and specific UK tax-related matters including Her Majesty's Revenue and Customs review of the Group's compliance with the UK Code of Practice on Taxation for Banks.

Group finance transformation programme

The Committee has continued with its oversight of a transformation programme within the finance function designed to consider the evolution, shape, resourcing and competence of the function together with the Group's data infrastructure and control environment. This transformation programme was established as a result of the increasing requirements from regulators across our markets and more complex and growing demands from the business. We have discussed the programme's structure as it moves through its various stages of delivery, the expected outcomes, programme governance and the risks and issues identified together with solutions to address these.

Oversight of internal controls

The Committee has considered reports in respect of the control environment in our markets.

The Committee discussed control environment issues, their root causes and management's responses and remediation activities. At each Committee meeting, information is provided in Audit and Compliance risk issues maps which the Committee has reviewed and (where deemed appropriate) challenged. These maps have continued to evolve so as to provide greater differentiation regarding the materiality of particular issues.

In 2013, our Group Internal Audit function conducted 225 Group Risk-based audits (compared to 205 in 2012 and 175 in 2011), 11 (4.9 per cent) of which were graded 'Fail' (compared with 8 (3.9 per cent) in 2012 and 10 (5.7 per cent) in 2011). A 'Fail' graded audit is defined as where the GIA has determined that the controls in the area under review are operating at an unacceptable level from the perspective of the Group's standards.

Issues that are deemed to be of Group significance and, in Group Internal Audit's view, in need of additional scrutiny, are escalated to the Committee. At each meeting, the Committee reviews management's response to Group Internal Audit's findings and recommendations and tracks the progress of remediation programmes. Senior executives and management from across the Group have been invited to Committee meetings to discuss developments and issues which have arisen in their regions. The Committee's review of the audit results has not indicated any concerning trends, significant concentrations of 'Fail' audit grades or areas where management is not taking necessary action.

As part of its oversight of internal controls, the Committee has been particularly vigilant of the need to meet increasing regulatory and compliance demands across a number of areas including Customer Due Diligence, sanctions and anti-money laundering requirements, and the work performed by Group Internal Audit has provided the Committee with insights into these areas. Given these challenges, we have paid particular attention to the resourcing requirements of both Group Internal Audit and the Group Compliance functions, and we have sought and received assurance from management who have been invited to Committee meetings concerning the action that has been taken to address these increasing standards.

Group Internal Audit and Group Compliance

We have reviewed the resourcing and proposed work plans for both Group Internal Audit and the Group Compliance functions and are satisfied that both the work plans and resources are appropriate in terms of proposed areas of focus and the expertise and skill that exist within both functions given the current regulatory environment.

The Committee monitored and assessed the role and effectiveness of the Group Internal Audit function. The Committee reviewed and approved Group Internal Audit's Charter, reviewed and monitored progress against its annual audit plan and reviewed its monitoring of post audit actions. The Committee considered the resourcing requirements of the function, and the Committee met twice with the senior leaders of the Group Internal Audit function.

During 2013, the Chartered Institute of Internal Auditors (CIIA) issued revised guidance for Effective Internal Audit in the Financial Services Sector. Ernst & Young were engaged to conduct a gap analysis of our Group Internal Audit function against the revised guidance.

The report highlighted that no major global financial services organisation currently complies with all the elements of the CIIA guidance. The report concluded that the impact, influence and involvement of our Group Internal Audit function within Standard Chartered was 'strong'. For Group Internal Audit to fully satisfy the guidance and to meet its objective of upper quartile benchmark performance against peers, the gap analysis identified that greater focus needs to be placed on Group Internal Audit's infrastructure (for example, through enhancements to the risk assessment and audit planning processes). However, the report acknowledged that many of the infrastructure improvements were already in the process of being implemented. During 2014, the Committee will monitor Group Internal Audit's progress against the agreed action plans.

As a result of our review the Committee is comfortable with the independence of the Group Internal Audit function.

Group Statutory Auditor

We have exercised oversight of the work undertaken by the Group statutory auditor, KPMG. Throughout the year, Committee members have met with local audit partners in Botswana, Hong Kong, India and Singapore. Such meetings enable Committee members to gain greater insight as to the challenges faced in the Group's markets from a statutory audit perspective.

We have discussed with KPMG the business and financial risks and have sought assurance that these risks have been properly addressed in the audit strategy and plan that has been reviewed by the Committee. We are satisfied that KPMG has allocated sufficient additional and experienced resources to address heightened risks. We have sought assurance and are comfortable that no undue pressure has been asserted on the level of audit fees so as to ensure that there is no risk to audit work being conducted effectively.

During the year, we approved the re-appointment, remuneration and engagement letter of KPMG as our Group statutory auditor.

We conducted a review of the performance and effectiveness of KPMG which included an assessment of their independence and objectivity. In conducting the review, the Committee was seeking to gain assurance that KPMG has conducted a comprehensive, appropriate and effective audit. As in previous years, the review was performed jointly by Group Internal Audit and Group Finance by way of a structured questionnaire. The questionnaire was sent to Country Chief Financial Officers, members of our Finance Leadership Team, Country Chief Executive Officers and our Business Leadership Team covering all of our major markets. The questionnaire considered KPMG's value add to the Group, the level of engagement, their ability to demonstrate an understanding of Standard Chartered and our risk environment and the demonstration of appreciation of the issues faced by Country Chief Executive Officers, Chief Financial Officers and Business Heads together with their objectivity, independence and effectiveness. Over the course of the year, the Committee has scrutinised the audit process and the quality and experience of the audit partners engaged in the audit. The 2013 Group Audit Plan considered by the Committee provided details of the number of years KPMG partners and senior team members have been involved in the Group's audit. KPMG's lead audit partner for Standard Chartered has a background in auditing banks and understands the markets in which we operate.

Audit tender

In September 2012, the UK Finance Reporting Council (FRC) published its Guidance for Audit Committees. We are supportive of its aims to enhance disclosure and increase investor confidence in the audit process and integrity of financial reporting. Consistent with the aims of the FRC's guidance and because we believed that it was the right thing to do, in 2013 the Committee conducted a tender for audit services.

KPMG has been the Group's statutory auditor for over 25 years and has periodically and regularly rotated its lead partner in accordance with FRC recommendations. In recent times this has been every five years. When determining the timing of the tender, consideration was given to the remaining tenure of the current lead audit partner, who was appointed on 7 May 2010 and is due to rotate following the audit for the year ending 31 December 2014. Should the decision be made to change statutory auditors, the appointment of a new firm of auditors would be effective from 1 January 2015, thereby allowing for a transition period leading up to that rotation. Four firms were shortlisted. When developing the shortlist for the tender, we took into account the need for each firm to have strengths and capabilities in global banking relevant to our business and the markets in which we operate and with technical specialists dedicated to our audit. Two of the four shortlisted firms chose to participate in the tender. Throughout the process the mindset was one of openness to changing our Group statutory auditors if there was value in doing so.

After a robust and thorough tender process and careful evaluation of what both firms participating in the tender had to offer, the Board concluded on recommendation by the Committee that KPMG was the best firm to serve the Group. This decision was based on KPMG's experience and coverage as an auditor of financial institutions across our markets and their evolutionary approach in continuing to adapt the audit to our changing operating environment while maintaining a qualitative approach to provide confidence in our financial reporting. We entered the tender process pre-disposed to change. Although we do not propose to change auditor, the tender was a valuable process as it generated positive change in the audit approach.

Non-audit services

In 2013, the Group spent $4.4 million in non-audit services provided by KPMG and $24.6 million in non-audit services with other audit firms.

Further details can be found in note 8 on page 253.

The Committee reviewed and approved the Group policy on the award of non-audit services to auditors (the 'Policy'). The Policy states that the Group's statutory auditor should not be regarded as the automatic or first audit firm of choice for non-audit services and consideration should always be given to the use of other firms. If the Group's statutory auditor is appointed to provide non-audit services, the primary consideration is to ensure that the independence and objectivity of the audit firm is not (or could not be perceived to be) compromised by the appointment. In addition, the non-audit services work to be undertaken must not have the potential to significantly impact the operations of any financial reporting area of the Group and there must not be any reputational issues arising from the work to be undertaken. The Policy clearly sets out the criteria for when the Committee's prior written approval is required. Further information on the Group's approach to non-audit services is captured in the Report of the directors on pages 213 to 222.

Note 8 on page 253 describes the types of non-audit services provided by KPMG.

Linkages between the Committee and subsidiary board audit committees

As has been the practice for a number of years, in 2013 Rudy Markham hosted a call with the chairmen of our subsidiary audit committees. These calls provide the opportunity for Rudy to share what the Committee has been focusing on over the previous year together with the priorities for the forthcoming year and the rationale for these. There has also been a programme whereby the subsidiary audit chairmen are invited to attend Audit Committee meetings. We have documented principles defining the linkages between the Audit Committee and the audit committees of subsidiary companies and the role of our subsidiary audit committees has been enhanced.

Speaking Up Policy

The Committee reviewed the Group's Speaking Up Policy, which allows our employees to raise, in confidence, any concerns that they may have about possible improprieties in matters of financial reporting or other areas. The Committee considered whether there were any trends across our markets in terms of the type and nature of Speaking Up incidences together with the resolution and consequence to ensure that any matters of concern were investigated appropriately and that accountability was duly applied.

Ongoing training and development

In conjunction with the Board Risk Committee, four half-day informal sessions to which all directors are invited have been held. In 2013, these have covered assumptions in modelling, unsecured lending in CB, Group Special Asset Management, operational and cyber risk, transfer pricing, reconciliation of suspense accounts and resourcing in our compliance, audit, risk and finance functions. Such sessions are held in addition to other ongoing training and development activities in each non-executive director's engagement or induction plan.

Observations and actions taken following the 2012 and 2013 Committee effectiveness reviews

In keeping with the approach to Committee effectiveness reviews adopted by other Board Committees, in 2013 the Committee conducted an internally facilitated effectiveness review. This was facilitated by Corporate Secretariat and involved each Committee member providing their thoughts on the Committee's effectiveness rather than answers to a prescriptive set of questions. The feedback was then formally discussed by the Committee. An action plan has been formulated to address the observations and a summary of the findings appear in the table on the following page.

Corporate governance continued

Summary of the themes identified in the 2013 Committee effectiveness review and actions taken/to be taken

2013 Observations	**Actions taken/to be taken**	2012 Observations	Actions taken
There is possible scope to explore further opportunities for greater interaction with senior management business teams outside of formal meetings	**Consideration will be given to holding informal, private sessions between the Committee and senior management business teams along similar lines to the private meetings currently held with the Group Internal Audit's senior management team**	Continue to provide assurance to the Board that controls and compliance culture fully support the Group's strategy	We have reflected on the 'hindsight' judgments to come in the future, so that the Committee can be satisfied that the compliance culture is aligned with regulatory expectation
Consideration will continue to be given to the need to maintain enough time on Committee agendas for broad perspective discussions	**As we transition to the new Committee Chair, we will take the opportunity to review rolling agendas and information flows to the Committee**	While it was felt that the Committee sets clear expectations and appropriate challenges for the Group Internal Audit function, it was agreed that these could be enhanced	The Committee's expectations for the Group Internal Audit function have been more explicitly articulated in Group Internal Audit's charter
		There was possible scope for Committee papers to be more concise, while balancing this with the need to ensure that the Committee receives all the information necessary to fulfil its duties effectively	The nature of the information provided to the Committee has evolved in 2013. Following feedback from the Committee, both the Group Internal Audit function and Compliance reports provided to the Committee have been significantly modified

Board Risk Committee

Dear Shareholder

The Board Risk Committee maintains enterprise-wide oversight of all risk types. It has primary oversight accountability for credit, capital, market, liquidity, operational, country cross-border and pension risk. The Committee is interested in whether the risk and the underlying activity are in line with the Group strategy, and its values and behaviours. The Group will not compromise its risk appetite position in pursuit of growth.

A critical foundation of the Board Risk Committee's activities is the work that it undertakes in overseeing that the Group remains within the Board-approved risk appetite. We view the Risk Appetite Statement as a risk-based expression of the Group's strategy. At the strategic level, risk in any business, but most especially in a bank's business, is clearly owned by the Board. The Board Risk Committee's role is to advise and help, diving deeply into issues of risk so that the Board is well placed to perform its role as the ultimate owner of risk appetite. The Committee scrutinises management's proposals regarding the Risk Appetite Statement, and advises the Board accordingly.

We maintain a rolling assessment of the independence of the Group Risk function, and its ability to operate effectively, in conjunction with the businesses, while being able to challenge the businesses as and when needed in pursuit of effective risk management. We believe that the effectiveness of the Group's risk management system is critically dependent on the management resources that operate it. This has been kept under review in 2013 through several mechanisms, including formal discussion of the quality, independence and depth of the risk function and numerous interactions between Committee members and risk personnel at all levels. Over the course of the year, Committee members have met with members of the Group's risk teams in Bahrain, Botswana, Ghana, Hong Kong, and Singapore.

For the Board Risk Committee to be truly effective it needs to be forward looking. Over the last three years since the Committee was established, we have explored with both management and the risk function how best this can be achieved so that the Committee has enough time for horizon scanning. Significant consideration has been given to what information needs to be provided to the Committee on the current risk position and how this is changing, the likelihood of it continuing to change and the reasons why. The Committee has requested and received not just point-in-time data, but increasingly, highlights of data trends and changes in portfolios. The provision of such information has enabled the Committee to understand the underlying factors that are causing the changes. For example, the Committee requested and received the results of an assessment of the impact of a prolonged downturn in commodity prices on commodity miners and producers in the metals and energy sectors within the Wholesale Banking (WB) portfolio and whether this could lead to undesirable portfolio concentrations.

As part of the multi-year Board succession plan, the Committee composition continues to evolve. Since our last report, Om Bhatt and Naguib Kheraj have joined the Committee. Om brings with him extensive banking, financial services and leadership acumen with deep knowledge and experience across India, one of our largest markets. Naguib brings extensive international banking, finance and business leadership experience to the Committee. Lars Thunell joined the Committee in 2013 and his membership has brought significant banking and risk management experience to the Committee.

I will be stepping down from the Board in 2014 following 10 years' service. In anticipation of this, the Chairmanship of the Committee will be taken up by Lars with effect from 1 April 2014. I have enjoyed the weighty task of chairing the Committee since its inception in March 2010. I am very pleased to be handing over to Lars, who is highly qualified to lead it going forward.

I can confirm that the information that the Committee has received has been balanced, appropriate and timely, and has enabled the Committee to fulfil its remit.

Jamie Dundas
Chairman of the Board Risk Committee

Board Risk Committee Members


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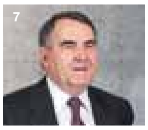
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Other attendees at Committee meetings include:
Group Chairman; Group Chief Executive Officer; Group Finance Director; Group Chief Risk Officer; Group Head Internal Audit; Group Company Secretary; Group Treasurer; Group statutory auditors

(During 2013)	Scheduled meetings: 6	Ad hoc meetings: 1
J F T Dundas (Chairman) (1)	6/6	1/1
O P Bhatt* (2)	4/4	1/1
R Delbridge† (3)	2/2	0/0
S J Lowth (4)	5/6	1/1
R H P Markham (5)	5/6	1/1
R Markland (6)	6/6	1/1
P D Skinner (7)	6/6	1/1
O H J Stocken (8)	4/6	1/1
Dr L H Thunell (9)	6/6	0/1

*Appointed on 1 May 2013 †Stepped down on 1 May 2013

Role and responsibilities

The Committee is a primary committee. Its role is to exercise oversight on behalf of the Board of enterprise-wide risk and to recommend to the Board where the risk appetite should be set. While the Committee has the primary oversight role for enterprise-wide risk, it does not take the primary oversight role for all types of risk. In such instances the Committee interacts closely with the other board committees where the remits of those committees clearly cover risk-related issues. For example, the Brand and Values Committee has oversight of the mechanisms by which reputational risk is managed, the Remuneration Committee with regard to risks relating to remuneration and the Audit Committee with regard to the Group's internal financial controls. Such interaction ensures that the Committee is both well informed as to the discussions held and the common membership across our board committees, and the close collaboration of the Committee Chairs helps to ensure there are no gaps and to minimise unnecessary duplication.

In discharging its responsibilities the Committee monitors risk positions and seeks assurance on behalf of the Board around the Group's Risk Management Framework which assigns accountability and responsibility for the management and control of risk. It is through this Framework that the Group manages enterprise-wide risk with the objective of maximising risk-adjusted returns while remaining within the Group's risk appetite. It is therefore vital that the Board Risk Committee understands, can evaluate and is assured as to the quality and completeness of this Framework.

The Committee has also satisfied itself that the Group remains within its risk appetite, with a strong capital and liquidity position that can be shown to be resilient to stress. Risks to future earnings are demonstrated to be held well within carefully defined levels of tolerance. In carrying out its responsibilities, the Committee is closely supported by the Group Chief Risk Officer, Group Finance Director, Group Head of Internal Audit and Group Treasurer, together with other business functions on risks within their respective areas of responsibility.

Committee membership

We believe that it is essential for the Committee to have both representation from members with deep and broad banking and risk experience, and members with risk perspectives from other industries and professions. The Committee's effectiveness is also supported by overlapping membership and close links with the other main board committees, which ensure that risk-related perspectives from the Audit, Remuneration or Brand and Values Committees are able to be aired at the Risk Committee. As part of our multi-year Board succession plan, the Committee's membership has changed in 2013 with Richard Delbridge stepping down from and Lars Thunell and Om Bhatt joining the Committee. In addition, Naguib Kheraj joined the Committee with effect from 1 January 2014. Lars has a highly developed understanding of banking and risk management in a financial services context. Om has extensive banking, financial services and leadership acumen with deep knowledge and experience across India, one of our largest markets. Naguib brings extensive international banking, finance and business leadership experience to the Committee.

Interaction with management

On a regular basis, the Committee meets individually with the Group Chief Risk Officer and Group Head of Internal Audit. These meetings allow Committee members to discuss freely any matters relating to issues arising from the Committee's formal discussions.

Risk information provided to the Committee

The Committee receives regular reports on risk management, including portfolio trends, policies and standards, stress testing, liquidity and capital adequacy and is authorised to investigate or seek any information relating to any activity within its terms of reference. In discharging its responsibilities, the Committee continues to be vigilant against being overwhelmed with information, while ensuring that it is provided with all the key data necessary to fulfil its terms of reference.

Over the course of the year, the Committee has been cognisant of the need to continue to ensure that the right balance is being struck between strategic forward-looking oversight of the Group's risks and 'deeper dives' into significant issues, regulatory driven responsibilities and horizon scanning. This has been achieved through careful consideration of the nature and type of information to be provided to the Committee, together with agenda setting and the use of informal sessions which not only enable in-depth discussion into selected topics but also free up formal agenda time for horizon scanning discussion. A report from the Group Chief Risk Officer is presented at every scheduled meeting. These reports cover the macroeconomic and geo-political outlook and ongoing risks (such as the challenges in the eurozone and the China slowdown). In addition to the reports from the Group Chief Risk Officer, the Committee also receives reports at every scheduled meeting from the Group Treasurer which cover market developments, liquidity, capital, recovery and resolution planning and rating agency and international regulatory updates. Such information enables the Committee to discuss with management the major risks faced by the Group across the businesses and geographies.

Over the course of the year, in addition to receiving regular updates from the Group Chief Risk Officer and Group Treasurer, the approach taken with regard to agenda setting has enabled the Committee to dedicate time for deeper discussion on a variety of relevant topics including deeper dives into:

- WB credit risk
- Consumer Banking (CB) credit risk
- Private Banking operational risk
- Market risk
- Geography Risk Appetite Assessments for Singapore, Taiwan, Hong Kong and China

As part of the overseas Board meeting held in Hong Kong in November 2013, the Committee took the opportunity to hold a focused discussion with local management concerning the shape of China's banking landscape, the Group's strategy towards and exposure to Chinese banks and how this exposure is monitored and controlled and potential local regulatory trends.

When travelling to our markets, Committee members have met with members of the Group's risk function and business risk heads in Bahrain, Hong Kong, India, Ghana, Singapore, Taiwan and Botswana.

The Committee also received an update in relation to the Group's Operational Risk Transformation Programme (designed to enable the Group to identify any processes which are operating outside of acceptable parameters in a timely fashion and to rectify any causes for deviation well in advance of any material problem developing) and was provided with an overview of the proposed implementation of an operational risk framework. The framework will bring rigour in the identification of risk in processes which are capable of producing unsatisfactory operational risk outcomes that are material to the Group.

More details concerning the Group's approach to operational risk can be found on pages 123 and 124 of the Risk review.

Risk Appetite

Every year the Committee pays careful attention to the formulation of the Group's Risk Appetite Statement, in order to assure itself that it is effective in setting appropriate boundaries in respect of all main risk types. The Group will not compromise its risk appetite position in pursuit of growth and on behalf of the Board the Committee reviews a range of focused risk appetite assessments and stress tests which consider alignment with the Group's Risk Appetite Statement. There are a wider range of risk metrics that the Committee also regularly tracks and which are reported to the Board periodically. All directors receive a summary of the risk information report for each Board meeting and minutes of the Committee meetings. During 2013, we have increased formal periodic risk reporting to the Board, especially around the Committee's quarterly assessment against the Board-approved Risk Appetite Statement.

Capital and liquidity

At every scheduled meeting the Committee considers and discusses the Group's capital and liquidity position and the regulatory environment and expectations. In addition to receiving regular liquidity updates, we have reviewed the liquidity risk stress-test approach and the liquidity risk appetite. With regard to capital, the Committee has reviewed and discussed in detail the Group's Internal Capital Adequacy Assessment in order to satisfy itself that the Group's approach to capital planning is comprehensive, rigorous and consistent with both the current regulatory requirements and with developments under Basel III or other likely regulatory initiatives.

Further details concerning capital can be found on pages 128 to 135 and liquidity can be found on pages 115 to 122 of the Risk review.

Stress testing

Stress testing and scenario analysis are used to assess the financial and management capability of the Group to continue to operate effectively under extreme but plausible trading conditions. The Committee has maintained oversight of the Group's overall stress-testing programme, reviewing the design, key assumptions and the outcomes of principal tests. Key tests at Group level such as the regular stress testing of overall compliance with risk appetite, for capital adequacy or mandatory Reverse Stress Tests, are individually discussed by the Committee. Where it has been necessary, the Committee has requested that additional or more severe tests be carried out.

Further details concerning stress testing can be found on page 71 of the Risk review.

Regulatory considerations

The Committee receives regulatory updates in relation to capital, liquidity and the structure of the Group including the Capital Requirements Directive IV (CRD IV) covering material holdings requirements, additional capital buffer proposals and the Basel III implementation timetable, regulatory developments relating to capital models and regulatory developments across the Group's markets. In addition, throughout the year, there has been constructive interaction on various occasions between the Committee and the PRA on risk matters.

Corporate governance continued

Risk management disclosures

The Committee has reviewed the risk disclosures in the Annual Report and Accounts and the Half Year Reports and has reviewed and approved the disclosure on the work of the Committee. In addition, a sub-committee of the Committee and the Audit Committee reviewed the Basel II Pillar 3 annual disclosure.

Ongoing training and development

In conjunction with the Audit Committee, four half-day informal sessions to which all directors are invited have been held. In 2013, these covered assumptions in modelling: unsecured lending in CB, Group Special Asset Management, operational and cyber risk, transfer pricing, reconciliation of suspense accounts and resourcing in our compliance, audit, risk and finance functions. Such sessions are held in addition to other ongoing training and development activities in each independent non-executive director's engagement or induction plan.

Observations and actions taken following the 2012 and 2013 Committee effectiveness reviews

An internally facilitated effectiveness review was conducted in 2013. This was facilitated by Corporate Secretariat and involved each Committee member providing their thoughts on the Committee's effectiveness rather than answers to a prescriptive set of questions. The feedback was then formally discussed by the Committee. While the Committee members believed that the Committee had been performing well and was effective, there were emerging themes to discuss. An action plan has been formulated to address the observations and a summary of the findings appear in the table below.

Summary of the themes identified in the 2013 Committee effectiveness review and actions taken/to be taken

2013 Observations	**Actions taken/to be taken**	2012 Observations	Actions taken
There is scope for Committee papers to be more concise. While balancing this with the need to ensure that the Committee receives the correct level of detail in order to effectively fulfil its duties	**So as to ensure that the Committee is not distracted from its focus or from operating effectiveness, the work undertaken in 2013 will be built upon so as to further refine agendas and papers** **As we transition to the new Committee Chair, we will take the opportunity to review the rolling agendas and information flows to the Committee**	Continue to ensure that the right balance is struck between strategic forward-looking oversight of the Group's risk and deeper dives into significant issues, regulatory-driven responsibilities and horizon scanning	Opportunities for further refinement of agendas and papers have been identified and implemented in 2013
		The balance between the work undertaken by the Committee regarding risk appetite and the Information provided and risk discussions at Board meetings could be enhanced	Formal risk reporting to the Board has been introduced around the Committee's periodic assessment against the Group's Risk Appetite Statement

Brand and Values Committee

Dear Shareholder

The Brand and Values Committee has continued to focus on its key priority areas, with in-depth reviews carried out into brand, reputational risk, culture and values and sustainability/environmental issues. In all our work, we aim to ensure that the Committee adds value to the business.

As a result of last year's Committee effectiveness review, we have sought broader participation from senior leaders at Committee meetings. We also held a number of informal sessions covering reputational risk management, digital media and sustainability issues, the latter in Ghana during an overseas Board visit.

The Committee has reviewed the Group's reputational risk exposure at each meeting and held a reputational risk workshop, facilitated by an external reputational risk consultancy, which provided the Committee with examples of best practice and emerging thinking in this important field. As a result, the Group is aiming to be more forward looking in identifying reputational risks, using advanced horizon scanning techniques.

Regarding brand, the Committee now has better sight of the detailed brand dynamics which inform investment decisions. The range of brand metrics presented to the Committee has advanced significantly this year, providing the Committee a better understanding of the progress being made. The Committee discussed the findings of an external brand audit, conducted by a leading brand consultancy, to assess the health of the brand globally. This audit has resulted in an action plan focusing on four key brand themes. The oversight of brand management and development will remain a key priority for 2014, as these themes are taken forward to further maximise brand potential.

The Committee is committed to ensuring that our culture is protected and that we continue to demonstrate our Here for good brand promise. Conduct has become an increasingly prevalent theme externally and there has been sustained effort on raising its profile across the Group. It was encouraging to see the progress made on embedding the Group's Code of Conduct which was re-launched during the year, alongside the Fair Accountability Principles. Building on these strong foundations, we believe that a continued focus on conduct will be essential in the future.

The Committee believes it is critically important to demonstrate the Group's socio-economic contribution in the markets where we operate, to underpin our legitimacy. A key highlight this year was the informal Committee session held during the Board's visit to Ghana, which provided insight into the Group's socio-economic contribution in Ghana and gave examples of how Here for good is operationalised locally. We also continue to monitor the Group's progress in minimising environmental impacts arising from the Group's operations and seek assurance that we are maintaining a leadership position in this area.

Again this year, the Committee has carried out an effectiveness review to identify improvements for the future. We believe it is fundamentally important to ensure that the Committee continues to add value and reduce risk across the business. The Committee believes the Group's strong commitment to its culture and values, reflected in a strong brand, is an important differentiator which underpins business performance.

Paul Skinner
Chairman of the Brand and Values Committee

Other attendees at Committee meetings include:
Group Chairman; Group Chief Executive; Director, Compliance, People and Communication; Group Company Secretary; Group Head Corporate Affairs; Special Adviser to the Directorate

Brand and Values Committee Members

(During 2013)	**Scheduled meetings: 5**
P D Skinner (Chairman) (1)	5/5
J F T Dundas (2)	4/5
V F Gooding* (3)	0/1
Dr Han Seung-soo (4)	5/5
Dr L H Thunell‡ (5)	3/4
J W Peace§ (6)	1/1

*Stood down from the Committee on 1 May 2013
‡Joined the Committee on 1 May 2013
§Stood down from the Committee on 1 May 2013 becoming a permanent invitee
Note: There were no ad hoc Committee meetings in 2013

Role and responsibilities

The Committee's remit includes oversight of the positioning of the Group's brand, reputational risk, government and regulatory relationships, environmental and sustainability issues and importantly our conduct, culture and values. It also includes client- and customer-focused strategies including Treating Customers Fairly.

Reputational risk

The Committee oversees the processes by which the Group identifies and manages reputational risk in an effective and transparent manner, consistent with the Board-approved Risk Appetite Statement.

The Committee has carried out an in-depth review into the Group's approach to reputational risk and how this is managed across the Group, and is satisfied that the processes are robust. Ahead of this review, a reputational risk workshop, facilitated by an external reputational risk consultancy, was held to review and discuss emerging thinking and best practice in reputational risk management. The Group's approach and processes were compared to examples of best practice and as a result, a number of high level actions were identified for implementation. For example, it has been recognised that there is a need to build better intelligence on emerging risks, including the use of horizon scanning techniques, and to gain a greater understanding of how the Group's stakeholders work together on risk issues.

At each meeting, the Committee is provided with an update on the material reputational risks facing the Group from the perspectives of internal and external stakeholders. Given the fluid nature of reputational risk, the Committee has sought and received assurance on employees' awareness of their responsibility. While all staff are responsible for day-to-day identification and escalation of reputational risk through existing Group approaches, including the Speaking Up procedures, the Group Code of Conduct (the 'Code') and mandatory e-learning, accountability remains with the owners of each individual risk type for the reputational consequences of issues relating to their aspect of risk (for example the Group Treasurer owns Capital Risk). By following such procedures, staff will ensure they act in a manner that does not give rise to reputational risk and is consistent with our Here for good brand promise.

Brand

In 2013, the Committee was provided with a deeper level of data regarding the development of the brand. The Committee has focused its attention on a consumer-focused marketing model that describes the customer experience from when a prospective customer first becomes aware of the brand to his or her decision to purchase a product or service. This has helped the Committee analyse the linkages between brand consideration, usage and sales revenue. The Committee continues to review the Group's markets using a three-stage approach to brand development (building brand awareness, differentiating and deepening knowledge of the brand and delivering the brand experience). As a result, we are now able to track business outcome metrics (such as revenue per active customer) against key brand metrics with the intention of gaining clearer insights on the return on brand investment.

During the year, the Committee was provided with an in-depth review of the Group's brand position and development in Singapore, which provided context on the internal and external pressures affecting the brand's development. The Committee has also been provided with a detailed overview of the brand governance structure in place and assurance that brand assets are being managed consistently across the Group.

The Group commissioned a leading brand consultancy to conduct a brand audit with the purpose of assessing the health of the Standard Chartered brand across nine key markets in Consumer Banking (CB) and across Wholesale Banking (WB) globally. The results of the audit were reviewed by the Committee in September 2013. While the focus on brand was well understood within WB, there was a need to increase the relevance of the Group's Here for good brand promise in CB. In addition, the audit highlighted some inconsistencies in how brand assets are being deployed and implemented across the markets where the Group operates. As a result of the brand audit findings, four key priorities for the future development of the brand were identified: brand governance, brand relevance, brand experience and brand measurement.

In July 2013, a two-year extension to the Group's main sponsorship agreement with Liverpool Football Club (LFC) was agreed. The partnership with LFC will run until the end of the 2015/2016 season. We believe it is vital to maximise our LFC sponsorship and to use this to drive brand awareness in markets where LFC and football has wide appeal. For example, when the LFC team carried out a three-country tour to Asia (Indonesia, Australia and Thailand), over 225,000 fans attended the three games. We continue to see the benefits of this important sponsorship through increased brand awareness data. The Group's brand tracker data suggest that of those aware of the LFC sponsorship, 54 per cent would consider purchasing Standard Chartered products and services, an increase from 44 per cent (pre-sponsorship).

The Committee continues to evaluate the progress being made in digital media and regularly reviews how various media channels are being utilised to develop the brand. In order to deepen the Committee's knowledge of this, an informal Committee session was held, providing an overview and demonstration of digital media. The Committee will continue to focus on the use of digital media in 2014.

Culture and values

The Committee considers it fundamentally important that the Group promotes an open, inclusive and collaborative working environment and that its culture is reinforced by ensuring that the Group's values and Here for good brand promise infuse actions and decisions made. In seeking assurance that this is in place, the Committee received an update on the progress being made across the Group in regard to diversity and inclusion. We were pleased to see the continued progress being made on developing a pipeline for gender diversity at senior management level, noting the importance of stronger inclusion and greater opportunities to allow women to achieve their potential. The Committee supports the view that sustained focus on advancing this priority should continue. The Committee also welcomed the progress made in raising awareness of inclusion and disability issues through training activities on topics such as unconscious bias and disability listening groups to better understand the needs of employees with disabilities. Another key area of focus is flexible and agile working, and how this is supported throughout the Group and embedded into working practices. The importance of senior management advocating and role modelling such working practices is recognised and the launch of our Flexible Charter supports this.

To provide the Committee with deeper context on the work being undertaken within the Group to reinforce our culture and values, we received a detailed progress report covering what has been accomplished in one of the Group's business segments within WB, Financial Markets. The Committee acknowledged the fact that, given the specialist skills required within this area, there could be a tendency to have a less diverse cross-section of employees in place. However, assurance was provided that as new recruits join WB and specifically Financial Markets, it is imperative that they understand the behaviours expected of them, and the Committee received an update on the cultural fit assessment that was carried out during the interview process. The Committee was encouraged to hear about the various initiatives underway, including a Financial Markets-wide cultural programme, intended to further raise awareness and to reinforce the right behaviours.

The Chairman's Here for good Awards is a programme which was launched in 2012. It is designed to enable Group employees to recognise the team and individual who best represents Here for good. This programme plays a role in deepening the high level of internal engagement across the Group. To demonstrate the impact of these Awards, in 2013 nearly 700 entries from 44 countries were received with over 80,000 votes from employees, an increase of 5 per cent from 2012. The Committee is keen to ensure that the powerful connection to Here for good is maximised.

Towards the end of the year, the Committee reviewed the way in which the Group's culture is evolving and how the Code has been embedded since its re-launch in 2013, with a view to ensuring that the underlying requirements of the Code are well understood. The Committee was pleased to note the work underway in improving the internal understanding of standards of behaviour required – known internally as 'raising the bar on conduct' – supporting the view that it is imperative for the Group to set and manage itself to high standards in this regard. The Committee firmly believes that 'tone from the top' is critical to ensure that employees behave in the manner required by the Code and that senior management should visibly role model this. The Committee noted the strong role senior management played in the launch, along with those in middle management to deliver the key Code messages. Following the re-launch of the Code, it was encouraging to see that, by the end of 2013, 98 per cent of employees had completed mandatory e-learning and 97 per cent had reconfirmed their commitment to the Code. These results, together with the consistently high reference to and usage of the Group's intranet support materials, demonstrate our people's commitment to the strengthening of the Group's compliance culture. The Committee will be seeking assurance that this momentum will continue into 2014.

Corporate governance continued

Sustainability/environment

In 2013, the Committee decided to review the progress being made in sustainability through two of the Group's three core priorities: 'Contributing to sustainable economic growth' and 'Being a responsible company'.

The Committee's review of 'Contributing to sustainable economic growth' recognised the progress being made, the challenges ahead, and the strength of the Group's sustainability story. During the Board's visit to Ghana in June 2013, an informal sustainability session was held for Committee members and other independent non-executive directors to provide context on the issues/challenges in place in Ghana and how Here for good is demonstrated locally.

In December 2013, the Committee received an update on 'Being a responsible company'. This included an in-depth analysis into the Group's environmental performance during the year, with a focus on how the Group is minimising its environmental impact across its footprint. The Committee was assured that the Group is using resources with increased efficiency. For example, since 2008 the rate at which energy is consumed in large properties has reduced by 14 per cent, equivalent to a utility cost saving of almost $10 million. Over the same period, the rate by which the Group consumes water has been reduced by 40 per cent. Furthermore, despite the substantial growth of the Group's business, total carbon emissions have reduced by 11 per cent since 2009. The Committee was pleased to note that 26,000 of the Group's suppliers in 48 countries were made aware of the Supplier Code of Conduct, which sets out the Group's expectations of suppliers through 10 principles covering ethics, human rights, labour, environment, and health and safety.

The Committee will receive an update on the 'Investing in communities' priority in mid-2014.

The Committee continues to review community investment expenditure against set criteria and budgets and received a detailed progress report on Seeing is Believing, the Group's global campaign to tackle avoidable blindness, which reached its 10th anniversary in 2013.

In 2013, the Group was included in the 2013 Dow Jones Sustainability World Index for the fourth time. The Group is also listed on the FTSE350 Climate Disclosure Leadership Index and continues to be listed on the FTSE4Good and is a member of the Carbon Disclosure Project. These external recognitions provide important endorsement of the Group's approach.

Further details can be found in the Group's 2013 Sustainability Review on www.sc.com.

Client/customer focus and treating customers fairly

The Committee retained oversight of the delivery of the Group's client/customer focused strategy in WB and CB against the Here for good brand promise. An in-depth analysis into the market in India provided a practical illustration of how the strategy is progressing in the CB business. WB continues to focus on deepening client relationships and being positioned as a trusted adviser, an approach endorsed by the Committee.

Treating Customers Fairly is a key Financial Conduct Authority principle for the management of customer relationships. In 2013, the Committee conducted two reviews into Treating Customers Fairly, with a specific focus on the progress being made in India and a review of the measures and initiatives in place to minimise mis-selling risks.

Government and regulatory relationships

The Committee has continued to oversee the Group's approach to its main government and regulatory relationships in major markets, which is an ever-increasing priority in a complex regulatory landscape. An in-depth analysis into the government and regulatory relationships in China was conducted, which allowed the Committee to gain a fuller appreciation of the government and regulatory context in this market.

Committee membership

The qualifications and expertise of the Committee members reflect the requirements as set out in the Committee's terms of reference. Paul Skinner has extensive experience of branded, customer-facing businesses on a global scale, sustainability/environmental issues arising in the natural resources industry and of government relationships. Jamie Dundas was previously chairman of the Sustainability and Responsibility Committee and has extensive international experience. Dr Han, a former Prime Minister of the Republic of Korea, has deep experience of geo-political issues, multilateral agencies and sustainable/environmental policies and is currently UN Secretary-General's Special Envoy for Disaster Risk Reduction and Water, and on the UN Secretary-General's Advisory Board on Water and Sanitation. Lars Thunell, who joined the Committee on 1 May 2013, has a wealth of financial services and banking experience, sustainability issues and a detailed understanding of emerging markets gained as chief executive officer and executive vice-president of the International Finance Corporation, a member of the World Bank Group. On 1 February 2014 Christine Hodgson joined the Committee, bringing with her a wealth of experience in the area of sustainability. Christine is currently chair of the Capgemini UK Sustainability Board. The Committee's effectiveness is enhanced through the existence of synergies in membership. For example, Paul is also a member of the Board Risk Committee and the Remuneration Committee. Jamie is the Chairman of the Board Risk Committee of which Lars is also a member. Christine is a member of the Remuneration Committee.

Committee effectiveness review

This year, the Committee has undertaken an internally facilitated effectiveness review with input from executive management. Proactive steps have been taken to consolidate the progress the Committee has made over the last 12 months, and to improve its future effectiveness.

Summary of the themes identified in the 2013 Committee effectiveness review and actions taken/to be taken

2013 Observations	**Actions taken/to be taken**	2012 Observations	Actions taken
The Committee could benefit from a relevant local topic focused session during overseas Board visits	**At one of the overseas Board visits during 2014, the Committee will meet local brand and value executives**	The Committee could provide a forum for a best practice discussion on the Group's management of reputational risk	A reputational risk workshop was held in August 2013, facilitated by an external reputational risk advisory practice, to review reputational risk best practice
The Committee should hold an unstructured discussion session with leading external practitioners on a topic within its mandate	**We will consider topics within the Committee's remit that would benefit from external debate, with a view to arranging an unstructured discussion session**	The Committee should probe how Here for good is reflected in decision making	During the Board visit to Ghana in June 2013, a session was organised to discuss how Here for good is practised locally
The Committee should receive an update on how significant subsidiary boards and directors are addressing areas within the Committee's terms of reference and agenda	**At one of the overseas Board visits during 2014, the Committee will meet with the local board of a subsidiary company**	The Committee should develop its approach to reviewing brand development	Brand metrics have further developed over the year and the findings of the external brand audit have been reviewed and discussed

Other attendees at Committee meetings include:
Group Company Secretary

Governance Committee Members

(During 2013)	**Scheduled meetings: 3**
J W Peace (Chairman) (1)	3/3
R M P Markham* (2)	1/1
R Markland† (3)	2/2
P A Sands (4)	3/3

*Stood down from the Committee on 1 July 2013
†Joined the Committee when appointed Senior Independent Director on 1 July 2013
Note: There were no ad hoc Committee meetings in 2013

Role and responsibilities

The Governance Committee is an enabling committee responsible for the oversight of overall Board effectiveness and governance issues, monitoring corporate governance developments and emerging best practice across our markets. The Committee provides a dedicated forum to consider key corporate governance issues and discuss the Board's effectiveness more broadly. In 2013, the Committee decided that, given its membership, the opportunity existed for there to be a more 'free-style' approach to discussion topics so as to allow more time for these broader debates and more time for reflection and discussion, with less formal reporting.

Committee membership

The Committee's membership comprises the Group Chairman, Group Chief Executive and Senior Independent Director. The Group Company Secretary also attends the meetings. During the year, Rudy Markham stepped down as Senior Independent Director and Ruth Markland was appointed. The Committee is a unique enabling forum which facilitates the Group Chairman, Group Chief Executive and Senior Independent Director to meet and discuss key corporate governance issues.

Material corporate governance matters potentially affecting the Group

During the year, the Committee received an in-depth review of the key corporate governance recommendations and potential actions to be taken in response to the Barclays' Salz Review, the Parliamentary Commission on Banking Standards and CRD IV.

2013 approach to Board effectiveness

As stated in our 2012 Annual Report and Accounts, all things being equal, the intention in 2013 was to conduct an externally-facilitated Board and primary Committee effectiveness review. Given that seven new independent non-executive directors have joined our Board since November 2012, and five Board members will have stepped down from the Board by the end of May 2014, it was felt that there would be little merit in conducting an externally facilitated review in 2013. Over the coming weeks we plan to invite external board effectiveness facilitators to tender for the 2014 review. Further details on Board effectiveness can be found on pages 149 to 151.

Corporate governance trends and emerging best practice

The Committee has received updates on key developments in the corporate governance environment and trends faced across the Group's footprint. For example, the Committee has considered the increasing trend to appoint more independent non-executive directors on subsidiary boards and to set up more subsidiary board committees. There continued to be a considerable amount of corporate governance reports, consultations and reviews published and the Committee has had oversight of the approach that has been taken in responding to these. The Committee continues to be supportive of the Group's approach to practising exemplary standards of corporate governance, and to proactively contribute to promoting an environment where such standards operate globally.

Reviewing the committee's agenda

In order to ensure that the Committee remains an effective forum for the Group Chairman, Group Chief Executive and Senior Independent Director to consider key corporate governance matters, opportunities for enhancement of the Committee's time and focus were identified during the course of 2013. These included considering the Committee's remit against those of other Board Committees so as to avoid potential duplication. The primary purpose of this review was to enable greater discussion of corporate governance issues during a time of increased regulatory change and ongoing reflection in regard to the Board's effectiveness.

2013 Committee effectiveness review

The Committee discussed its effectiveness at the end of 2013 and agreed that it had provided a valuable forum to discuss corporate governance issues of significance to the Group. However, it would be important to ensure that adequate space was allocated in the Committee's agenda to enable key corporate governance discussion and reflection in regard to the Board's effectiveness.

Other attendees at Committee meetings include:
Group Chief Executive; Director, Compliance, People and Communication; Group Company Secretary

Nomination Committee Members

(During 2013)	Scheduled meetings: 2	Ad hoc meetings: 4
Sir John Peace (Chairman) (1)	2/2	4/4
J F T Dundas (2)	2/2	2/4
R H P Markham (3)	2/2	4/4
R Markland (4)	2/2	4/4
P D Skinner (5)	2/2	4/4

The Committee's composition and role

The Nomination Committee is an enabling committee consisting of the Chairman and the chairs of each of the other board committees. Details of the qualifications of the members of the Committee can be found in their biographies on pages 138 to 142. Following their appointment as chairs of the Audit Committee and Board Risk Committee in 2014, Naguib Kheraj and Lars Thunell will be appointed as members of the Committee in place of Rudy Markham and Jamie Dundas.

The Committee's remit is to review the structure, size and composition of the Board, including the Board's succession planning requirements. It also oversees the identification and assessment of potential Board candidates and makes nominations to the Board for its approval as appropriate. In addition, on behalf of the Board, the Committee considers any potential conflicts of interest declared by our Board members. The Committee also keeps under review the leadership needs of, and succession planning for, the Group in relation to both directors and other senior executives, and considers recommendations made by the Group Chief Executive or the Committee for changes to the executive membership of the Board. Its remit also includes making recommendations for the appointment or removal of the Group Chairman, Group Chief Executive or any director, and the terms associated with such recommendations.

During the year, the Committee's remit was expanded to reflect its role in determining the Board's composition diversity guidelines, and overseeing the plans to achieve these. This followed changes to the PRA rules in December 2013 to implement the CRD IV legislation. Further information on this can be found on page 174.

Succession planning

In 2013, the Committee focused heavily on the second phase of our multi-year Board succession plan. Its priorities included determining the phasing of the independent non-executive directors stepping down and joining the Board; identifying successors to chair the four primary board committees; and continuing the smooth transition of Board and committee membership.

The Committee continued to conduct a thorough and comprehensive review of the skills and experience of our existing Board members and considered these against our multi-year succession plan to ensure that we have the right balance to support the future development of our business. Following this review, which included the core competencies and skills that it would be desirable to have on the Board and its committees, the Committee oversaw the process which led to the appointments of Kurt Campbell, Christine Hodgson and Naguib Kheraj. In the appointment of Christine and Naguib, the external search firm, Lygon Group, was used. Lygon Group has no other connection with Standard Chartered. Separately, the Chairman and Group Chief Executive led the process to identify potential candidates who would bring to the Board a deep understanding of the US political landscape and whose combined skills and experience would complement the Board as a whole. Given Kurt's public and private sector roles, including his significant US governmental experience and deep knowledge and experience of some of our key markets, it was agreed that it was not necessary to use an external search firm or advertise for his appointment. However, as part of Kurt's appointment process, Lygon Group conducted extensive referencing on the Group's behalf.

During the year, the Committee also focused on executive succession plans for the Group's senior leadership. This covered the Group's most senior leadership cadre as well all business and function roles that report directly to the Executive Management Group. In addition, the Chairman and the independent non-executive directors informally met on four separate occasions to receive updates on the evolving thinking on executive and non-executive succession planning. This culminated in an ad hoc Committee meeting, to which all independent non-executive directors were invited, to consider and discuss the proposed changes to the organisation of our business that were subsequently announced on 9 January 2014.

Annual re-election of directors

Each year the Committee reviews the performance of each of the directors seeking annual re-election at our Annual General Meeting (AGM). As part of this process, our Chairman reports to the Committee on the outcome of his performance evaluation of each individual director. In considering the performance of each individual director, our Chairman met with all of our directors individually in 2013 to review their performance and effectiveness. This review included consideration of their time commitment and performance against the agreed tailored engagement plan for each non-executive director. The Chairman also elicited feedback regarding the Board's composition and current and future Committee membership and structure.

The UK Corporate Governance Code, requires a rigorous assessment of those independent non-executive directors who have served more than six years in office to be conducted. This assessment covered Ruth Markland and Paul Skinner, both of whom have served on the Board for more than nine years. When considering their re-appointment, the Code requires that the Board should state its reason for determining their independence notwithstanding their length of tenure. Historically, the Committee has reviewed the independence of those independent non-executive directors who have reached or exceeded a nine-year tenure and made recommendations to the Board. However, given that the majority of Committee members had served more than nine years, it was decided that it was more appropriate that this matter be dealt with by the Board. The relevant directors recused themselves from the Board conversation. Further details of this assessment are provided on page 152.

As Senior Independent Director, Ruth Markland conducted a rigorous review in relation to our Group Chairman's performance. This involved a meeting between the independent non-executive directors and the feedback provided by the Board as a whole as part of the Board effectiveness review process. Ruth also met with each of the executive directors separately to gain insight into their thoughts and views. The feedback concluded that Sir John Peace continues to have the full and unequivocal support of the Board. Following this meeting, Ruth wrote to Sir John summarising the feedback and shared a copy of her letter with the Board.

Board diversity policy

During the year, the Committee reviewed the Board's published Diversity Statement to reflect new CRD IV regulations which came into force on 1 January 2014.

Following this review, the Committee recommended to the Board a revised Board Diversity Policy which is available at www.sc.com

Currently we have a diverse mix of ethnicity, gender and experience on our Board, including two women and seven different nationalities. There are 12 directors who have lived or worked across Asia, Africa and/or the Middle East.

All Board appointments are based on meritocracy, with the prime consideration being to maintain and enhance the Board's overall effectiveness. Within this, the Board recognises that diversity in all its aspects, including gender, is an important factor to take into consideration. As part of this, the Board's aim is that, by 2017, there will be 25 per cent female representation on the Board. With the unexpected resignation of Margaret Ewing in January 2014 due to health reasons, the Committee has refreshed its succession plans to ensure that we are on track to achieve our stated gender diversity aspiration. The Committee will continue to oversee plans to achieve this, balancing all the factors needed to maximise the Board's effectiveness. These plans include the use of an executive search firm that has signed-up to Lord Davies' voluntary code of conduct and ensuring that candidate lists are appropriately diverse and that at least 30 per cent of the initial candidates are female.

During the year, the Committee reviewed the Group's leadership succession and noted the progress being made to grow the female talent pipeline at senior management level. This included that at least four female members of the Group's senior management team serve as non-executive directors on other company boards. Further details on the Group's approach to diversity can be found on page 33.

Committee effectiveness review

When reviewing its effectiveness, the Committee considered and agreed that the composition comprising our Group Chairman and the chairs of each of our board committees remained appropriate. It also considered the quality and volume of the information it receives and the mechanisms used to ensure that the Board as a whole is kept up to date regarding both executive and independent non-executive succession planning. In both cases, the Committee was satisfied that these were appropriate and should continue to be an area of focus going forward.

Situational conflicts

As part of our remit, the Committee re-appraised the authorisations that had previously been provided to directors for those situations in which he/she had, or potentially could have in the future, a direct or indirect interest that conflicts with the interests of the Company.

The conclusion of the Committee's review was that there were no circumstances that would necessitate the authorisation given previously being revoked or amended.

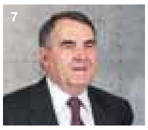
Executive mentoring and development

The Committee continues to support the programme whereby a number of independent non-executive directors mentor senior leaders. This programme was first introduced in 2010 with the aim of providing development support to a number of our most senior high potential leaders. It also allows our independent non-executive directors to gain a more in-depth perspective of the strengths and capabilities of these individuals.

Board Regulatory Compliance Oversight Committee

(During 2013)	Scheduled meetings: 6
J W Peace (Chairman) (1)	6/6
V Shankar (2)	5/6
A M G Rees (3)	5/6
R H P Markham (4)	6/6
R Markland (5)	6/6
J F T Dundas (6)	5/6
P D Skinner (7)	6/6

Note: There were no ad hoc Committee meetings in 2013



Other attendees at Committee meetings include:
Chief Executive Officer and Group Company Secretary

Role and responsibilities

This was a special purpose committee established at the beginning of 2013. The Committee was set up to oversee, on behalf of the Board, matters relating to the Group's compliance with its obligations under the settlements with the US authorities[4]. This includes its responses to other requests, subpoenas and orders from any Federal or State US, or other relevant, authority in respect of such settlements and/or the Group's historic and current compliance with US sanctions regulations (further information regarding the Group's approach to regulatory compliance can be found in the Principal uncertainties section of the Risk review on pages 66 to 69). In addition to the independent non-executive directors, the Committee includes executive directors who have oversight for the delivery of these obligations.

The Committee meets on an ad hoc basis and receives reports on The New York Department of Financial Services Remediation Programme. The current intention is that once the United States Department of Justice and the New York County District Attorney's Office Deferred Prosecution Agreements and The New York Department of Financial Services Consent Order are lifted there will be no further need for this Committee.

The Group is committed to proving it leads the way in combating financial crime, while providing quality service for our clients. In support of this objective the Group has established a Financial Crime Risk Mitigation Programme (FCRMP), 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 to meet this objective. One key component of the FCRMP is the response to the 2012 settlements with US authorities[4] regarding historical sanctions compliance. This component is referred to as the US Supervisory Remediation Programme (SRP) and has been an area of focus for the Committee during 2013. The SRP comprises work streams designed to ensure compliance with the remediation requirements contained in all of the settlement agreements. Going forward in 2014, given the Audit Committee's role, on behalf of the Board, for oversight of internal controls it will have oversight of the FCRMP, including the SRP. The Committee will focus on responses to other requests, subpoenas and orders in respect of Group's historic and current compliance with US sanctions regulations during 2014.

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[4] 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)

Directors' remuneration report

Committed to long-term shareholder value

Ruth Markland

Chair of the Remuneration Committee

> "External pressures continue to challenge the structure of our remuneration but our philosophy remains the same – pay for performance, we do not reward failure."

Dear Shareholder

I am pleased to share with you the directors' remuneration report for 2013. This letter provides a summary of the major decisions taken on directors' remuneration and the context in which these decisions were made.

The report is presented in two sections, reflecting the changes required by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. A number of new disclosures have been provided including the early adoption of the Capital Requirements Regulation disclosure. We hope that this new format makes the information on remuneration clear and easy to understand. A summary of this report can be found on page 23. In addition to the new requirements we have retained some of our historical disclosures with the aim of providing you with a well-rounded picture.

The directors' remuneration policy sets out the Group's proposed policy on directors' remuneration for three years with effect from the May 2014 Annual General Meeting (AGM) and the key factors that were taken into account in setting the policy. In line with the new legislative requirements we will be seeking shareholder approval at the 2014 AGM on this policy.

The annual report on remuneration sets out payments and awards made to the directors and details the link between company performance and remuneration for the 2013 financial year and the way in which the proposed policy will be implemented for 2014. The annual report on remuneration together with this letter is subject to an advisory shareholder vote at the 2014 AGM.

The impact of the external environment on remuneration decisions

2013 has seen a number of external factors impacting overall business, including a turbulent economy which has seen slower global growth and a continued rise in policy interventions through regulatory changes. Following a number of incidents in the financial sector there has been a sustained level of political and public opposition to current banking structures with a pressure for banks to demonstrate that they have a social purpose and will not tolerate or reward failure.

In particular, regulators have intensified their focus on the conduct and behaviour of employees and how this is reflected in their remuneration. Against this background the Group has deepened and strengthened our risk adjustment process for compensation decisions and further developed the framework within which supervision, responsibility and culpability of employees and the impact this has on pay are assessed.

Challenges on remuneration structure under CRD IV

The introduction of new rules as a result of the European Union's Capital Requirements Directive (CRD IV) is undoubtedly having a significant impact on the structure of remuneration in the financial industry for those banks covered by the regulations, including Standard Chartered. We are seeking shareholder approval at the May 2014 AGM to increase the limit on variable remuneration for the executive directors (and other staff subject to the limit known as 'Code Staff') to allow up to two times fixed compensation to be paid in variable compensation. Increasing the ratio will enable us to deliver more total compensation in the form of variable compensation and, as a consequence, have a larger proportion of total compensation subject to claw back and/or future performance than would be the case if we did not receive approval for the increased limit.

The new rules present a number of challenges for the Group. The limit will apply to all Code Staff including those outside of the European Union (EU) and the cap will not apply to our non-EU competitors outside the EU. The European Banking Authority's (EBA) extended criteria for the identification of material risk-takers will result in a significant increase in the number of Code Staff in 2014, with a significant majority of newly identified Code Staff located outside of Europe in our footprint of Asia, Africa and the Middle East. In presenting its recommendations to shareholders at the AGM, the Remuneration Committee (the Committee) has sought to find balanced solutions which address the following challenges:

- Ensuring compliance with the provisions while remaining competitive in terms of attracting and retaining talent across Asia, Africa and the Middle East
- Maintaining competitive pay for our Code Staff in our footprint without committing the Group to substantially higher fixed costs
- Structuring and delivering variable compensation as the EBA's new rules do not provide any additional discount for performance conditions attached to long-term incentives

Our approach to addressing CRD IV is outlined on page 178, and involves the introduction of a new component of pay, called a fixed pay allowance, to ensure we can continue to pay competitively. Additional fixed pay has been minimised and for directors the fixed pay allowances will be paid in shares released over five years.

Organisation structure and director changes

After more than five years Val Gooding stepped down from the Committee on 1 May 2013 and Margaret Ewing also stepped down on 31 January 2014. I would like to pay tribute to Val and Margaret for their valuable contribution to the Committee during their appointments. Additionally, I welcome Louis Cheung and Christine Hodgson, who both joined the Committee in 2013.

On 9 January 2014, the Group announced that it was integrating its two businesses, Consumer Banking and Wholesale Banking to form one business, and that as of 1 April 2014 Mike Rees had been appointed Deputy Group Chief Executive leading the integrated business. It also announced that Richard Meddings and Steve Bertamini would be stepping down from the Board later this year. In line with the new UK reporting regulations, details of the relevant termination arrangements were set out in the formal stock exchange announcement on the same day.

Context to year-end compensation decisions

The Committee recognised that 2013 was a challenging year for the Group with some businesses facing acute margin pressure and increased regulatory requirements leading to financial performance that was not as good as the Group has previously delivered. While the Group has suffered some setbacks, progress has been made in many areas.

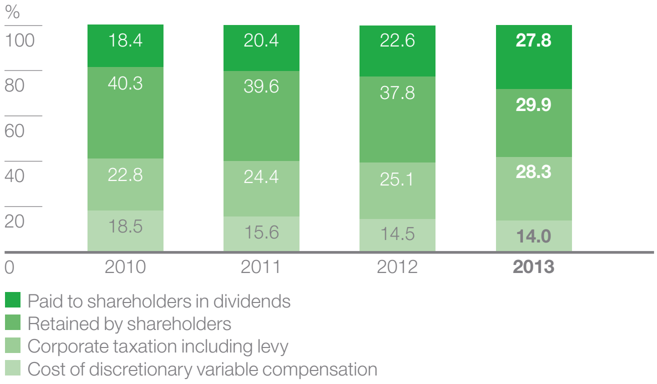
As in previous years, the Committee carefully considered the balance of all stakeholders' interests including the value delivered to shareholders before finalising the size of the total variable compensation (TVC) pool and any executive directors remuneration decisions. Indeed, as the following chart shows, the cost of variable compensation has fallen in relative terms to the value paid to shareholders as dividends and is approximately half the amount of dividends paid in 2013.

The approved TVC pool for 2013 is 15 per cent lower year-on-year, compared to an 11 per cent reduction in reported operating profits and a decrease of 7 per cent in underlying profit (i.e. before taxation, goodwill, own credit adjustments and the settlements with the US authorities)[1].

Consequently, the Committee believed it was appropriate to make variable compensation awards to those that contributed to the Group's continued performance including the executive directors. These awards were at a level that balanced financial and non-financial performance including control related matters and progress against the executive management group's collective agenda.

In the context of the reduction in both reported profit (11 per cent) and the TVC pool (15 per cent), the Committee determined that the starting point for executive directors' TVC awards should be a minimum 20 per cent reduction in TVC year-on-year prior to the consideration of individual and business performance.

Allocation of the Group's earnings between stakeholders



The Committee believed that, given the leadership role of the executive directors, they should take a disproportionate share in the reduction relative to the overall decrease in the pool. As a result, TVC for executive directors is 22 per cent lower than 2012.

Changes to fixed pay in 2014

As part of the changes to fixed pay as a result of CRD IV, and in light of the role changes announced on 9 January 2014, the Committee undertook a review of the appropriate positioning of base salary for executive directors in the context of the market. As communicated at that time, to recognise his appointment as Deputy Group Chief Executive, Mike Rees' annual base salary will be increased to £975,000 and his total compensation opportunity reduced by more than 45 per cent.

The Committee also approved a base salary increase of 4.2 per cent for Peter Sands, the first salary increase for three years. Following this increase, and given the revised remuneration structure approved by the Committee to comply with CRD IV, Peter's maximum total compensation for 2014 is reduced by 15 per cent.

In response to CRD IV, some amendments to the structure of remuneration have been made. The details can be found on page 178.

The respective remuneration disclosures have been prepared by the Committee and approved by the Board as a whole. On behalf of the Committee, I encourage you to vote in favour of the forward-looking remuneration policy and our 2013 annual report on remuneration at the Company's 2014 Annual General Meeting and, in the meantime, welcome any feedback that you may have.

Ruth Markland
Chair of the Remuneration Committee

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[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)

Remuneration Committee Members


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Other attendees at Committee meetings include:
Group Chief Executive; Director, Compliance, People and Communication; Group Chief Risk Officer; Group Head, Performance, Reward and Benefits; and the Group Company Secretary.

Proposed remuneration structure of executive directors in light of CRD IV

We have long had a robust pay for performance culture, subject to high levels of governance; we do not reward failure. Our approach to total compensation will not change. It will continue to be delivered via a combination of fixed pay (comprising base salary, allowances, benefits and pension) and variable compensation. Consistent with our pay for performance culture, variable compensation plays an integral role in enabling us to recognise and reward superior performance and behaviour that support our values.

As the Group is seeking shareholder approval at the AGM on 8 May 2014 to adopt the higher 2:1 ratio for those employees impacted by the capping requirements of CRD IV and because the rules affect remuneration for executive directors, major investors have been engaged on how the Group intends to comply with the rules.

Structure

The Group will comply fully with the new rules, but at the same time must meet the requirements of operating a successful global bank and will continue to pay competitively. In 2014, the following amendments to the pay of executive directors are proposed:

- A fixed pay allowance for specific executive directors will be introduced, delivered fully in shares released over a five-year period. This is a new component of fixed pay. Although the allowance will apply for a period of time, it is subject to periodic review and may be reduced, increased or withdrawn based on factors such as a change in role, regulation or market pay. It cannot vary based on performance
- Total variable compensation (TVC) will be limited to two times fixed pay as valued in line with the European Banking Authority's guidelines on discounting variable remuneration. In future TVC awards will be made based on a single performance decision each year, but delivered in a combination of immediately vested upfront shares, deferred shares, and performance shares vesting over five years
- On an expected value basis, the structure of TVC will be as follows:
  - 20 per cent of the award will be paid in shares upfront. There will no longer be an upfront cash element
  - 55 per cent will be deferred over three years, vesting one-third each year
  - 25 per cent will be deferred for five years, half of which will only vest if further performance conditions measured over a three-year period are satisfied
- Shareholding requirements have been increased for all executive directors and senior management.

Key facts

- The proposals have inevitably, and regrettably, resulted in an increase in fixed pay. The Committee has sought to minimise the level of fixed pay allowances and has offset the increase in fixed pay by paying the allowance in shares, deferring a greater proportion of TVC, increasing the deferral period, and reducing the maximum level of pay for executive directors
- On a face value basis this means that approximately 35 per cent of TVC will now be deferred over five years, and more than a quarter of TVC will continue to be based on long-term performance conditions
- The face value maximum total compensation opportunity for individual executive directors will be reduced by between 15 per cent and 47 per cent. Illustrative scenarios are provided on page 188
- We have developed a simplified remuneration structure that applies in a standard manner across all our executive directors. Remuneration will be delivered over five years rather than over three years. The proportion of each executive director's maximum TVC delivered in shares will increase from 80 per cent to 100 per cent

Remuneration Committee Attendance

(During 2013)	Scheduled meetings: 5	Ad hoc meetings: 2
R Markland (1)	5/5	2/2
Dr L Cheung (2)[a]	3/3	2/2
M Ewing (3)[b]	1/2	2/2
V F Gooding (4)[c]	2/2	0/0
C Hodgson (5)[d]	1/2	2/2
J G H Paynter (6)	4/5	2/2
Sir John Peace (7)[c]	2/2	0/0
P D Skinner (8)	5/5	2/2

During 2013 there were five scheduled meetings and two ad hoc meetings

a. Appointed 1 May 2013
b. Appointed 1 September 2013, stood down 31 January 2014
c. Stood down 1 May 2013
d. Appointed 1 September 2013

Directors' remuneration policy

This section sets out the Group's proposed policy on directors' remuneration which, if approved by shareholders at the AGM on 8 May 2014, will be effective from that date and will apply to variable compensation payments made in respect of the 2014, 2015 and 2016 performance years and outlines the key factors that were taken into account in setting the policy. This section is subject to a binding shareholder vote at this year's AGM and after that at least every third year. If the Group is required to make changes to the policy for legal or regulatory reasons, payments outside this policy will be made to ensure compliance.

Future remuneration policy for the Chairman and independent non-executive directors

How the element supports the Group's strategic objectives	Operation	Maximum potential value, payment at threshold and performance metrics used, weighting and time period applicable
Fees ▪ To attract a Chairman and independent non-executive directors (INEDs) who together with the Board as a whole have a broad range of skills and experience to determine our strategy and oversee its implementation	▪ Chairman and INED fees may be paid in cash or shares ▪ Chairman and INED fees are reviewed periodically. INED fees are set by the Board as a whole. The Remuneration Committee sets the Chairman's fees. The Chairman and INEDs excuse themselves from any discussion on their respective fees ▪ NEDs are able to use up to 100 per cent of their monthly post-tax base fees to acquire shares in Standard Chartered PLC ▪ Expenses incurred during the performance of INEDs duties for the Company may be reimbursed or paid for directly by the Company as appropriate, including any tax due on the payments. Non-UK-based INEDs may receive UK tax return assistance. INEDs may from time to time be accompanied by their spouse or partner to meetings/events. The costs associated with this are met by the Company and in some instances, they are deemed to be taxable and therefore treated as benefits for the INED ▪ Separate to the base fee, INEDs may additionally be paid fees for chairmanship and membership of board committees and to the senior independent director	▪ Overall aggregate base fees paid to all INEDs will remain within the limits stated in our Articles of Association, currently GBP1,500,000 ▪ Fees are set at a level which reflects the duties, time commitment and contribution which are expected from the Chairman and INEDs ▪ Fees are reviewed and appropriately positioned against those for the chairman and INEDs in banks and other companies of a similar scale and complexity ▪ No recovery or withholding provisions apply to fees ▪ Current base fee levels as well as those fees for additional responsibilities are disclosed in the annual report on remuneration on page 193

Service contracts and policy on payment for loss of office for the Chairman and non-executive directors

- The Chairman is provided with a notice period of up to 12 months
- NEDs are appointed for a period of one year unless terminated earlier by and at the discretion of either party upon giving three months' written notice. Their appointment and any subsequent re-appointment are subject to the provisions of the Company's Articles of Association and to the usual (re)election by the shareholders of the Company

Directors' remuneration report continued

Future remuneration policy for executive directors

How the element supports the Group's strategic objectives	Operation	Maximum potential value, payment at threshold and determination of performance metrics
Base salary ■ Support the recruitment and retention of executive directors, recognising the size and scope of the role and the individual's skills and experience ■ Set at a level that enables the Group to operate fully flexible variable compensation plans (including the ability to pay zero variable compensation)	■ Normally reviewed annually with any increases generally applying from April ■ When determining base salary levels, consideration is given to the following: – The individual's skills and responsibilities – Pay at international banks of a similar size and international scope including the UK banks within the FTSE 20 – Group and individual performance	■ Ordinarily, salary increases will be in line with increases awarded to other employees in major operating businesses of the Group. However, increases may be made above this level at the Committee's discretion to take account of individual circumstances such as: – Increase in scope or responsibility – Increase to reflect the individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level) – Alignment to market competitive levels ■ No performance metrics, although overall performance of the individual is considered by the Committee when setting and reviewing salaries annually
Fixed pay allowances ■ Provide a market-competitive level of fixed pay reflecting the skills and experience of the executive while complying with the variable compensation requirements under CRD IV	■ When determining the level of fixed pay allowances, market competitive levels of total compensation for the role are considered, against the same peer groups as outlined for base salary. In making these comparisons benchmarking is undertaken on a total compensation basis to reflect the different structures of pay delivery, particularly for EU and non-EU banks, but also for different banks within the EU. The aim is to deliver total fixed pay which is competitive and appropriate for the role, and which enables a competitive expected value of total compensation, when added to target TVC and other elements of fixed pay ■ The fixed pay allowance for executive directors will be allocated in shares that vest immediately on a bi-annual basis or any other frequency that the Committee considers to be appropriate ■ Fixed pay allowances will not count towards any entitlements, benefits or payments which are calculated by reference to salary and can be reduced, increased, terminated or withdrawn ■ The shares will be released over a five-year period. There is in effect a retention period of up to five years with 20 per cent released every 12 months following allocation ■ Shares may benefit from the payment of dividends during the holding period	■ Fixed pay allowances will be set at an appropriate level subject to a maximum of one times salary ■ No performance metrics used

Future remuneration policy for executive directors continued

<table>
<tr><th>How the element supports the Group's strategic objectives</th><th>Operation</th><th>Maximum potential value, payment at threshold and determination of performance metrics</th></tr>
<tr><td>**Benefits**
- Provide a competitive benefits package that is consistent with our values and supports executives to carry out their duties effectively
- Provide directors with an opportunity to invest voluntarily in the Group</td><td>- The Group provides a range of benefits which may include the provision of a car (or cash equivalent), private medical insurance, permanent health insurance, life insurance and financial advice
- Additional benefits may also be provided where an executive director is relocated or spends a substantial portion of their time in more than one jurisdiction for business purposes. Such benefits may include, but are not limited to, relocation, housing allowance, education fees and any tax and social security that may be due on such benefits. Other benefits may be offered if considered appropriate and reasonable by the Committee
- Sharesave is an all employee plan where directors are able to open a three-year savings contract
– Option price is set at a discount of up to 20 per cent of the share price at the date of invitation
– In countries where it is not possible to offer Sharesave, typically due to securities or regulatory issues, an equivalent cash plan is offered</td><td>- The maximum opportunity for benefits is defined by the nature of the benefit itself and the cost of providing it. As the cost of providing insurance benefits varies according to premium rates and the cost of other benefits is dependent on market rates and other factors, there is no formal maximum monetary value
- Set at a level which the Committee considers provides a sufficient level of benefit based on the role and individual circumstances, such as relocation
- No performance metrics used</td></tr>
<tr><td>**Total variable compensation**
- Provide a portion of total compensation that is performance related and in part is linked to specific, measurable performance criteria
- Ensure a market competitive package and link total reward to achievement of the Group's objectives</td><td>TVC is delivered as follows:
<table>
<tr><th>Structure</th><th>Proportion (on an expected value basis)</th></tr>
<tr><td>Upfront in shares</td><td>20%</td></tr>
<tr><td>Deferred in shares with a three-year phased vesting period, subject to claw back</td><td>55%</td></tr>
<tr><td>Deferred in shares with a five-year cliff vesting period, subject to claw back</td><td>12.5%</td></tr>
<tr><td>Deferred in shares with a five-year cliff vesting period, subject to claw back and satisfaction of performance conditions (see notes below)</td><td>12.5%</td></tr>
</table>
- While the above proportions are on an expected value basis, on a face value basis, the proportion of TVC delivered in performance shares would be approximately 26 per cent of TVC
- Where a portion of TVC is deferred in the form of shares, the Committee may award dividend equivalents on those shares to plan participants
- The Committee can, in circumstances determined by the Committee, apply claw back to all or part of any unvested share award
- Performance shares are the award of nil-cost options subject to a three-year performance period, exercisable after the fifth, but before the tenth anniversary of the date of grant, subject to continued employment and performance conditions being met over the first three years
- The rules of the 2011 Standard Chartered Share Plan provide the Committee with the discretion to adjust vesting of share awards and/or the number of shares underlying an award on the occurrence of corporate events and other reorganisation events</td><td>- The maximum value of TVC can in no circumstances exceed 200 per cent of each executive directors' fixed pay as valued in line with the EBA rules
- The level of TVC for a target level of performance is set in combination with fixed pay to deliver a competitive level of total compensation for the role on an expected value basis against peer groups
- The approach to the determination of individual TVC awards will be similar to that adopted in 2013 and described on page 194
- Payments can be made at any point from zero to maximum. Delivery of a target level of performance would be expected to result in payment of target TVC
- Performance shares are measured against defined performance metrics. Each is assessed independently of one another supporting a balanced scorecard approach. For 2014, performance conditions will be based on equal weighting of relative total shareholder return, earnings per share and return on risk-weighted assets
- In relation to any element of TVC that is delivered in performance shares, the Committee has discretion to vary the relevant measures, weighting and targets each year prior to the grant of any performance share awards, and will subsequently disclose these measures and targets in the annual remuneration report for the respective financial year. The Committee will consult leading shareholders on any material changes
- Discretion may be exercised in cases where the Committee believes that the TVC outcome is not a fair and accurate reflection of business performance but in no circumstances will it exceed the maximum opportunity</td></tr>
</table>

Directors' remuneration report continued

Future remuneration policy for executive directors continued

How the element supports the Group's strategic objectives	Operation	Maximum potential value, payment at threshold and determination of performance metrics
Pension - Facilitate long-term retirement savings	- Defined benefit (DB) scheme closed to new entrants - Cash allowance available for those not participating in DB scheme - Executive directors are able to opt for an individually costed pension allowance on a broadly cost neutral basis to the Group for future service - Executive directors who cannot accrue a full pension at retirement are able to waive base salary to increase their pension	- Under the DB scheme, a pension of 1/30th of final salary for each year of service payable at the age of 60 - For those not in the DB scheme an annual allowance of 40 per cent of salary is payable - No performance metrics used
Shareholding requirement - To strengthen the alignment of the interests of executive directors with shareholders	- Each director is required to hold a specified number of shares determined by the Committee. If the specified number is increased or a new appointment is made, executive directors will be given time to meet the requirement, rather than it necessarily taking effect immediately	- Not applicable

The Committee reserves the right to honour any remuneration commitments which were entered into before this new policy takes effect, even if they would not otherwise be consistent with the policy in place at the time the commitment is fulfilled.

Notes to the future remuneration policy for executive directors table

Recovery

Unless otherwise stated in the future remuneration policy for executive directors there are no recovery or withholding provisions applicable to the various elements.

Performance measures and targets

In 2014, the performance measures on performance share awards will be dependent on the achievement of total shareholder return (TSR), earnings per share (EPS) and return on risk-weighted assets (RoRWA).

The Committee selected the performance conditions as using a risk-adjusted measure ensures a) an appropriate return for the risk taken; and b) reward is aligned with the Group's risk appetite. The measures support a balanced scorecard approach through equal focus on financial measures, investor interests and prudent risk-taking. The performance targets are reviewed annually by the Committee.

Relative TSR, which measures the growth in share price plus dividends paid to shareholders, is recognised as one of the best indicators as to whether shareholders have achieved a good return investing in a specific company relative to a basket of similar companies or a single index. In the case of awards made in 2014 the following banks comprise the TSR peer group:

Banco Santander
Bank of America
Bank of China
Bank of East Asia
Barclays
Citigroup
Credit Suisse
DBS Group
Deutsche Bank
HSBC
ICBC
ICICI
JP Morgan Chase
Kookmin
Oversea-Chinese Banking Corporation
Royal Bank of Scotland
Société Générale
Standard Bank
State Bank of India
UniCredito
United Overseas Bank

The Committee considers that EPS is an appropriate measure of our underlying financial performance.

RoRWA is a key indicator of the Group that is already used to calculate capital adequacy. This performance measure takes into account not only the return on assets but also risk-adjusts the assets by looking at credit, operational, and market risk. RoRWA is a check on inappropriate pursuit of income, rewarding as much for prudent capital management as for pursuing financial management.

EBA valuation guidelines

Draft valuation guidelines introduced by the EBA enable a discounted valuation for remuneration deferred over five years for the purposes of assessing against the 200 per cent cap. The Group will be taking advantage of this discount in order to minimise the increase in fixed pay required to deliver a competitive compensation opportunity under CRD IV. The EBA guidance is still in draft but is likely to allow a maximum unadjusted face value of approximately 220 per cent of fixed pay given the proposed five-year deferral of an element of TVC.

Approach to determination of individual variable compensation awards

The Committee is of the opinion that the performance targets for the element of TVC that is not delivered in performance shares are commercially sensitive and that it would be detrimental to the interests of the Group to disclose them before the start of the financial year. However, TVC will be determined at a level that balances financial performance and non-financial matters including control related matters and progress against the executive management group's collective agenda, which includes the priorities laid out in the Group Chief Executive's review on page 6. A performance assessment will be disclosed after the end of the relevant financial year.

1. Performance management

Group objectives are determined and aligned to the Group's strategic goals. Each executive director agrees with the Group Chief Executive individual priorities around the Group objectives according to the business in which the executive director works and their role. The Group Chief Executive agrees his objectives with the Chairman.

Objective setting

January – February

- Personal objectives agreed with manager
- Objectives shared with the Committee
- In addition, 'collective agendas' are shared with the Committee that are aligned to the Group's strategic goals and also reflect function, geography or business priorities
- Objectives cover quantifiable financial as well as role-based metrics

Interim review

July

- Mid-year discussion on performance to date against objectives

Final review

December – January

- Self appraisals prepared and performance discussion held with manager
- Group Chief Executive/Chairman provides the Committee with performance updates on both delivery against objectives and also on conduct and behaviours
- Feedback from Risk and other control functions is taken into account

2. Determining compensation outcomes

In 2014 the Committee will continue to refine a framework to develop a more transparent link between TVC and performance. The framework will be designed on the basis that the combination of meeting both satisfactory financial performance and achievement of other non-financial factors would, all other things being equal, deliver a target level award, prior to the consideration of any personal or business performance.

Step 1: Eligibility for an award

- Prior to any TVC decisions being made for the executive directors, the Committee considers whether i) the Group's financial performance has been achieved within the Group's risk appetite; and ii) in light of the Group's current and forward-looking capital position, there is anything that should prevent the Committee from approving any awards
- In relation to each individual executive director, the Committee then considers i) whether they have achieved a minimum standard in terms of living the Group's values and associated behaviours; and ii) whether the level of financial performance achieved in their particular area of responsibility warranted payment of any TVC

Step 2: Initial determination of awards

- The Committee considers the headline Group financial performance (in absolute and relative terms) and the achievement of other non-financial factors (including progress against the Group's agreed collective agenda, control related matters) and how this might, all other things being equal, translate into an award outcome

Step 3: Finalising individual awards

- Award levels are then differentiated based on personal and relevant business performance, individual conduct and behaviour, as well as other individual circumstances such as market competitiveness
- The Committee shares the recommendations with other non-executive directors

Directors' remuneration report continued

Changes to remuneration policy from that operating in 2013 and 2012

Element	Operation of the component	Maximum potential value	Performance metrics used, weighting and time period applicable
Base salary	No change	No change	No change
Fixed pay allowance[1]	Introduction of a fixed pay allowance delivered in shares	One times base salary	None
Benefits	No change	No change	No change
Pension	No change	No change	No change
Variable compensation[1]	An element of variable compensation is paid upfront and the balance deferred for up to five years (previously three years) In light of the integration of performance shares into the single variable compensation framework, the Group is moving to target TVC rather than target APA	The maximum potential TVC opportunity has been reduced Total maximum variable compensation will be 200 per cent of fixed pay as valued in line with the EBA discounting rules	■ On an expected value basis: – 55 per cent of TVC will be deferred for up to three years – 25 per cent of TVC will be deferred for five years – 20 per cent of TVC will be delivered upfront in shares Half of the five-year deferral will be in performance shares subject to measurement of current criteria over a three-year performance period. While the above proportions are on an expected value basis, on a face value basis the proportion of TVC delivered in performance shares would be circa 26 per cent

[1] Maximum award potentials for fixed pay allowances and variable compensation awards are based on obtaining shareholder approval to increase the maximum variable compensation as a percentage of fixed pay under CRD IV from 100 per cent to 200 per cent at the AGM on 8 May 2014. If shareholder approval is not obtained, the maximum fixed pay allowance payable for each executive director under the policy will be the difference between (i) 50 per cent of maximum total remuneration of the executive director under this policy as shown in the 'Remuneration scenarios' chart on page 188 and (ii) the aggregate of the base salary, benefits and pension cost for that executive director. The maximum variable compensation award levels will then be revised from 200 per cent to 100 per cent of fixed pay (in line with the EBA valuation rules). The increase in the cap to 200 per cent would enable us to minimise the increase in fixed remuneration costs and maintain greater flexibility on total pay while retaining a larger quantum of variable pay that can be subject to claw back and forward-looking performance conditions

Differences in remuneration policy for all employees

Our performance, reward and benefits approach supports and drives our business strategy and reinforces our values in the context of a clearly articulated risk appetite and a Group-wide framework, under which we apply a consistent approach to reward for all employees.

All employees are entitled to base salary and benefits and have the opportunity to receive an element of performance-related compensation, subject to their contractual entitlement. The maximum opportunity of performance-related compensation available is based on the seniority and responsibility of the role.

Fixed pay allowances will only be provided to specific material risk-takers as defined by the EBA based on their role, function, skills and experience. Senior management will receive shares aligned to the approach for executive directors. All other specified employees will receive the fixed pay allowance in cash when it is below a certain amount. The excess above this amount will be delivered in shares.

Statement of consideration of employment conditions elsewhere in the Group

The Committee reviews annually and takes account of the remuneration trends across the Group including the relationship between executive remuneration and the remuneration of other Group employees.

The Committee is also responsible for approving the design of, and determining targets for, any material performance-related pay plans operated by the Group and approving the annual TVC pool.

The Committee is provided with data on the remuneration structures for Code Staff (defined on page 209) and uses this information to work with the Human Resources team to ensure consistency of approach throughout the Group in addition to overseeing compliance with regulations.

The Group also assesses the appropriateness of variable compensation decisions in the context of the individual's performance, the performance of their business function and the Group's performance by reviewing output from any annual employee survey that follows the final review.

Consideration of shareholder views

The Committee consults with the Group's leading shareholders periodically to understand their expectations with regard to executive remuneration and any changes in shareholder views.

This year, major shareholders were also consulted during the latter part of 2013 on proposed changes to the Group's remuneration structures for certain employees, including executive directors, in order to comply with the regulatory requirements of CRD IV.

The Committee factored the feedback into the final proposals outlined on page 178.

Approach on recruitment for directors' remuneration

Fees and benefits for a new Chairman or independent non-executive director (INED) would be in line with the policy described on page 179. The Group's approach to reward and benefits reflects the fact that many of our employees bring international experience and expertise and that we recruit from a global marketplace. The Committee's approach to recruitment remuneration is to pay a competitive reward package that reflects our international nature and enables us to attract and retain candidates to the role. Base salary and fixed pay allowance will be set to reflect the role and the skills and experience of the candidate, and will enable payment of a market-competitive total remuneration within the limits on variable compensation set by our remuneration policy.

Where it is decided to compensate for forfeited remuneration from the individual's previous employer through a buyout, it will typically be delivered in the form of restricted shares or performance shares. The Group looks to replicate broadly the arrangements being bought out.

The Committee recognises that in exceptional circumstances the use of a guaranteed variable compensation award can be important in securing key senior talent, albeit it acknowledges that there is a need for appropriate safeguards on how it is composed and delivered and subject to regulatory restrictions. The Committee will take into consideration the variable remuneration awarded or offered by the individual's previous employer in a similar role.

Any conditional award is subject to the prevailing deferral mechanism, claw back policy and the maximum of 200 per cent of fixed pay as valued in line with the EBA rules.

Any new executive directors' package would normally include the same elements, and be subject to the same structure as those of the existing executive directors, as shown below.

Element	Maximum percentage of salary
Base salary	Not applicable
Fixed pay allowance	100 per cent of base salary
Legacy matters	For existing employees the Group will continue to honour remuneration commitments already in place
Benefits	Dependent on circumstances but typically consists of car provision, medical insurance, life assurance and for international hires expatriate benefits as outlined in the table on page 181
Pension	40 per cent of base salary
Variable compensation	Dependent on circumstances but no more than 200 per cent of fixed pay as valued in line with the EBA rules

Service contracts, policy on payment for loss of office and change of control

Standard provision	Policy	Details	Other provisions in service contracts
Notice periods in executive directors' service contracts	- 12 months' notice from the company - 12 months' notice from the executive director	- Executive directors may be required to work during the notice period or may be provided with pay in lieu of notice if not required to work the full notice period	
Compensation for loss of office in service contracts and treatment of annual performance award under plan rules	- No more than 12 months' salary, pension and benefits - Variable compensation is awarded at the Committee's discretion	- Payable quarterly and subject to mitigation if the executive director seeks alternative employment - Good leavers (as determined by the Committee) may be eligible for variable compensation although there is no automatic entitlement. Typically the amount is pro rata to the period of service during the year - The Committee has discretion to reduce the entitlement of a good leaver in line with performance and the circumstances of the termination	- In the event of a compromise or settlement agreement, the Committee may make payments it considers reasonable in settlement of potential legal claims. This may include an entitlement to compensation in respect of their statutory rights under employment protection legislation in the UK or other jurisdictions. The Committee may also include in such payments reasonable reimbursement of professional fees in connection with such arrangements
Change of control: - **Treatment of compensation for loss of office on a change of control** - **Share awards** - **Annual performance awards**	- No more than 12 months' salary, pension and benefits - Share awards are treated in line with the plan rules - Variable compensation is awarded at the Committee's discretion	- Payable quarterly and subject to mitigation if the executive director seeks alternative employment - In the event of a change of control, any outstanding awards may vest as appropriate, to the extent any performance conditions have been met. Awards will become exercisable immediately. Where a change of control occurs part-way through a performance period, the award will be pro rata, unless the Committee decides otherwise	- The Committee reserves the right to alter the performance period or the performance measures and targets of the annual performance plan or of any outstanding awards under the annual performance plan or the performance share plan in the event of a change of control, to ensure that the performance conditions remain relevant but challenging - The Committee has the discretion to test performance at the point of change of control or to allow awards to continue or roll-over in any reasonable manner with agreement of the acquirer, taking into account the circumstances of the change of control
Treatment of unvested deferred restricted share awards and performance share awards on termination under plan rules	- The Committee has the discretion under the relevant plan rules to determine how 'good leaver' status should be applied on termination. The current approach provides that discretion will be afforded in cases such as death, disability, redundancy and mutual separation	- For good leavers, vesting may be subject to non-solicit and non-compete requirements - Awards vest in full over the original timescale and remain subject to the Group's claw back arrangements (unless otherwise specified in the rules). This is reflective of the increased level of deferred compensation over recent years due to changes in regulatory requirements. The Committee has discretion to vary the level of vesting - Awards lapse for employees not designated good leavers	

Service contracts, policy on payment for loss of office and change of control continued

Standard provision	Policy	Details	Other provisions in service contracts
Outside appointments	▪ Executive directors, by agreement of the Board, may serve as non-executive directors of other organisations. In addition, executive directors are permitted to hold a maximum of only one non-executive directorship with a FTSE 100 company on the basis that there is no conflict of interest	▪ The Board's approval must be sought before accepting appointment ▪ Fees may be retained by the executive director	

Dates of executive directors' service contracts/letters of appointment

Copies of executive directors' service contracts and non-executive directors' letters of appointment are available for inspection at the Group's registered office. The dates of their service contracts and letters of appointment are shown below.

Standard provision	Date of service contract/letter of appointment
Peter Sands	31 December 2003
Richard Meddings	12 December 2003
Steve Bertamini	22 April 2008
Mike Rees	7 January 2010
Jaspal Bindra	8 May 2013
V Shankar	14 April 2010

Details of the non-executive directors' dates of appointment are on pages 138 to 142.

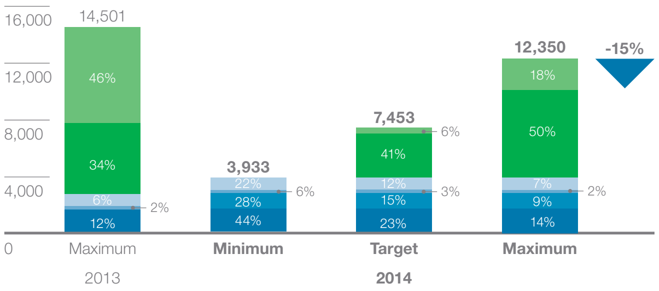
Directors' remuneration report continued

Illustration of the application of the remuneration policy

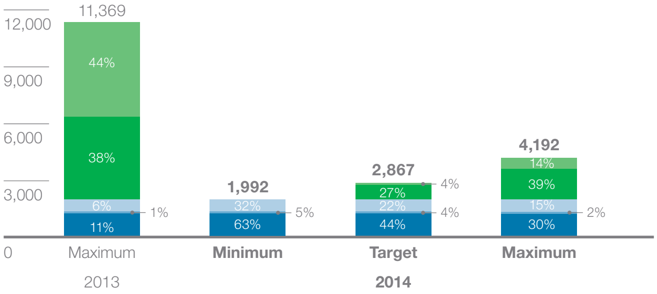
The Group's proposed remuneration structure, as outlined earlier in this section, is subject to approval by shareholders at the 2014 AGM. If approved, the charts below provide illustrative outcomes that could result for each of the executive directors based on the proposed structure under three performance scenarios (minimum, target and maximum) and show the difference between the structure of remuneration in 2013 versus what is proposed for 2014.

■ Base salary ■ Fixed pay allowance ■ Benefits ■ Pension ■ Annual performance award ■ Performance share award

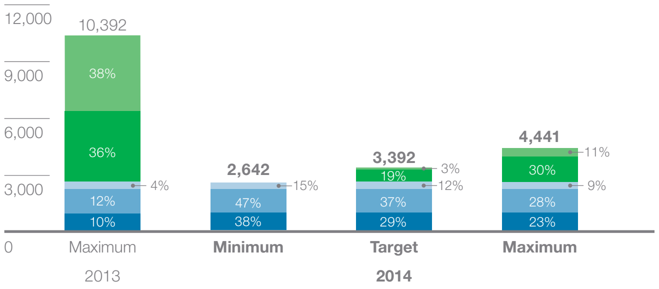
Peter Sands
$000



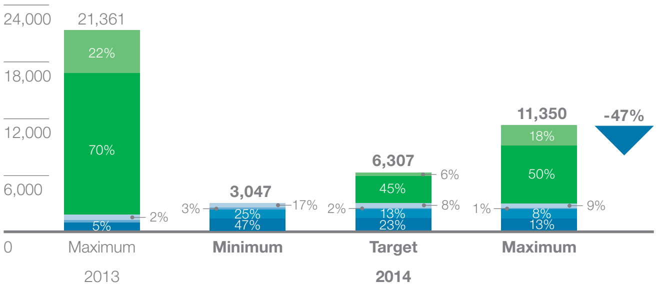
Richard Meddings
$000



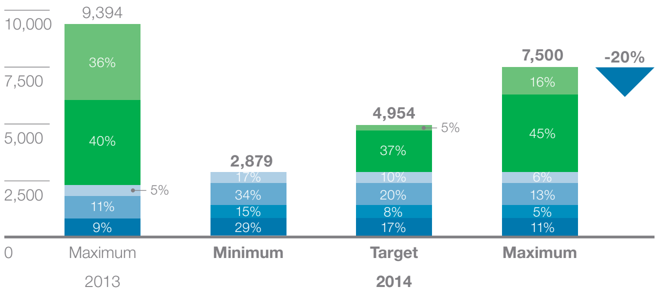
Steve Bertamini
$000



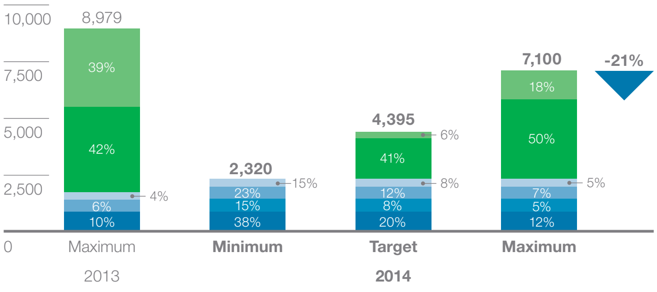
Mike Rees
$000



Jaspal Bindra
$000



V Shankar
$000



Notes
Minimum performance assumes no variable compensation is awarded
Target performance is the expected value of remuneration mid-way between minimum and maximum and assumes partial vesting (40 per cent) of performance shares
Maximum performance in 2014 is on the basis that shareholders approve the increase to the limit to allow up to 200 per cent of fixed pay to be paid in variable compensation and assumes full vesting of performance shares. For 2013, the maximum total variable compensation opportunity was 250 per cent of the target annual performance award (150 per cent for Mike Rees) and a performance share award of four times base salary
No share price growth has been assumed and dividends have not been included
The 2014 value of pension and benefits is as per the 2013 single figure of remuneration table on page 198 except for Mike Rees' pension which includes an uplift to recognise the increase in accrual as a result of the adjustment to his base salary. The actual fixed pay in 2014 will be dependent on exchange rates, the cost of benefits and the pension valuation
Any base salary increases would be effective 1 April 2014 therefore a pro rata figure has been provided in the charts. The 2014 fixed pay allowances and details of the base salary increases for Peter Sands and Mike Rees are outlined on pages 204 and 205

Annual report on remuneration

This section sets out payments and awards made to the directors and details the link between company performance and remuneration for the 2013 financial year. The annual report on remuneration together with the letter to shareholders from the chair of the Remuneration Committee on page 176 is subject to an advisory shareholder vote at the AGM in May 2014.

Committee role and focus

The Remuneration Committee has oversight of all reward policies for Standard Chartered employees. It is responsible for setting the principles and governance framework for all compensation decisions.

In particular the Committee:

- Determines and agrees the remuneration of the senior management and employees with the potential to have a material impact on the risk profile of the Group
- Approves any proposal to award a high remuneration package to new recruits or a high level individual performance award to a Group employee
- Ensures that the remuneration policy is appropriate and consistent with effective risk management, with the Group Chief Risk Officer attending key meetings of the Committee during the year
- Approves the overall TVC pool on an annual basis

Members of the Committee

As outlined in the corporate governance section (page 152), the Board is satisfied that all of our non-executive directors are independent including Ruth Markland and Paul Skinner who are both Committee members. Ruth's and Paul's continuity of service and commitment provided an in-depth knowledge and understanding of the Group which was invaluable. The Committee also welcomed two new members, Louis Cheung and Christine Hodgson, during 2013, both of whom were appointed to the Board during the year.

At the end of most meetings, Committee members provided real time feedback to enhance the Committee's effectiveness. In addition, as part of the effectiveness review for the entire Board, a formal evaluation of the Committee was undertaken. This involved each Committee meeting providing their thoughts on the Committee's effectiveness. While the review concluded that the Committee had generally operated effectively, some observations included:

- Explore opportunities for Committee members to gain insights on local remuneration practices during any overseas visits
- There is scope for Committee papers to be as concise as possible while balancing this with the need to ensure that the Committee receives the correct level of detail in order to effectively fulfil its duties

Advisers to the Committee

Advisers are appointed independently by the Committee, which reviews its selection annually. During the year the Committee undertook a full review of its advisers. Some committee members, including Paul Skinner, absented themselves from this formal selection process in view of potential conflicts with prospective shortlisted advisers. As noted in his biographical details on page 142, Mr Skinner sits on an advisory board for PricewaterhouseCoopers LLP (PwC). After a rigorous process in November 2013, PwC was appointed as adviser, replacing Towers Watson, which has been its adviser since 2009. In light of PwC's role as adviser to the Committee on remuneration matters, the Committee considered this position and determined that there was no conflict or potential conflict arising. PwC is a signatory to the voluntary code of conduct in relation to remuneration consulting in the UK. PwC also provides professional services in the ordinary course of business including assurance, advisory and tax advice to the Group, and the Committee is satisfied that there are processes in place to ensure that the advice the Committee receives is objective and independent. The 2013 adviser fee paid to Towers Watson was £15,700. The 2013 adviser fee paid to PwC was £32,000.

Management's advice to the Committee was supported by: i) the provision of market data from Towers Watson; and ii) advice on the design and operation of our share plans and issues relating to executive directors' contracts and INEDs' letters of appointment from Clifford Chance LLP.

Directors' remuneration report continued

The Committee's key activities during the financial year

Meeting	
January	**Regular items** ▪ Initial review of TVC pool ▪ Discuss executive directors' performance and initial compensation recommendations ▪ Consider draft remuneration disclosures
February	**Regular items** ▪ Confirmation of aggregate Group TVC pool ▪ Finalisation of directors' compensation recommendations ▪ Review of compensation recommendations for other senior management ▪ Update on risk and control matters and discussions on the application of claw back ▪ Setting of performance conditions for 2013 share award grants as well as reviewing achievement of conditions for performance share awards vesting in 2013
May	**Regular items** ▪ Review any feedback from the Prudential Regulation Authority (PRA) on the prior year compensation review ▪ Performance update for specific recent new joiners **Ad hoc items** ▪ Update on shareholder consultations on CRD IV matters ▪ Review of approach to external remuneration disclosures
September	**Ad hoc items** ▪ Update on shareholder consultations on CRD IV matters
October	**Regular items** ▪ Review outcome from AGM ▪ Consider any changes to remuneration policy required ▪ Review of Remuneration Committee advisers ▪ Performance update for specific new joiners **Ad hoc items** ▪ Review of the Group's deferral framework for variable compensation
November	**Ad hoc items** ▪ Appointment of new adviser ▪ Discussion on approach for managing risk and control matters and impact on pay and performance decisions at the year-end
December	**Regular items** ▪ Review of Group's submission of the Remuneration Policy Statement to the PRA **Ad hoc items** ▪ Adoption of new claw back policy ▪ Update on remuneration changes for CRD IV

At each scheduled meeting, the Committee also discussed the emerging regulatory and investor trends as well as tracking the level and nature of management hires.

Statement of shareholder voting

The votes cast on the resolution seeking approval for the Directors' remuneration report at our AGMs were as follows:

	For Number %	Against Number %	Withheld
2012 Remuneration report	406,944,552 92.83%	31,434,513 7.17%	27,097,339
2013 Sharesave plan	457,066,542 98.39%	7,456,140 1.61%	1,523,587
2011 Remuneration report	415,658,499 92.56%	33,425,931 7.44%	114,311,180

The disclosure in the 2014 remuneration report will include details of the binding shareholder vote on directors' remuneration policy in addition to the existing advisory vote on historical remuneration payments.

Relative expenditure on pay

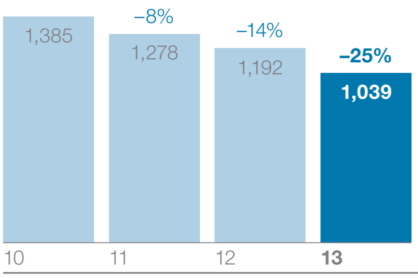
The graph below shows the actual expenditure of the Group and the change in spend between current and previous financial periods including the remuneration paid to all employees, distributions to shareholders by way of dividend and share buyback and any other significant distributions or payments or other uses of profit or cash flow.

Cost of total variable compensation pool versus dividends paid in year

The Committee carefully considered the balance of all stakeholders' interests including the value delivered to shareholders before finalising the size of the TVC pool and any individual remuneration decisions. The cost of variable compensation has fallen in relative terms to the value paid to shareholders as dividends.

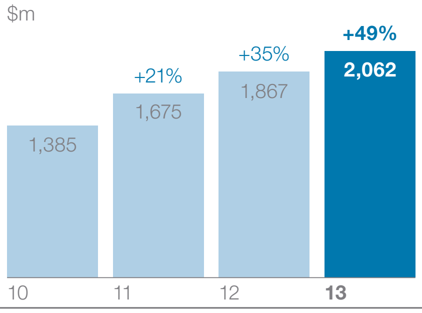
Total variable compensation

$m



Dividends paid in year

$m



Note
Percentage changes in TVC and dividends are calculated using 2010 as a base

Allocation of the Group's earnings between stakeholders

	Actual				Allocation			
	2010 $m	2011 $m	2012 $m	**2013 $m**	2010 %	2011 %	2012 %	**2013 %**
Staff costs	5,763	6,631	6,584	**6,569**	65	64	63	**62**
Corporate taxation including levy	1,708	2,007	2,065	**2,099**	19	19	20	**19**
Paid to shareholders in dividends	1,385	1,675	1,867	**2,062**	16	16	18	**19**

Note
Corporate taxation including levy is included as it is classified as a significant distribution or payment or other uses of profit or cash flow

Directors' remuneration report continued

Single figure of remuneration of the Group Chairman and independent non-executive directors (Audited)

The Chairman and independent non-executive directors do not participate in any of the Group's incentive arrangements. The table below shows the fees and benefits received by the Group Chairman and non-executive directors in 2013.

	Fees $000		**Benefits $000[7]**		**Total remuneration $000**		**Shares held beneficially as at 31 December**	**Unvested share awards as at 31 December**
	2013	2012	**2013**	2012	**2013**	2012	**2013**	**2013**
Sir John W Peace	**1,801**	1,831	**3**	3	**1,804**	1,834	**7,543**	**162,797**
O P Bhatt[3]	**188**	–	**58**	–	**246**	–	**2,000**	**–**
Dr K Campbell[4]	**84**	–	**5**	–	**89**	–	**2,000**	**–**
Dr L Cheung[3]	**185**	–	**61**	–	**246**	–	**2,000**	**–**
R Delbridge[2]	**83**	254	**–**	–	**83**	254	**12,798**	**–**
J F T Dundas	**373**	372	**–**	–	**373**	372	**3,141**	**–**
M Ewing	**219**	34	**–**	–	**219**	34	**2,037**	**–**
V F Gooding[2]	**78**	238	**–**	–	**78**	238	**5,903**	**–**
C Hodgson[5]	**68**	–	**–**	–	**68**	–	**2,000**	**–**
N Kheraj[6]	**–**	–	**–**	–	**–**	–	**–**	**–**
S J Lowth	**203**	206	**–**	–	**203**	206	**10,313**	**–**
R H P Markham	**354**	380	**–**	–	**354**	380	**4,390**	**–**
R Markland	**386**	357	**–**	–	**386**	357	**3,987**	**–**
J G H Paynter	**245**	246	**–**	–	**245**	246	**10,000**	**–**
Dr Han Seung-soo, KBE[1]	**198**	198	**288**	140	**486**	319	**2,465**	**–**
P D Skinner	**352**	349	**–**	–	**352**	349	**16,005**	**–**
O H J Stocken	**203**	206	**–**	–	**203**	206	**17,915**	**–**
Dr L Thunell	**228**	26	**28**	–	**256**	26	**6,411**	**–**

[1] The benefits figure for Dr Han has been restated from the 2012 figure ($179) which was overstated due to the inclusion of incorrect elements in his taxable benefits amount

[2] Resigned effective 1 May 2013

[3] Appointed effective 1 January 2013

[4] Appointed effective 18 June 2013

[5] Appointed effective 1 September 2013

[6] Nagiub Kheraj joined the Board on 1 January 2014

[7] Benefits primarily consist of travel and subsistence costs in relation to Board and Committee meetings and other Board-related events which are considered to be taxable. For overseas-based INEDs, this includes travel to meetings in the UK. To the extent it is not yet possible to determine whether a benefit is taxable an estimate has been made of the taxable amount

Notes

Details of pension and variable compensation amounts have not been included as non-executive directors are not eligible for either in line with Group policy

Changes to the directors' interests in ordinary shares since December 2013 are detailed in the 2014 Notice of Annual General Meeting

The beneficial interests of directors and their families in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares

No director had an interest in the Company's preference shares or loan stocks of any subsidiary or associated undertaking of the Group

No director had any corporate interests in the Company's ordinary shares

Salaries/fees (Audited)

Fees paid to the Group Chairman and independent non-executive directors in 2013 were comprised as follows:

	1 January 2013 £000	Effective 1 September 2013 £000
Chairman[1]	1,150	1,150
Board member	100	100
Additional responsibilities		
Senior Independent Director	30	40
Chairman of Audit Committee or Board Risk Committee	65	70
Chairman of Remuneration Committee or Brand and Values Committee	50	60
Membership of Audit Committee or Board Risk Committee	30	30
Membership of Remuneration Committee or Brand and Values Committee	25	30
Membership of Nomination Committee	15	15

[1] There was an error in the 2012 Directors' remuneration report audited remuneration table for non-executive directors fees. Sir John's annual fee was incorrectly stated at £1,050,000 when it should have been £1,150,000 (in line with the narrative)

In 2013, Sir John's compensation of GBP1,150,000 was part delivered in cash and part delivered in restricted shares granted in two equal tranches. Sir John was entitled to a car and driver, which he did not utilise, and was provided with private healthcare.

INEDs were paid in 12 equal monthly instalments during the year. UK-based INEDs were able to use up to 100 per cent of their monthly post-tax base fees to acquire shares in the Group.

The Chairman and the INEDs were not eligible to receive discretionary variable compensation or to participate in our retirement plans.

INED fees were reviewed during 2013 and amended where appropriate.

Directors' remuneration report continued

2013 Group variable compensation pool

Total remuneration is typically delivered via a combination of base salary and benefits plus variable compensation. Consistent with our pay for performance culture, our annual performance awards (APAs) and variable incentives play an integral role in enabling us to recognise and reward superior performance and behaviour that support our values.

TVC comprises both discretionary APAs (which may be in the form of cash or shares) and performance shares. TVC spend is calculated after sufficient profit has been accrued to accord shareholders an appropriate risk-adjusted return and in the context of the forward-looking capital plan. The Committee also considers as part of its deliberations on the aggregate TVC pool factors such as returns to investors, external sentiment on remuneration and achievement relative to peers.

Income statement charge for the approved total variable compensation pool (Audited)

	2013 $million	2012 $million
Annual performance awards	**1,154**	1,364
Non-deferred cash awards	**955**	1,105
Deferred cash and share awards	**199**	259
Other long-term incentive awards	**54**	61
Total approved variable compensation pool	**1,208**	1,425
Less: deferral of charge for amounts awarded for current year	**(186)**	(233)
Plus: current year charge for amounts deferred from prior years	**212**	255
Income statement charge for variable compensation	**1,234**	1,447

	Actual		Expected	
Year in which income statement is expected to reflect deferred variable compensation	2012 $million	**2013 $million**	2014 $million	2015 and beyond $million
Variable compensation deferred from 2011 and earlier	254	**110**	57	11
Variable compensation deferred from 2012	87	**103**	82	66
Variable compensation deferred from 2013	–	**66**	80	107
Total	341	**279**	219	184

General

Unless otherwise indicated, the foreign exchange rates used in the Directors' remuneration report are based on average rates throughout the relevant financial year. The rates are $1 : GBP0.6398 (2013) and $1 : GBP0.6311 (2012).

2013 performance and reward outcomes for executive directors

This section describes all of the payments made or accruing to the Group's executive directors in connection with the 2013 performance year.

Each executive director has documented objectives that are presented to the Committee at the start of the financial year and assessed at the year-end. These objectives are based on a broad range of factors including both financial and non-financial measures. The importance of each executive director's individual performance and that of the Group as a determinant in their compensation is reflected in the variation of APAs made in recent years. Comparisons with market compensation are typically made against our international banking peers and the FTSE 20. These two groupings have business characteristics, such as international scope of operations, complexity and size that are similar to ours, representing organisations with which we compete for talent. Total compensation for each executive director is structured to provide an appropriate mix of fixed versus variable compensation with the potential to earn upper-quartile total compensation relative to peers for upper-quartile performance.

The Committee followed a three-step process for determining TVC awards.

Step 1: Eligibility for an award

The Committee concluded that, for the executive directors as a whole, the Group's financial performance had been achieved within the Group's risk appetite and, from a forward-looking capital position, there was nothing that prevented the Committee from approving any awards. In addition, each executive director had achieved a minimum standard in terms of living the Group's values and there was no reason why the financial performance in any part of the Group should prevent payment of any TVC.

Step 2: Initial determination of awards

In 2012, the Committee introduced, on a trial basis, a Group performance matrix applicable to all executive directors which measured both Group financial performance and achievement of the Group's strategic priorities as set out in the Group's collective agenda as a means of determining executive directors' awards. For the most recent performance year the Committee continued to trial the framework extending its use to cover the determination of total variable compensation (rather than just annual performance awards). The Committee also believed it was important to include broader considerations under the framework such as relative performance and control related matters, in addition to financial performance and the achievement of the executive management group's collective agenda.

	Assessment of performance in 2013
Financial measures - Deliver superior financial performance - Double-digit earnings per share growth - Mid-teens return on shareholders' equity - Deliver diversified income growth	As outlined in the financial highlights section on page 2, performance in 2013 was resilient in a challenging environment. The normalised return on equity reduced to 11.2 per cent, as profits declined. Our income stream remains highly diversified with 23 markets delivering over $100 million of income. The Committee noted that these results needed to be viewed in the context of the challenging market conditions also experienced by our global peers. The Committee concluded that overall the Group 'did not meet expectations' against the financial measures.
Non-financial measures - Build long-term, deep relationships with our clients and customers - Continue to run our balance sheet conservatively, maintaining a strong capital base - Risk and control - Prove we are Here for good - Innovate and digitise	The key performance indicators on pages 14 and 15 show that significant progress was made against the non-financial measures. For example: - We have consistently grown the number of leading clients that generate income of $1 million, $5 million and $10 million per year - The net promoter score, an indication of customer satisfaction of our products and services in Consumer banking, showed year-on-year improvement - The Group's capital position continues to be strong with good levels of organic equity generation. We remain well capitalised and our balance sheet remains highly liquid The Committee noted the status of compliance and risk and control matters, and also considered the progress that had been achieved during the year in relation to the roll out of the new operational risk framework. We supported governments across our footprint in relation to the structure of their financial services industries and established new offices in countries that will enable us to serve the network better. Over 90,300 volunteering days were undertaken by our employees and $6 million was raised for Seeing is Believing. We have become globally recognised for our best-in-class mobile and internet banking services, winning several external awards including the Global Finance 2013 Awards for Best Consumer Internet Bank in: Bangladesh, Brunei, Ghana, Jersey, Kenya, Korea, Pakistan, Singapore, the United Arab Emirates, Vietnam and Zambia. The Committee concluded that the performance in this category in aggregate 'met expectations'.

As a result of these considerations, the Committee determined that the starting point for executive directors should be a minimum 20 per cent reduction in TVC year-on-year prior to the consideration of individual performance. This initial reduction was in the context of the 15 per cent reduction in the TVC pool. The Committee believed that, given the leadership role of the executive directors, they should take a disproportionate share in the year-on-year reduction.

Step 3: Finalising individual awards

The combination of Group, business and individual performance assessment is reflected in both the APA and in the absolute level of performance shares, which together comprise TVC.

Having determined the baseline 20 per cent reduction, the Committee assessed the following factors for each executive director to determine the final TVC outcome:

- Individual performance against their objectives including any business-specific financial performance
- Consideration of relevant risk and control matters specific to their portfolio
- How the executive director has exhibited the group's values
- Market positioning

Variable remuneration awarded in respect of 2013 performance

During 2013, the Group made good progress against many aspects of its collective agenda including the focus on embedding Here for good in the businesses and deepening client and customer relationships. Peter Sands showed resilient leadership in a difficult year and was the key architect of the refreshed strategy and new organisation model. However, the Group's financial performance was more disappointing. **Peter Sands'** total variable compensation is set in the context of flat income and a reduction in both reported and underlying profit of 11 and 7 per cent respectively. The Committee proposed a total TVC decrease of 21 per cent as a consequence of a lower APA and performance share grant, both of which are down approximately 21 per cent year-on-year (see table on page 197).

Richard Meddings continued to provide strong management of the Group's capital and liquidity position and enforced tight discipline on costs during 2013. He also oversaw the development of a much sharper and clearer resource allocation and investment prioritisation process. In addition to his core role, Richard led the Group's Seeing is Believing initiatives, which raised a further $6m in 2013. On the basis of the same rationale for Peter Sands, his TVC was 21 per cent lower year-on-year. His APA and a performance share grant were down 20 and 21 per cent respectively.

Financial performance in Wholesale Banking (WB) was lower relative to expectations with income falling by 2 per cent in 2013 and, excluding the impact of the cost of the settlements with the US authorities and own credit adjustment, underlying profit fell by 4 per cent. In 2013, there was good progress on a number of non-financial priorities, for example, we played a leading role in the internationalisation of the renminbi and refined our client coverage model to simplify how we serve our clients and to push greater decision-making into geographies. **Mike Rees** has been a strong advocate for Group conduct and put in place a number of programmes of work such as 'It Matters' in Financial Markets. Mike's TVC decreased by 24 per cent year-on-year, including a 28 per cent fall in the APA.

Consumer Banking (CB) was significantly impacted by the financial performance in Korea where we reported an operating loss of $163 million. As a Group we also took a goodwill impairment of $1 billion in Korea. As a consequence, CB's operating profit overall fell by 11 per cent. Excluding Korea, the increase in operating profit was 8 per cent. In terms of non-financial performance, CB won a number of awards in the digital space and its new product and customer acquisition metrics reflected a marked shift to digital channels. Under **Steve Bertamini's** leadership, the Group's diversity and inclusion agenda in 2013 made good progress. Steve's TVC decreased by 28 per cent year-on-year, including a 29 per cent fall in the APA.

In contrast to the respective heads of CB and WB, whose compensation is more directly linked to their respective business and therefore inclined to fluctuate significantly year-on-year based on performance, movement in variable compensation for the governance heads tends to be less volatile, linked to broader and sustained Group performance. **Jaspal Bindra's** TVC is down by 20 per cent year-on-year. There were good performances in India and Hong Kong, two of the Group's largest markets, where operating profit rose by 3 and 16 per cent respectively, against weaker year-on-year performance in Korea and Singapore. In terms of non-financial measures, Jaspal, among other things, personally oversaw the incorporation of our retail banking business in Singapore and made good progress in developing our regulatory and governmental relationships such as the collaboration with the Myanmar government to help develop a safe banking sector.

In common with the Group as a whole, the financial results in **V Shankar's** region were mixed. There were strong performances in Africa (operating income up 10 per cent), against weaker year-on-year performance in the Americas, UK and Europe (where income fell 6 per cent). Shankar has shown strong management of our external relations across the region. In December 2013, the acquisition of ABSA's custody business in South Africa was completed and early in 2014 the opening of a subsidiary in Angola together with ENSA, a leading Angolan insurance company, was announced. The Committee proposed a total TVC decrease of 20 per cent as a consequence of a lower APA and performance share award.

Assessment of performance

	P A Sands $000	R H Meddings $000	S P Bertamini $000	A M G Rees $000	J S Bindra $000	V Shankar $000
Annual performance award (APA)						
▪ Maximum potential award	5,000	4,375	3,750	15,000	3,750	3,750
▪ 2013 remuneration decision	2,500	1,725	1,250	6,500	1,400	1,490
▪ Year-on-year change	(21)%	(20)%	(29)%	(28)%	(20)%	(24)%
Performance share award (PSA) face value						
▪ Maximum potential award	6,720	5,000	4,000	4,596	3,340	3,484
▪ 2013 remuneration decision	4,150	2,800	2,140	4,000	2,260	2,550
▪ Year-on-year change	(21)%	(21)%	(27)%	(5)%	(20)%	(15)%
Total variable compensation (APA plus expected value of PSA)						
▪ Maximum potential award	8,158	6,725	5,630	17,160	5,320	5,387
▪ 2013 remuneration decision	4,451	3,041	2,256	8,380	2,462	2,689
▪ Year-on-year change	(21)%	(21)%	(28)%	(24)%	(20)%	(20)%

Directors' remuneration report continued

Single figure of remuneration for the executive directors (Audited)

	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

Notes to the single figure of remuneration table

Salary	Peter Sands' salary for 2013 was £1,075,000. Richard Meddings' salary for 2013 was £800,000. Steve Bertamini's salary for 2013 was $1,000,000. Mike Rees' salary for 2013 was £735,000. 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 HKD6,500,000. V Shankar's salary for 2013 was AED3,200,000.
Benefits	Peter Sands', Richard Meddings' and Mike Rees' benefits include private medical cover, life assurance, 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 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 ($336k) and education of dependent children ($55k). The Group covered the cost and social security on these benefits, known as tax equalisation ($313k). Jaspal Bindra's benefits include private medical cover, life assurance, 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. Jaspal also received an accommodation allowance ($741k). 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 ($380k), 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	Details of performance measures for the APA are included in '2013 performance and reward outcomes for executive directors' on page 194. 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 upfront shares and 50 per cent in cash.
Performance share award	Details of the performance share awards are included in the tables following this section and in the table headed 'assessment of performance' on page 197.
Pension	Peter Sands, Richard Meddings and Mike Rees are contractually entitled to participate in a DB 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 has 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 DB basis. Since 1 January 2012, executive directors with a DB 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 $482k pension benefit, $333k 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.

Achievement against performance share award measures (Audited)

The PSA amount in the 2013 single figure of remuneration table is the conditional share award granted in 2011 as part of each director’s 2010 TVC. Vesting was dependent on performance over the three financial years ended on 31 December 2013 and continued service until 31 May 2014. The performance achieved against the performance targets is shown below.

As the awards had not vested at the date this report was finalised, the average share price for the last three months of the financial year has been used to determine the value for the purposes of the single figure of remuneration. The awards held by the executive directors were as follows:

Details of how the total shareholder return, earnings per share and return on risk-weighted assets performance measures operate are included in note 38 to the financial statements (share-based payments).

2011 awards

Performance measure	Target (30% vesting)	Maximum (100% vesting)	Actual	Percentage of maximum achieved
Earnings per share (one-third weighting)	Median	Equal to or above fifth	Between 16th and 17th place	0%
Earnings per share (one-third weighting)	15%	30%	3.55%	0%
Return on risk-weighted assets (one-third weighting)	1.5%	1.7%	1.76%	100%
Total				33%

Conditional share awards in 2011	No. of shares awarded	No. of shares vesting	Value of shares vesting $000
P A Sands	211,526	69,803	1,561
R H Meddings	144,083	47,547	1,063
S P Bertamini	113,427	37,430	837
A M G Rees	168,608	55,640	1,244
J S Bindra	101,164	33,384	747
V Shankar	76,640	25,291	566

Notes
Average share price for last three months of financial year is £14.31
The exchange rate used to convert GBP to $ is 0.6398

Current position on outstanding performance share awards

The tables below show the current position against performance targets for performance share awards outstanding from 2012 and 2013:

Conditional share awards	Target (30% vesting)	Maximum (100% vesting)	Grants in 2012	Grants in 2013
Total shareholder return	Median	Equal to or above fifth	Between 16th and 17th place	Between 19th and 20th place
Earnings per share	15%	30%	14.04%	13.54%
Return on risk-weighted assets	1.5%	1.7%	1.66%	1.58%

Directors' remuneration report continued

Executive directors' shareholding (Audited)

The Group remains committed to the principles of share ownership and aligning the interests of its most senior employees with that of investors. Those employees classified as Code Staff under the Remuneration Code are required to hold a specified minimum number of vested ordinary shares (equivalent to a 12-month holding period for vested and upfront shares).

In line with a desire for our executive directors to hold shares and be aligned to shareholder interests in the long-term, they are also subject to a 'higher of' test, being the greater of the above requirement or a specified number of shares.

				Additional shares from unvested awards	
	Shareholding requirement at 31 December 2013	Shares held beneficially at 31 December 2013	Met requirements as at 31 December 2013	Subject to deferral but not performance conditions	Subject to performance conditions
P A Sands	200,000	200,000	met	154,458	636,982
R H Meddings	120,000	128,964	met	105,914	433,712
S P Bertamini	120,000	126,490	met	83,136	345,544
A M G Rees	120,000	169,835	met	449,142	511,842
J S Bindra	120,000	153,378[1]	met	81,434	321,469
V Shankar	120,000	150,539	met	127,585	276,387

[1] 183,000 of these shares are subject to a charge from 31 December 2011

Notes
Changes to the directors' interests in ordinary shares since December 2013 are detailed in the 2014 Notice of Annual General Meeting
The beneficial interests of directors and their families in the ordinary shares of the Company are set out above. The directors do not have any non-beneficial interests in the Company's shares
No director had an interest in the Company's preference shares or loan stocks of any subsidiary or associated undertaking of the Group
No director had any corporate interests in the Company's ordinary shares

2004 Deferred Bonus Plan

2012 was the final year in which awards under the 2004 Bonus Plan were made to Mike Rees (as part of his 2009 APA). The shares are held in trust and vest automatically after one year. No further awards under the 2004 Deferred Bonus Plan are planned following simplification of the Group's share award arrangements in 2011.

	Shares held in trust at 1 January 2013	Shares awarded during the period	Shares vested in the period	Shares held in trust at 31 December 2013
A M G Rees	70,255	–	70,255	–

Sharesave

	Grant Date	As at 1 January 2013	Exercise Price (Pence)	Awarded during the period	Exercised	Lapsed	As at 31 December 2013	Period of exercise
P A Sands	26 Sep 07	1,601	1,048	–	1,601	–	0	2012-2013
P A Sands	01 Oct 12	789	1,140	–	–	–	789	2015-2016
S P Bertamini	09 Oct 09	1,405	1,104	–	–	–	1,405	2014-2015
J S Bindra	09 Oct 09	1,407	1,104	–	–	–	1,407	2014-2015
R H Meddings	04 Oct 10	614	1,463	–	–	–	614	2013-2014
R H Meddings	09 Oct 13	–	–	764	–	–	764	2016-2017

Sign-on awards (Audited)

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 $6,500,000 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: $3,000,000 after the second, $2,000,000 after the fourth and $1,500,000 after the sixth anniversary of joining. No further awards are planned.

Scheme interests awarded during the year

Director	Scheme	Face value £000	Percentage vesting at threshold	Number of shares	Performance period end date
P A Sands	PSA	3,353,922	30	186,329	31 Dec 15
	DRSA	1,213,182	100	67,399	31 Dec 12
R H Meddings	PSA	2,281,950	30	126,775	31 Dec 15
	DRSA	831,888	100	46,216	31 Dec 12
S P Bertamini	PSA	1,877,544	30	104,308	31 Dec 15
	DRSA	673,992	100	37,444	31 Dec 12
A M G Rees	PSA	2,708,802	30	150,489	31 Dec 15
	DRSA	3,466,260	100	192,570	31 Dec 12
J S Bindra	PSA	1,813,356	30	100,742	31 Dec 15
	DRSA	673,992	100	37,444	31 Dec 12
V Shankar	PSA	1,925,694	30	106,983	31 Dec 15
	DRSA	757,014	100	41,723	31 Dec 12

Notes
Face value calculated based on share value at date of grant 11 March 2013 GBP 18.00
DRSA have no attached performance conditions
PSA are exercisable between 2016 and 2023 with the exception of Steve Bertamini whose conditional rights automatically exercise on vesting
DRSA are subject to notional dividend payments at the date of vesting
Both APA and DRSA were awarded in respect of 2012 performance and part of 2012 total variable compensation decisions disclosed in the 2012 Annual Report and Accounts

Shareholder dilution

All awards vesting under the Group's share plans are satisfied by the transfer of existing shares or, where appropriate, the issuance of new shares. Our share plans contain monitored limits that govern both the aggregate amount of awards that may be granted and the amount of shares that may be issued to satisfy any subsequent exercise of awards. These limits are in line with those stated in the Association of British Insurers' principles of remuneration and the terms of our listing on The Stock Exchange of Hong Kong Limited.

As well as the Group's share plans, the Group operates a savings-related share option plan (Sharesave) approved by HM Revenue & Customs for all employees. Grants of restricted stock awards are by shares delivered from the employee benefit trusts which buys shares on the market.

The Group has two employee benefit trusts that are administered by an independent trustee and which hold ordinary shares to meet various obligations under the Group's share plans. As each executive director is within the class of beneficiary of these trusts, they are deemed, for the purposes of the Companies Act 2006, to have an interest in the trusts' shares.

Directors' remuneration report continued

Total pension entitlements

The Group's approved DB 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 DB scheme. There is no retirement age for executive directors, but the normal retirement age for UK employees is 60.

Payments to past directors and payments for loss of office

No payments to past directors or payments for loss of office were paid in 2013.

Executive directors' non-executive directorships

Executive directors may, by agreement with the Board, serve as non-executives of other organisations and retain any fees payable for their services.

The following executive directors served as non-executive directors elsewhere and received fees or other benefits for the period covered by this report as follows:

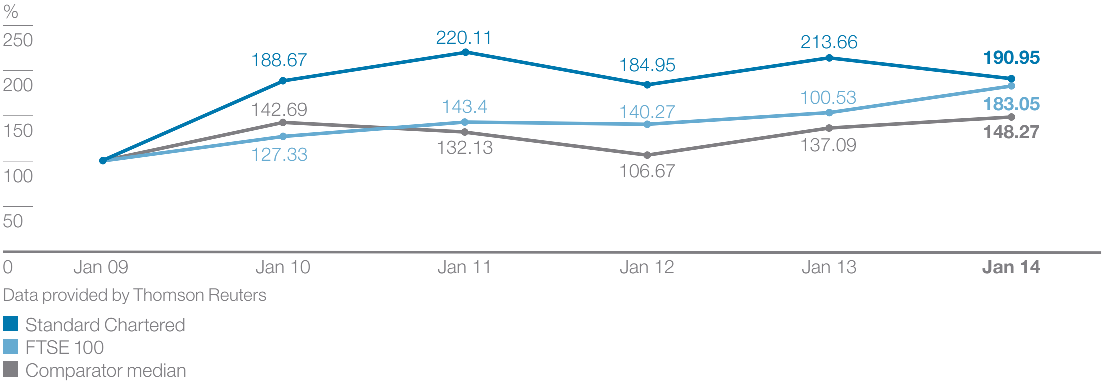
	Organisation	Fees $000
P A Sands	The Institute of International Finance, Inc	–
	The Department of Health	–
	World Economic Forum	–
R H Meddings	3i Group Plc[1]	**136**
V Shankar	Majid Al Futtaim Holding LLC	**300**
	Inland Revenue Authority of Singapore	**18**

[1] GBP80,000 plus the cost of 2,500 3i shares

Performance table

The graph below shows our TSR performance on a cumulative basis over the last five years alongside that of the FTSE 100. The FTSE 100 provides a broad comparison group against which our shareholders may measure their relative returns. Standard Chartered is a constituent member of the FTSE 100 Index and the London Stock Exchange is the principal exchange for our shares. For illustrative purposes we have also shown our TSR performance against the peer banks that were part of our performance share award comparator group in a particular year.

Percentage change in TSR over a five-year period



Data provided by Thomson Reuters

The table below shows the historic levels of pay for the Group Chief Executive compared with the percentage change in TSR for the Group and the APAs and long-term incentive pay awards (PSAs) as a proportion of plan maxima. Peter Sands was appointed as Group Chief Executive in November 2006 therefore all of the data below are in relation to his appointment:

Performance year	Single figure of total remuneration $000	Annual performance award as a percentage of maximum opportunity	Long-term incentive vesting rates as a percentage of maximum opportunity	Percentage change in total shareholder return for Standard Chartered
2013	6,841	50%	33%	191%
2012	11,014	63%	77%	214%
2011	12,469	70%	90%	185%
2010	12,305	70%	90%	220%
2009	11,139	64%	81%	189%

Notes
Single figure calculated as per requirements under The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013
APA maximum is 250 per cent of target APA
Long-term incentive plan (LTIP) vesting is based on proportion of awarded shares that have vested (2013 estimated)
TSR changes use 2008 as base year at 100 per cent

Directors' remuneration report continued

Percentage change in remuneration of the Group Chief Executive and all employees

The table below shows the percentage change in remuneration between the 2012 and 2013 performance years for both the Group Chief Executive and the wider employee population. To enable a comparison the 'All Employee' group for taxable benefits has been based on UK employees only as it was deemed the most appropriate comparison for the Group Chief Executive given the varied requirements in the provision of benefits across different jurisdictions. For all employees, base salary and APA data are based on the global population of those employees who are eligible to participate in the annual performance plan and therefore have an element of variable remuneration. Given the Group's global footprint and the fact that more than 90 per cent of our employees are based outside of Europe it is difficult to provide a comparison which takes into account the impact of local market movement and business unit performance:

	CEO % change	All employees % change
Salaries and allowances	0	5.8
Taxable benefits	(34.2)	1.3
Annual performance awards	(20.6)	(14.0)

Statement of implementation of remuneration policy in 2014

The remuneration policy will be implemented with effect from the AGM in 2014 with the exception of Peter Sands and Mike Rees' salary changes subject to shareholder approval as follows.

	P A Sands	R H Meddings	S P Bertamini	A M G Rees	J S Bindra	V Shankar
Base salary (000s)	£1,120	£800	$1,000	£975	HKD6,500	AED3,200
Fixed pay allowance (000s)	$1,100	n/a	n/a	$1,000	$575	$575
Pension	Defined benefit or defined contribution arrangements consistent with past policy					
Benefits	No change from previous years					
Maximum TVC (face value) (000s)	$8,425	$2,200	$1,800	$7,750	$4,625	$4,780
Shareholding requirement	250,000	120,000	120,000	200,000	150,000	150,000

Changes compared with 2013

Base salary	Peter Sands' salary increased by 4.2 per cent to reflect market positioning. Mike Rees' salary increased to reflect new role and responsibilities.
Fixed pay allowance	This is a new component of pay delivered in shares, released over five years.
Pension	No change.
Benefits	No change.
TVC	The Annual Performance Award and the Performance Share Award have combined into a single Total Variable Compensation (TVC) Award. Maximum TVC is the amount of variable which assumes that any performance conditions are fully satisfied, and is set at 200 per cent of fixed pay (as valued under the EBA's rules). The TVC for a target level of performance is set in combination with fixed pay to deliver competitive total compensation on an expected value basis against peer groups. In relation to any performance shares awarded as part of the TVC, the measures and targets remain unchanged from those granted in respect of 2013 performance, i.e. one-third each on relative TSR, EPS and RoRWA. The targets for performance shares are set out on page 199.
Shareholding	Test toughened to 'higher of test'. Increases to the specified number of shares including the creation of a new requirement level specific to the role of the Deputy Chief Executive. No changes to the requirements for Steve Bertamini and Richard Meddings, who are retiring from the Board in 2014.

Changes to Peter Sands' compensation

The Committee has not sought to make wholesale increases in base salary as a response to CRD IV. In line with our usual annual process, executive directors' salaries were reviewed against market data and the Committee noted that Peter Sands' salary had not been increased for three years. The review of peers' compensation indicated a possible increase to Peter's base salary in the region of 10 per cent. However, given the structural changes to compensation this year in relation to CRD IV and feedback from major investors during consultation, the Committee decided to implement a more modest adjustment in 2014 of 4.2 per cent. The Committee noted that, notwithstanding this base salary increase, Peter's total annual maximum opportunity reduces in face value terms by circa 15 per cent and concluded this was appropriate taking account of the structural changes in response to CRD IV.

Changes to Mike Rees' compensation

Mike Rees' package has historically reflected his specific duties as the Chief Executive of Wholesale Banking and was in line with market practice for capital markets leadership roles. Following Mike Rees' appointment as Deputy Group Chief Executive, the Remuneration Committee determined that his remuneration package should be structured in a manner appropriate to his new role, and accordingly more in line with the structure adopted for the Group Chief Executive. For the 2014 performance year, the Committee has therefore decided to make a number of changes to Mike Rees' remuneration structure. These changes are in addition to those being made to all executive directors following the introduction of CRD IV. The key changes to his remuneration are:

- An increase in base salary, so as to be positioned appropriately relative to other executive directors and the Group Chief Executive
- A reduction in maximum total compensation of approximately 47 per cent

Mike Rees participates in the company's DB pension scheme. As such, the salary increase has a material one-off impact on his accrued pension benefit. The Committee carefully considered the impact and value of this when establishing the elements of Mike's future package, taking into account an appropriate competitive level of compensation for his new role and the transition from his historic compensation levels. The 12-month averaging period for pensionable salary means that under the new single figure of remuneration disclosure, this increase in pension value will emerge through the single figure over two years, and will result in an aggregate disclosed value of approximately $3.6 million.

The table below shows the historic range of Mike Rees' actual total compensation over 2009 to 2013 (valuing PSA at the expected value) and compares this with the estimated range of his future package value between target and maximum, both including and excluding the one-off pension adjustment.

Historic range (2009 – 2013)		**Estimated future target to max range 2014-2016**	
2013 target to maximum range	2009-2013 actual range	Including one-off pension impact	Excluding one-off pension impact
c. $13m to $19m	*c. $10m to $16.5m*	*2014: c. $9.3m to $12.7m* *2015: c. $7.6m to $10.9m* *2016: c. $6.7m to $10m*	*c. $6.7m to $10m*

The Committee noted that even allowing for the one-off pension impact, the reduction in Mike Rees' compensation opportunity is very significant both by reference to historic target and actual ranges and concluded this was appropriate for the transition to his new role.

Directors’ remuneration report continued

Additional remuneration disclosures

The following pages provide other remuneration disclosures that the Group is required to publish.

Governance and regulatory requirements

Benchmarking Standard Chartered’s 2013 compensation arrangements against emerging regulatory best practice.

Regulatory benchmarking

Emerging regulatory best practice	Standard Chartered practice for 2013
Fixed and variable compensation balance	▪ Fixed remuneration was set at a level that was both appropriate for the role and the market as well as allowing for truly flexible variable remuneration arrangements where, for example, no variable compensation award could be paid ▪ There was a single pool from which all discretionary variable compensation irrespective of structure (e.g. cash, deferred shares, performance shares) is funded
Remuneration policy supporting effective risk management processes	▪ Risk management is core to all business decisions across the Group and we operated a robust process for ensuring that compensation decisions took risk into account
Rewarding for performance and adherence to values	▪ Employees were assessed and rewarded on performance against objectives and adherence to Group values. Those individuals modelling our values typically received an uplift of up to 20 per cent over target variable compensation compared with those who demonstrated the values less frequently ▪ Claw back on unvested deferred variable compensation could have been activated by inappropriate behaviours and non-adherence to Group values
Strong, defined link between remuneration and strategy	▪ Variable compensation for senior management was driven by collective and individual objectives that were clearly linked to the achievement of business objectives consistent with the Group’s risk appetite
Risk and performance alignment	▪ A robust risk-adjusted profit metric was used that took into account regulatory capital, credit and market risk in the formulation of variable compensation pools ▪ Claw back was able to be applied to deferred and performance awards prior to vesting ▪ The Group’s share plan used a risk-based performance condition to ensure it was aligned to risk ▪ A three-year vesting period for share awards was consistent with the tenor of the Group’s banking book. More than 74 per cent of the book had a five-year tenor or less. Within WB, the vast majority (93 per cent) was less than five years
Meaningful levels of deferral for variable compensation	▪ A Group-wide deferral framework with a top rate of 60 per cent deferral of TVC applied to all employees (although this was higher for directors) ▪ All employees were subject to the higher of any regulatory deferral requirements and the Group deferral framework
Strong internal governance process	▪ The Committee oversaw all material variable compensation plan spend and reviewed the remuneration of the most highly paid and those subject to the Remuneration Code’s deferral requirements ▪ The Group Chief Risk Officer attended key Committee meetings ▪ Control function variable compensation pools were managed separately from the businesses they control ▪ A comprehensive set of reward plan committees provided rigorous challenge of variable compensation decisions and allocation of pools ▪ Control functions provided input into reward plan committees on any control issues (positive or negative) that should influence compensation and claw back decisions ▪ The Committee reviewed the most material risk and control matters to assess impact on the TVC pool and executive directors’ decisions

Supporting risk management through our remuneration practices

Effective risk management is fundamental to building sustainable performance and is the central tenet of the financial and operational management of the Group. The Risk function ensures management of risk throughout the Group via a robust and rigorous Risk Management Framework. Risk appetite is set in the context of the Group's strategy and the annual Strategy Board meeting sets strategic goals that are translated into financial and business targets and, ultimately, to employees' objectives. The Board also remains involved in all material decisions made regarding performance and reward.

Since performance against these objectives is a significant factor in the determination of an individual's TVC, employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities.

The Committee reviews the Group's performance and reward policy on a regular basis against significant regulatory developments in our markets, market practice and shareholder expectations. As part of its review process the Committee receives the following input from Risk:

- The Group Chief Risk Officer (GCRO) attends key Committee meetings that approve pools
- All plan committees are constituted with cross-functional representation and are typically chaired by the representative from a control function (for example risk or compliance)
- Plan committees oversee the formation and allocation of award pools taking all risk issues into consideration
- The Group Reward Plan Committee (GRPC) is made up of the GCRO; the Group Finance Director; Director, Compliance, People and Communication; and the Group Chief Executive

Pool funding

The Group operates a single discretionary annual performance plan comprising of a number of pools. Reward issues are governed on a top down basis and our variable compensation awards deliberately do not contain any direct formulaic link between business income and individual reward to avoid the shortcomings of incentive plans that may not allow important factors such as the quality of business written and the external environment to be taken into account.

Although each performance award pool has an initial funding mechanism, the Committee approves the TVC pool for the Group taking into account a submission it receives from the GRPC. The Committee exercises its judgment to ensure that the overall pool appropriately reflects relative performance and control related matters in addition to financial performance and the Group's collective agenda.

The Committee then uses this information and exercises discretion to determine the final pool and approve allocations to business and support functions. In arriving at its decision it looks at the proposed aggregate pool relative to both trading profit and risk-adjusted profit (notably risk capital-adjusted profit (RCAP)). The Committee is also informed by the underlying funding frameworks for individual pools and has oversight for the allocation of the overall Group pool across businesses.

The GRPC is responsible for allocating the approved pools to each business-specific reward plan committee (RPC), which then oversees the allocation of variable compensation spend within their areas. All of our WB and CB discretionary variable compensation is delivered under RCAP-based pools.

Governance of reward committees

Reward plan committees play an important role in ensuring that risk and control environment matters are appropriately taken into account in performance award decision making. In 2013, we have further strengthened this governance approach by establishing a committee for support functions in addition to those that already exist within the WB and CB businesses and the Risk function. RPCs consider such risk and control matters in relation to both the distribution of the allocated pool and in respect of individual employee performance award decisions. A sub-committee of the GRPC has also been established with the objective of achieving consistent, fair and appropriate decision making across the Group. In addition to these responsibilities, RPCs also review individual awards for key populations, anomalies in award allocation and any highly leveraged awards.

Each business specific RPC involves Risk, Compliance and HR functions in compensation decision-making. For each RPC, Risk and Finance representatives jointly oversee the compilation and accuracy of financial data used to underpin award pool funding. In addition, the HR function provides independent input to minimise the risk of conflicts of interest which might arise.

To ensure consistency from an overall Group perspective, the RPCs are governed by the GRPC. The GRPC oversees all reward plans in the Group and ensures that decision making is in accordance with the Group's established performance and reward philosophy. The GRPC acts as a link to the Committee and will provide feedback to the other RPCs as necessary.

Risk adjustment of compensation

The Committee views management of TVC in a holistic way, using a number of levers to determine both the appropriate size of the variable compensation pool and individual recommendations taking account of current and future risks to the Group at the time at which compensation decisions are made.

These levers are used to make ex-ante risk and performance adjustments beginning with the use of RCAP in determining the TVC pool. In addition, the Committee has agreed a number of mechanisms to make ex-post performance adjustments that provide further alignment to actual performance outcomes (see following page).

Directors' remuneration report continued

Considerations at the time of award (ex-ante) – application in 2013

Initial pool funding	- TVC pool determination was based on risk-adjusted profit
Validation of the TVC pool	- The Committee then reviewed the TVC pool and exercised its judgment to ensure that the overall payout appropriately reflected Group performance, the control environment, and any other qualitative risk factors that the Committee considered appropriate

Adjustments after awards made (ex-post) – application in 2013

Balance of upfront and deferred annual performance awards and performance shares	- The Committee considered the balance of cash, deferred and performance shares to be delivered both at an aggregate level and at an individual level. Ex-post adjustments are only effective if the appropriate levels of deferrals and performance shares are delivered - Deferrals started at $50,000 and up to 1,375 employees were eligible to receive performance shares depending on individual performance
Performance adjustment and claw back	- This was achieved through multiple lenses: – Potential diminution in the value of the deferred award: through share price movement until vesting – Claw back in accordance with the policy described on page 209 – Potential diminution in value of performance shares: through share price movement as well as subsequent testing of performance conditions
Shareholding requirements	- The Group operated a shareholding requirement policy to align the interests of its senior employees with its investors. We remain committed to the principles of share ownership by senior employees with an expectation that such employees build up a shareholding over time - Employees subject to the Remuneration Code were required to hold a specified minimum number of vested ordinary shares which effectively resulted in a 12-month retention period for vested and upfront share awards - Executive directors were subject to a higher test, being the greater of the above requirement or a specified number of shares as set out on page 200

Application of deferrals and claw back

APAs above $50,000 were subject to deferral under the Group's standard framework. The deferred portion was delivered entirely in shares for the majority of employees. However, those employees with the highest level of deferrals (a minimum total deferred APA of $85,000) had the opportunity to elect for 50 per cent of their deferred award to be delivered as deferred cash. All deferred awards, shares and cash, vest equally over three years and remain subject to the Group's claw back policy. Vested deferred share and upfront share awards may only be sold if the employee meets any stated minimum shareholding requirement.

The 2013 deferral thresholds for non-Code Staff are shown in the following table:

Annual performance award thresholds ($)	Percentage deferred
50,000 or less	No deferral, paid in cash
Above 50,000 and equal to 250,000	25%
Above 250,000 and equal to 500,000	35%
Above 500,000 and equal to 3 million	50%
Above 3 million	65%

Note
The net deferral rate was capped at an aggregate deferral of 60 per cent including the expected value of any performance shares

The Committee had discretion in exceptional circumstances to determine that a whole award may not vest or will only partially vest. Such circumstances (defined as a 'Material Event') may include a material restatement of the Group's financial statements, the discovery of endemic problems in financial reporting, or where, as a result of financial losses, a material breach of regulatory guidelines (e.g. in relation to capital holdings or liquidity) or a significant failure in risk management at Group or business unit level has occurred or is likely to occur. Where the Group financial statements have been subject to a material restatement or there has been a risk management failure, the Committee may also determine that forfeiture is to be restricted to the award holders in a particular business unit if issues in that unit alone have been the cause of the restatement or the risk management failure.

Individual award holders may also forfeit their awards if it is determined that the employee or former employee or group of employees has, as a result of an appropriate review, been deemed to have (i) caused in full or in part a material loss for the Group as a result of reckless, negligent or wilful actions or (ii) exhibited inappropriate values, behaviour or applied a lack of appropriate supervision.

Code Staff remuneration disclosures for 2013

The following groups of employees have been identified as meeting the PRA's criteria for Code Staff:

- Employees performing a significant influence function (SIF) within the Group
- Senior managers. In accordance with the Remuneration Code (which is now contained in the handbooks of the PRA and FCA) this includes direct reports to a director of Standard Chartered Bank (the regulated entity) who are the head of a significant business function or business group with Risk and/or profit and loss accountability and not previously classified as SIF
- Other staff identified as risk-takers

The combination of the first two categories above are referred to in the subsequent disclosures as 'senior management'.

In line with the definition, 'risk-takers' are those whose professional activities are deemed to have a potentially material impact on the Group's risk profile, and are drawn from the following areas:

- Heads of material support or control functions (not already classified as senior managers or SIFs)
- Heads of significant Corporate Finance and Financial Markets units (this includes relevant product sales or trading businesses) and who sit on the Corporate Finance or Financial Markets leadership teams
- Other designated risk professionals not otherwise covered above
- Other designated Wholesale Banking employees not otherwise covered above

Remuneration for Code Staff was delivered in 2013 through a combination of base salary, benefits and variable compensation (split between an APA and a PSA).

Variable compensation for Code Staff was structured in line with the Remuneration Code requirements. 40 to 60 per cent of variable compensation was deferred over a period of three years. Non-deferred variable compensation was delivered 50 per cent in upfront shares and 50 per cent in cash. Deferred variable compensation was delivered through a mix of the following depending on the individual and quantum of the award:

- Deferred restricted shares
- Deferred cash (eligible employees may elect to receive 50 per cent of the deferred amount in cash rather than just deferred shares)
- Performance shares

Deferred compensation (cash and shares) is subject to the Group's claw back policy and continued employment (which may be terminated by the Group in the event of material misconduct). Both upfront and deferred shares are subject to a Group shareholding requirement level set out in our structure of discretionary variable compensation policy.

The following tables show the remuneration decisions made by the Group in respect of 2013 for the employees whose professional activities could have a material impact on the Group's risk profile.

Directors' remuneration report continued

Code Staff employees' remuneration by business

Aggregate remuneration expenditure for Code Staff	**Consumer Banking $000**	**Wholesale Banking $000**	**Other $000**
2013	**14,289**	**107,559**	**86,842**
2012	18,566	119,088	88,398

Note
Other includes all support functions and general management positions, including executive and non-executive directors

Code Staff employees' remuneration by fixed/variable compensation

	2013		2012	
Analysis of remuneration for Code Staff employees between fixed and variable compensation	**Senior management $000**	**Other Code Staff employees $000**	Senior management $000	Other Code Staff employees $000
Fixed compensation	**51,269**	**21,001**	44,195	14,808
Variable compensation	**88,275**	**48,145**	110,411	56,638
Upfront cash	**17,344**	**10,637**	20,287	12,150
Upfront shares	**16,846**	**10,101**	20,065	11,650
Deferred awards	**34,125**	**24,356**	45,540	27,936
Performance shares	**19,960**	**3,051**	24,519	4,902
Number of Code Staff	**88**	**36**	78	35

Notes
Fixed compensation includes base salary and other cash allowances and, in the case of non-executive directors, any fees
Deferred awards includes any element of deferred cash for senior management (2013: $8,075 and 2012: $11,580) and other Code Staff employees (2013: $8,353 and 2012: $10,180)
Performance shares includes the expected value of any performance shares award to be granted in respect of 2013 and 2012 performance respectively
The ratio between fixed and variable compensation for all Code Staff in 2013 was 189 per cent

Deferred remuneration

	2013		2012	
Analysis of deferred remuneration	**Senior management $000**	**Other Code Staff employees $000**	Senior management $000	Other Code Staff employees $000
Start of the year (1 January)	**238,496**	**84,878**	219,377	79,114
Awarded during the financial year	**85,088**	**36,976**	111,177	42,982
Vested during the year	**72,461**	**32,718**	109,106	43,351
Non-vested due to performance adjustments	**1,427**	**114**	17,147	433
Close of the year (31 December)	**222,935**	**80,158**	239,659	86,242

Notes
Deferred remuneration includes both deferred awards and performance shares. Code Staff population in 2013 and 2012 differ
Value of deferred remuneration awarded during the year is based on the share price at grant
Value of vested deferred remuneration during the year is based on the share price as at 31 December in that year
Value of deferred remuneration which has lapsed as a result of (i) performance conditions not being satisfied or (ii) claw back
Value of deferred remuneration as at 31 December is based on the share price at the respective dates in that year

Significant payments and severance

Analysis of sign-on payments and severance	2013		2012	
	Senior management $000	Other Code Staff employees $000	Senior management $000	Other Code Staff employees $000
Sign-on payments	**3,083**	**5,100**	1,632	4,800
Severance payments	**587**	**475**	–	396

Notes
Sign-on payments include the value of any guaranteed performance awards (cash or shares) which were made on appointment. In 2013 and 2012 sign-on payments relate to four and two employee(s) respectively
In 2013 and 2012 severance payments relate to two and one employee(s) respectively
Value of vested deferred remuneration during the year is based on the share price as at 31 December in that year

Remuneration at or above EUR 1 million

The table below shows the number of individuals whose remuneration (base salary, cash allowances and variable compensation) was EUR 1 million or more in 2013. The remuneration bands are EUR 500,000 for EUR 1 million to EUR 5 million and EUR 1 million for more than EUR 5 million.

Remuneration band	Number of employees
EUR 1m< EUR 1.5m	75
EUR 1.5m < EUR 2m	20
EUR 2m < EUR 2.5m	8
EUR 2.5m < EUR 3m	4
EUR 3m < EUR 3.5m	6
EUR 3.5m < EUR 4m	1
EUR 4m < EUR 4.5m	1
EUR 4.5m < EUR 5m	1
EUR 5m < EUR 6m	1
EUR 7m < EUR 8m	1
Total	**118**

Ten highest paid employees beneath the Board

The following table sets out, on an anonymised basis, the remuneration of the 10 highest-paid employees for the year ended 31 December 2013 who are not executive directors. This disclosure is not limited to those discharging executive responsibility (PDMRs).

		Variable compensation				
Employee	Fixed compensation $000	Non-deferred cash $000	Upfront shares $000	Deferred cash $000	Deferred shares and performance shares $000	Total $000
1	957	1,114	1,114	1,307	2,034	6,526
2	957	921	921	1,064	1,698	5,561
3	703	868	868	1,165	1,438	5,042
4	1,271	730	730	1,060	1,131	4,922
5	696	778	778	1,045	1,290	4,587
6	458	760	760	1,140	1,225	4,343
7	640	1,252	1,252	–	1,187	4,331
8	957	668	668	767	1,236	4,296
9	934	652	652	766	1,189	4,193
10	738	1,029	1,029	–	935	3,731

Notes
Fixed compensation includes base salary, benefits and allowances paid in respect of 2013 and, where appropriate, on a pro rata basis for new joiners
Deferred shares and performance shares includes the deferred share element of APA, the expected value of any performance shares and, if appropriate any distribution from any carried interest plan paid in 2013

Directors' remuneration report continued

Remuneration of the five highest-paid individuals and the remuneration of senior management

In line with the requirements of the Hong Kong Stock Exchange, the following table sets out, on an aggregate basis, the remuneration of the five highest-paid employees and senior management (including two executive directors) discharging executive responsibility (PDMRs) for the year ended 31 December 2013.

	Five highest-paid $000	**Senior management $000**
Basic salary, allowances and benefits in kind	5,734	13,935
Pension contributions	1,761	4,486
Annual performance awards paid or receivable	27,342	29,323
Payments made on appointment	–	–
Compensation for loss of office (contractual or other)	–	–
Other	–	–
Total	**34,837**	**47,744**
Total HKD equivalent	**270,215**	**370,333**

Note
For 2013, the five highest-paid includes two executive directors, Mike Rees and Peter Sands. Senior management includes Tim Miller who stepped down as a Court director on 31 March 2013

APAs paid or receivable excludes any performance awards or commissions linked to profits generated by the individual collectively or with others engaged in similar activities. It includes the deferred element of any APA and Performance Share Awards.

The table below shows the emoluments of the five highest-paid and senior management discharging executive responsibility (PDMRs) for the year ended 31 December 2013.

	Number of employees	
Remuneration band	**Five highest-paid**	**Senior management**
HKD13,000,001 – HKD13,500,000	–	1
HKD22,000,001 – HKD22,500,000	–	1
HKD22,500,001 – HKD23,000,000	–	1
HKD29,500,001 – HKD30,000,000	–	1
HKD34,000,001 – HKD34,500,000	–	1
HKD36,500,001 – HKD37,000,000	–	1
HKD37,500,001 – HKD38,000,000	–	1
HKD38,500,001 – HKD39,000,000	–	1
HKD39,000,001 – HKD39,500,000	1	–
HKD44,500,001 – HKD45,000,000	1	–
HKD51,500,001 – HKD52,000,000	1	–
HKD55,500,001 – HKD56,000,000	1	1
HKD78,500,001 – HKD79,000,000	1	1
Total	**5**	**10**

Annemarie Durbin
Group Company Secretary
5 March 2014

Report of the directors

The directors have pleasure in submitting their report and the financial statements of the Company and its subsidiaries for the year ended 31 December 2013.

Strategic report

On behalf of the Board, the Audit Committee has reviewed the Annual Report and Accounts and the process by which the Group believes that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Group. Following its review, the Audit Committee has advised the Board that such a statement can be made in the Annual Report and Accounts.

The Strategic report can be found on pages 2 to 61.

Corporate governance statement

The Disclosure and Transparency Rules require certain information to be included in a corporate governance statement in the Report of the directors. Information that fulfils the requirement of the corporate governance statement can be found in the Corporate governance report on pages 144 to 175 and is incorporated into this Report of the directors by reference.

Code for Financial Reporting Disclosure

The Group's 2013 financial statements have been prepared in accordance with the principles of the British Bankers' Association Code for Financial Reporting Disclosure.

Relevant audit information

As far as the directors are aware, there is no relevant audit information of which the Group statutory auditor (KPMG Audit Plc) is unaware. The directors have taken all reasonable steps to ascertain any relevant audit information and ensure that the Group statutory auditor is aware of such information.

Going concern

Having made appropriate enquiries, we consider that the Company and the Group as a whole have adequate resources to continue operational businesses for the foreseeable future and therefore continued to adopt the going concern basis in preparing the financial statements.

Sufficiency of public float

As at the date of this report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the HK Listing Rules) based on the information publicly available to the Company and within the knowledge of the directors.

Research and development

During the year, the Group invested $475 million in research, development, primarily relating to the planning, analysis, design, development, testing, integration and deployment of technology systems.

Political donations

No political donations were made in the year.

Areas of operation

Our Group comprises a network of more than 1,600 branches and outlets in 70 countries.

Further details on the branches can be found on our website www.sc.com

Directors and their interests

The present members of the Board, together with their biographical details, are shown on pages 138 to 142. Om Bhatt and Louis Cheung joined our Board as independent non-executive directors on 1 January 2013. Kurt Campbell and Christine Hodgson joined our Board as independent non-executive directors on 18 June 2013 and 1 September 2013 respectively, and Naguib Kheraj joined the Board as an independent non-executive director on 1 January 2014.

As announced on 9 January 2014, Steve Bertamini and Richard Meddings will be stepping down from the Board as executive directors on 31 March 2014 and by 30 June 2014 respectively. We also announced on 9 January 2014 that with effect from 1 April 2014, we will be integrating our two businesses, Wholesale Banking and Consumer Banking, to form one business. The new business will be organised into three customer segment groups, serviced by five global product groups. The combined business will be led by Mike Rees, who will become Deputy Group Chief Executive with effect from 1 April 2014.

Val Gooding and Richard Delbridge stepped down from the Board as independent non-executive directors on 1 May 2013. Margaret Ewing stepped down from the Board as an independent non-executive director on 31 January 2014.

At our Annual General Meeting (AGM) to be held on 8 May 2014, all of our Board of directors with the exception of Steve Bertamini, Richard Meddings, Jamie Dundas, Rudy Markham and Oliver Stocken will stand for election or re-election.

The directors' beneficial interests in the ordinary shares of the Company as at 31 December 2013 are shown in the Directors' remuneration report on pages 192 and 200.

The Group operates a number of share-based arrangements for its directors and employees.

Details of these arrangements are included in the Directors' remuneration report and in note 38 to the financial statements.

Report of the directors continued

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the HK Listing Rules and still considers all of the non-executive directors to be independent. Details concerning the provisions for providing compensation to directors for loss of office or employment (including in the context of a takeover bid) can be found on page 186 of the Directors' remuneration report.

The Company has granted indemnities to all of its directors on terms consistent with the applicable statutory provisions. Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the financial year ended 31 December 2013, and remain in force at the date of this report.

At no time during the year did any director hold a material interest in any contracts of significance with the Company or any of its subsidiary undertakings. The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company.

In accordance with the Companies Act 2006, we have established a robust process requiring directors to disclose proposed outside business interests before any are entered into. This enables prior assessment of any conflict or potential conflict of interest and any impact on time commitment. On behalf of the Board, the Nomination Committee reviews actual or potential conflicts of interest.

Authorisations are reviewed annually by the Nomination Committee to consider if they continue to be appropriate, and also to revisit the terms upon which they were provided. The Board is satisfied that our processes in this respect continue to operate effectively.

Subject to company law, the Articles of Association and the authority granted to directors in general meeting, the directors may exercise all the powers of the Company and may delegate authorities to committees. The Articles of Association contain provisions relating to the appointment and removal of directors.

Directors' induction and ongoing development

To ensure that directors have the requisite knowledge and understanding to enable them to challenge effectively, we provide them with a personalised approach to induction, training and development. Each engagement programme typically consists of a mix of briefings on specialist topics, attendance at key management meetings and additional visits to our markets. Further details can be found on page 149.

Our Board receives regular updates on the views of our institutional shareholders and stakeholders. Our Board openly seeks the views of our shareholders and during the year a combination of our Chairman, Group Chief Executive Officer, Group Finance Director, executive directors and independent non-executive directors met with 23 of our top 25 investors. Shareholders may discuss any issues or concerns with the Senior Independent Director where they have been unable to resolve them through existing channels for investor communications. Ruth Markland is the Senior Independent Director.

Results and dividends

We recommended a final dividend of 57.20 cents (2012: 56.77 cents) on 5 March 2014 for the year ended 31 December 2013. This, together with the interim dividend already paid, makes a total dividend for 2013 of 86.00 cents (2012: 84.00 cents). The final dividend, if approved at the 2014 AGM, will be paid in either sterling, Hong Kong dollars or US dollars on 14 May 2014 to shareholders on the UK register of members at the close of business in the UK (10:00 pm London time) on 14 March 2014, and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9:00 am Hong Kong time) on 14 March 2014. The final dividend will be paid in Indian rupees on 15 May 2014 to Indian Depository Receipt holders on the Indian register at the close of business in India on 14 March 2014, in accordance with the Deposit Agreement.

It is intended that shareholders on the UK register and Hong Kong branch register will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 28 March 2014. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

Share capital

The issued ordinary share capital of the Company was increased by 14,351,742 during the year. 10,542,375 ordinary shares were issued under the Company's employee share plans at prices between nil and 1463 pence. 3,809,367 ordinary shares were issued under the Company's share dividend scheme. The Company has one class of ordinary shares which carries no rights to fixed income. On a show of hands, each member present has the right to one vote at our general meetings. On a poll, each member is entitled to one vote for every $2 nominal value of share capital held. The issued nominal value of the ordinary shares represents 78.9 per cent of the total issued nominal value of all share capital. The remaining 21.1 per cent comprises preference shares which have preferential rights to income and capital but which, in general, do not confer a right to attend and vote at our general meetings.

Further details of the Group's share capital can be found in note 36 to the financial statements.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Articles of Association

The Articles of Association may be amended by special resolution of the shareholders.

Authority to purchase own shares

At the AGM held in May 2013, our shareholders renewed the Company's authority to make market purchases of up to 241,734,701 ordinary shares, equivalent to approximately 10 per cent of issued ordinary shares as at 19 March 2013, and up to all of the issued preference share capital. These authorities were not used during the year and remained in force at 31 December 2013. In accordance with the terms of a waiver granted by The Stock Exchange of Hong Kong Limited (HKSE) on 16 April 2008, which was modified on 30 April 2009, 25 July 2011 and 9 October 2013, the Company will comply with the applicable law and regulation in the UK in relation to the holding of any shares in treasury and with the conditions of the waiver, in connection with any shares it may hold in treasury. Shareholders will be asked to renew these authorities at the forthcoming AGM, and will receive details within the Notice of AGM. No treasury shares were held during the year.

Further details can be found in note 36 to the financial statements.

Shareholder rights

Under the Companies Act 2006, shareholders holding 5 per cent or more of the paid up capital of the Company carrying the right of voting at general meetings of the Company are able to require the directors to hold a general meeting. A request may be in hard copy or electronic form and must be authenticated by the shareholders making it. Where such a request has been duly lodged with the Company, the directors are obliged to call a general meeting within 21 days of becoming subject to the request and must set a date for the meeting not more than 28 days from the date of the issue of the notice convening the meeting. Under the Companies Act 2006, shareholders holding 5 per cent or more of the total voting rights at an AGM of the Company, or 100 shareholders entitled to vote at the AGM with an average of at least £100 paid up share capital per shareholder, are entitled to require the Company to circulate a resolution intended to be moved at the Company's next AGM. Such a request must be made not later than six weeks before the AGM to which the request relates or, if later, the time notice is given of the AGM. The request may be in hard copy or electronic form, must identify the resolution of which notice is to be given and must be authenticated by the shareholders making it.

Shareholders are able to put forward proposals to shareholder meetings and enquiries to the Board and/or the Senior Independent Director by using the 'contact us' information on the Company's website www.sc.com, or by emailing Group Corporate Secretariat at group-corporate.secretariat@sc.com.

Major interests in shares and voting rights

As far as the directors are aware as at 31 December 2013, Temasek Holdings (Private) Limited (Temasek) is the only shareholder that has an interest of more than 10 per cent in the Company's issued ordinary share capital carrying a right to vote at any general meeting.

The Company has been notified by the following companies of their interest in the total voting rights of the Company as at 31 December 2013 and has not been notified of any changes in such interests since that date:

Shareholder	Number of ordinary shares	Percentage of voting rights direct	Percentage of voting rights indirect
Temasek Holdings (Private) Limited[1]	438,346,486	–	18.058
Aberdeen Asset Management PLC's Fund Management Operating Subsidiaries	198,099,919	–	8.161
BlackRock, Inc	149,972,328	–	6.178

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[1] Temasek Holdings (Private) Limited's interests is held indirectly through Dover Investments Pte. Ltd

Related party transactions

Details of transactions with directors and officers and other related parties are set out in note 47 to the financial statements.

Connected/continuing connected transactions

By virtue of its shareholding of more than 10 per cent in the Company, Temasek and its associates are related parties and connected persons of the Company for the purposes of the UK Listing Rules and the Listing Rules of The Stock Exchange of Hong Kong Limited respectively (together known as 'the Rules').

The Rules are intended to ensure that there is no favourable treatment to Temasek or its associates (as defined under the Rules) as a result of such shareholding to the detriment of other shareholders in the Company. Unless transactions which the Company and its subsidiaries undertake with Temasek or its associates are specifically exempt under the Rules or are subject to a specific waiver, they may require a combination of announcements, reporting and independent shareholders' approval.

The HKSE adopted a new exemption (the 'Passive Investor Exemption') on 3 June 2010 for "transactions with associates of a passive investor" (Rules 14A.31(10) and 14A.33(5)). The Company considers that Temasek meets the criteria for a passive investor under Rule 14A.31(10)(b). Therefore, any connected transactions or continuing connected transactions of a revenue nature in the ordinary and usual course of business and on normal commercial terms with an associate of Temasek are exempt from the announcement, reporting, annual review and independent shareholders' approval requirements of the HK Listing Rules. The Passive Investor Exemption is not applicable in respect of the passive investor itself.

In addition, the HKSE has previously granted to the Company two waivers from strict compliance with (i) the reporting and annual review requirements in respect of ordinary course of banking transactions with Temasek associates that the Company has not been able to identify, and the requirements to enter into a fixed-term written agreement and set a maximum aggregate annual value in relation to the ordinary course of business transactions with Temasek or any of its associates (the '2010 Waiver'); and (ii) the reporting and annual review requirements for the years ended 31 December 2011 and 2012 in respect of the ordinary course of banking transactions with Temasek itself (the '2011 Waiver'). The 2010 Waiver and the 2011 Waiver expired in May 2013.

On 21 October 2013, the HKSE granted the Company a new waiver for all banking transactions of a revenue nature with Temasek itself (the '2013 Waiver'). Under this waiver, the announcement requirement and the requirement to enter into a written agreement and set an annual cap under Rules 14A.35(1), 14A.35(2) and 14A.47 and the reporting (including annual review) requirement under Rules 14A.37 to 14A.40, 14A.45 and 14A.46 have been waived for the three-year period ending 31 December 2015 on the conditions that:

- The Company will disclose details of the 2013 Waiver (including the nature of the revenue banking transactions and reasons for the 2013 Waiver) in its subsequent annual reports
- The Company will continue to monitor the revenue banking transactions with Temasek during the three-year period ending 31 December 2015 to ensure that the 5 per cent threshold for the revenue ratio, calculated in accordance with Chapter 14 of the HK Listing Rules, will not be exceeded

During 2013, the Company entered into certain revenue banking transactions with Temasek itself, including foreign exchange, derivatives and financial markets (i.e. fixed deposit transactions), cash management services and securities services transactions. These transactions were conducted in the normal course of the Company's business and on normal commercial terms. No favourable treatment was afforded to Temasek.

In applying for the 2013 Waiver, the Company restated many of the key points made in support of the applications for the 2010 Waiver and the 2011 Waiver.

For example, in view of the nature and terms of the transactions which may vary from time to time, from client to client and from transaction to transaction, particularly the foreign exchange and derivatives and financial markets transactions, having fixed term written agreements would not be suitable to accommodate the various banking needs of the Company's customers (including Temasek). It would be impractical and unduly burdensome to require the Company to enter into fixed written agreements with Temasek in respect of those revenue banking transactions.

The Company also explained that it would be impracticable for the Company to estimate and determine an annual cap on the revenue banking transactions. The volume and aggregate value of each of those transactions required by Temasek are uncertain and unknown to the Company as a banking group and depend on multiple factors. They include the range of banking products and services offered by the Company, fluctuations in the wide range of industries in which Temasek and its associates operate, and external financial market and economic conditions.

Accordingly the Company was of the view that it was appropriate to apply for a waiver from strict compliance with the announcement, written agreements and annual caps requirements with respect to the revenue banking transactions with Temasek.

While the amount of revenues generated from the revenue banking transactions such as foreign exchange and derivatives and financial markets transactions was minimal, the notional amounts of these transactions could be significant. Without the availability of a waiver from the HKSE or an applicable exemption, these revenue banking transactions would be subject to various percentage ratio tests which cater for different types of connected transactions and as such may produce anomalous results and bring no value to minority shareholders of the Company in terms of safeguards.

The HKSE accepted the key points made by the Company in supporting its 2013 Waiver application.

By operation of the Passive Investor Exemption and the 2013 Waiver, the vast majority of the Company's transactions with Temasek and its associates fall outside of the connected transactions regime. However, non-revenue transactions with Temasek or any of its associates continue to be subject to monitoring for connected transaction issues on a deal-by-deal basis.

The Company confirms that, to the best of its knowledge and belief after due inquiry, it did not have any transactions with Temasek or its associates in 2013 that would have required announcement, reporting, annual review or independent shareholders' approval. The Company also confirms that the revenue transactions entered into with Temasek in 2013 were below the 5 per cent threshold for the revenue ratio test under the HK Listing Rules and therefore satisfied the conditions attached to the 2013 Waiver.

The Company will continue to monitor through its internal systems the revenue figures generated from the ongoing banking transactions with Temasek itself during 2014 and 2015 to ensure that the 5 per cent threshold for the revenue ratio will not be exceeded.

The Group has internal systems, processes and procedures in place to identify and monitor non-exempt connected and continuing connected transactions. These are reviewed and updated periodically and their adequacy and effectiveness is assessed by Group Internal Audit.

If none of the exemptions under the Rules or the waivers obtained from HKSE is applicable in relation to a transaction with Temasek or its associates, the Company will comply with the applicable announcement, reporting, annual review and independent shareholders' approval requirements.

Fixed assets

Details of additions to fixed assets are presented in note 27 to the financial statements.

Loan capital

Details of the loan capital of the Company and its subsidiaries are set out in note 33 to the financial statements.

Risk management

An ongoing process for identifying, evaluating and managing the significant risks that we face is in place.

Its objectives, policies and procedures, including in relation to the hedging of risk and exposure to price, credit, liquidity, cash flow and market risk, are described in detail in the Risk review on page 62.

Compliance and regulatory matters

On 18 April 2013, we announced that we had acquired the South African Custody and Trustee Business of Absa Bank. This move will strengthen our position in South Africa and will build on the significant investment the Group has already made within our South Africa business.

Internal control

The effectiveness of our internal control system is reviewed regularly by the Board, its committees, the Executive Management Committee and Group Internal Audit. The Audit Committee has reviewed the effectiveness of the Group's system of internal controls during the year ended 31 December 2013 and reported on its review to the Board. The Committee's review was supported by an annual business self-certification process, which was managed by Group Internal Audit. Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal control structures across the Group through its programme of business audits. The work of Group Internal Audit is focused on the areas of greatest risk as determined by a risk-based assessment methodology.

Group Internal Audit reports regularly to the Audit Committee, the Chairman and the Group Chief Executive. The findings of all adverse audits are reported to the Audit Committee, the Chairman and the Group Chief Executive where immediate corrective action is required. The Board Risk Committee has responsibility for overseeing the management of the Company's fundamental prudential risks as well as reviewing the effectiveness of the Company's risk management framework. The Audit Committee monitors the integrity of the Company's financial reporting, compliance and internal control environment.

The Risk review on pages 62 to 135 describes the Group's risk management structure.

Our business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk, including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Executive risk committees regularly review the Group's risk profile. The performance of the Group's businesses is reported regularly to senior management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are monitored closely. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

In respect of handling inside information, we have applied relevant controls on employees who are subject to handling inside information, including controls over the dissemination of such information and their dealings in the Company's shares.

Employee policies and engagement

With more than 86,000 employees representing 132 nationalities across 70 markets, the Group has a number of communication mechanisms that inform employees about matters affecting or of interest to them. The primary channel is the Group's internal website, iConnect, which is available to over 96 per cent of employees. Both globally and at a business level, it publicises news and announcements from across the organisation, and reminders of key activities via visual banners. This is supported by Group and local newsletters and a universal desktop screensaver, together with targeted leadership and management group calls hosted by senior leaders, e-mails and global broadcasts issued direct to employees for significant or urgent announcements. Video is used throughout the year to provide context and to engage employees around key initiatives and brand activities. Global broadcasts, for example, are used to communicate the Group's annual and half-year results supported by video commentary from the Group Chairman and Group Chief Executive on iConnect, and local briefing sessions in country led by senior leaders. This mix ensures that where employees do not have access to iConnect, they still receive information promptly.

At an individual level, regular team meetings and discussions with line managers enable employees to discuss and clarify any questions they have on news and the performance of the Group. The twice-yearly formal performance review also provides the opportunity to discuss how the employee, their team and business area contribute to the overall performance of the Group and how any compensation awards relate to this.

We continue to communicate with employees who have left the Group via our Alumni network and all employees, past, present and future via our 'Our views' blog on www.sc.com and social networking messages via the Group's LinkedIn network.

For over a decade, our employee engagement survey, which ran annually and had an average response rate of 96 per cent, has been an important way of gathering feedback across the organisation. Our engagement approach, which has helped to create our distinctive culture, has also been recognised externally, winning two Gallup awards. From 2014, we will be launching a new engagement approach which will enable us to seek views on a wider variety of topics and be more flexible in how and when we gather feedback.

In addition, targeted and/or local surveys seeking views on particular topics or from particular groups of employees are undertaken alongside less formal quick polls on iConnect. Across the Group, many business areas or project groups facilitate employee forums and message boards, actively seeking opinion and feedback. Combined with over 30 employee networks across 17 countries and numerous champion groups, these insights are invaluable in shaping our thinking and future planning.

The Group's Equal Opportunities Policy sets out our commitment to ensure fair and equal treatment for all employees and contingent workers, enabling them to fulfil their potential within an appropriate and fair working environment. The policy applies to our recruitment and employment terms, practices, procedures, processes and decisions on the grounds of disability as well as race, colour, nationality, national or ethnic origins, gender, marital status, sexual orientation, part-time or fixed-term status, age, religion or belief. The Group appoints, trains, develops, rewards and promotes employees and contingent workers on the basis of their merit and capability. If employees or contingent workers become disabled, every endeavour is made to ensure their employment or work continues, with appropriate training where necessary.

Over and above this, our Diversity and Inclusion philosophy places particular emphasis on inclusion, with disability being one of four key focus areas. This approach helps us attract, retain and develop our talent and get the best out of the broadest spectrum of people and the International Day of People with Disabilities, which we held in support of the United Nations' initiative, focused on the business benefits of including colleagues and customers with disabilities.

In support of this approach, we undertook a number of activities in 2013:

- Sponsored career workshops in Ghana and Hong Kong helping people with disabilities prepare for work, and partnered with other companies and Non-Governmental Organisations to create a more inclusive job market
- Participated in Disability Mentoring Days in the US, providing opportunities to learn about banking as well as challenging any misconceptions our employees may have about people with disabilities. This led to the bank being awarded the New York State Education Department's National Disability award in October 2013

- Currently employ 10 teams of visually impaired employees working alongside their sighted peers across nine markets. One such employee was the individual winner of the Chairman's Awards in 2012 which recognises those who best represent our brand promise, Here for good

We continually work to ensure that the differences in others are valued and respected, creating a professional working environment in which people can maximise their potential. In 2013, the launch of our Flexibility Charter encouraged senior leaders and managers to commit to a broad definition of flexibility and explore alternative working practice solutions, benefiting employees with disabilities and those who have become disabled, as well as those requiring more flexibility. We also reaffirmed our commitment to providing accessible technology by signing the Business Taskforce on Accessible Technology Charter in the UK.

We recognise that individual strengths are unique and encourage all employees to identify and agree ways to grow their distinctive talents. Targeted initiatives during 2013 have included sign language training for employees in India, where we have colleagues with hearing impairments, together with fire warden and first aider training tailored to those with disabilities. As a result of this work, SCOPE International, a wholly owned subsidiary, won the 15th National Centre for Promotion of Employment for Disabled People – Shell Helen Keller Award under the category 'Role Model Companies'.

We appreciate and encourage diversity in all of its forms, including gender, age, ethnicity, disability, sexual orientation and gender identity. It is important that our employees and leadership teams are representative of our markets, stakeholders and client profile. This is true throughout the business and for our Board. Further information on our Board diversity is on page 174.

In 2013, we have made strong progress in identifying and agreeing targets to increase our gender diversity across the business. We have undertaken analysis of the percentage of women in our workforce at specific levels within each of our top 15 markets, identifying focus areas where the gender gap is the most striking, and agreed aspirational targets for improving the balance in these areas. Targets are locally relevant and focused on specific bottlenecks within each market. We have begun to track progress against these targets, which focus on improving the gender balance in hiring distribution, promotion and attrition rates, and are in the process of extending the same methodology more broadly across our markets.

At the end of 2013, we have exceeded our targets for reducing attrition among our female employees and increased the percentage of women hired compared to men in several countries, including Singapore, India and the UAE in respect of attrition and the UK and US in relation to hires.

This progress has been achieved through a range of specific initiatives, including:

- Continued emphasis on our Women in Leadership and Women's Development Programmes across 15 countries and Women in Leadership sessions at a global, regional and country level highlighting senior women as role models
- Enhancing and expanding programmes designed to support greater inclusion of key demographics, including awareness of unconscious bias and inclusive leadership
- Increased parental leave benefits and flexible working arrangements including sabbaticals and a focus on specific support for returning mothers

We recognise that in some markets, progress has been limited given that recruitment is aligned to business strategy and our requirements have reduced in response to the difficult global market conditions and our focus on maximising our existing talent. In Bangladesh, for example, we fell short of our hiring target for women at one grade, but exceeded it at another.

At the end of 2013, there were three female Directors of Standard Chartered PLC and 48 (16 per cent) of our senior managers are women, including a number of Country Chief Executive Officers (CEOs) in markets such as Myanmar, Nigeria, Tanzania and Thailand and a Regional CEO for Africa. Overall more than 40,000 (47 per cent) of our employees are women and, in the coming year, we will continue to increase the proportion of female leaders in support of our Group target of 25 per cent of women on our Board by 2017.

Major customers

Our five largest customers together accounted for 3.6 per cent of our total interest income and other operating income in the year ended 31 December 2013.

Group Code of Conduct

The Board has adopted a Group Code of Conduct ('the Code') relating to the lawful and ethical conduct of business and this is supported by the Group's core values. The Code was refreshed in 2013 and has been communicated to all directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates.

Further details concerning the Code can be found on page 30.

Environmental and social responsibilities

We are committed to being a force for good in the markets where we operate and disclose our environmental and social performance through the sustainability section of the Annual Report and Accounts and the annual Group Sustainability Review. The Board is responsible for ensuring that high standards of responsible business are maintained and that an effective control framework is in place. We have established policies and procedures in relation to environmental and social risks.

Report of the directors continued

Through our risk management structure and control framework, the Board receives regular and adequate information to identify and assess significant risks and opportunities arising from environmental and social matters. Specifically, the Brand and Values Committee (BVC), which is appointed by the Board, reviews the Group's sustainable business priorities, and oversees the Group's development of and delivery against public commitments regarding which activities and/or businesses it will and will not encourage in line with our Here for good brand promise. The BVC is informed by the Group Risk Committee and Group Head of Corporate Affairs, who is the risk control owner for reputational risk, including those associated with environmental and social matters. At the country level, the Country Head of Corporate Affairs is the risk control owner and the Risk Committee or, where there is no Risk Committee, the Management Committee, is the governance oversight committee. All employees are responsible for day-to-day identification and management of reputational risk. Quarterly reviews of risks and reporting are carried out at country, regional and Group levels. Where a reputational risk is identified, the risk is escalated in accordance with clearly documented internal reporting procedures.

Key areas of risk are those associated with clients' and customers' operations and their potential impact on the environment and local communities. The Board recognises its responsibility to manage these risks and that failure to manage them adequately would have an adverse impact on our business. These risks are explicitly identified in our credit policies, and in the provision of debt, equity and advisory services in Wholesale Banking and in lending products in small and medium-sized enterprises (SME) Banking. 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 adopted the Equator Principles that set requirements for identifying, assessing and mitigating the environmental and social impacts associated with the financing of projects and related advisory services. The principles are embedded in the Group's environmental and social risk management procedures. The Board is not aware of any material exceptions to its policies.

We recognise that climate change presents physical and reputational risk to our operations and to our clients' activities. This could arise in relation to a number of factors, including extreme weather events, regulatory changes and changing consumer preferences. For our own operations, we manage Greenhouse Gas (GHGs) emissions through an industry-leading environmental reporting programme that collects data from 72 per cent of our occupied property footprint. We have targets to reduce energy, water and paper use. We also monitor and report on our employees' air travel.

For more information on our environmental strategy, including a full breakdown of our GHG emissions, please refer to the environment section of our Sustainability Review available on www.sc.com

Total Scope 1 and 2 Greenhouse Gas emissions for 2012 and 2013

	2013	2012	Units
Full-time employees (FTE) covered by reporting	**86,640**	89,058	FTE
Net internal area of occupied property covered by reporting	**1,354,541**	1,431,603	m^2
Greenhouse gas emissions			
Scope 1 emissions (combustion of fuels)	**23,878**	25,557	tonnes CO_2eq/year
Scope 2 emissions (purchased electricity)	**226,727**	236,443	tonnes CO_2eq/year
Total Scope 1 & 2 emissions	**250,605**	262,000	tonnes CO_2eq/year
Total Scope 1 & 2 emissions/FTE	**2.89**	2.94	tonnes CO_2eq/FTE/year
Total Scope 1 & 2 emissions/m^2	**352**	348	kg CO_2eq/m^2/year
Total Scope 1 & 2 emissions/$million operating income	**12.94**	13.96	tonnes CO_2eq/$ million operating income

Our Emissions Criteria found at on.sc.com/EmissionsCriteria set out the principles and methodology used to report all carbon emissions data by Standard Chartered PLC and its subsidiaries.

Our reporting methodology is based upon the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition).

Using conversion factors from the UK Government's 2013 GHG Conversion Factors for Company Reporting, emissions are reported in metric tonnes of carbon dioxide equivalent (CO_2eq), encompassing the six Kyoto gases[1]. We report on all emission sources required under the Companies Act 2006 (Strategic Report and Directors' report) Regulations, as well as Scope 3 (included within our Sustainability Review).

Our definition of different emission sources is provided below.

Scope 1

Scope 1 emissions are defined as arising from the consumption of energy from direct sources, during the use of property occupied by the Group.

Scope 2

Scope 2 emissions are defined as arising from the consumption of indirect sources of energy, during the use of property occupied by the Group.

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[1] Carbon dioxide (CO2); methane (CH4); nitrous oxide (N2O); hydrofluorocarbons (HFCs); perfluorocarbons (PFCs) and sulphur hexafluoride (SF6)

Scope 3

Scope 3 emissions are defined as occurring as a consequence of the Group's activities, but arising from sources not controlled by us. Currently the Group reports on Scope 3 emissions from air travel in our Sustainability Review.

The emissions within our inventory correspond to a reporting period of 1 October 2012 to 30 September 2013. This is to allow sufficient time for independent assurance to be gained prior to the publication of results. Emissions arising from the operation of assets in which the Group owns an interest but has no control are excluded. In some cases this is divergent from the Group's financial reporting but consistent with international carbon reporting practice, enabling comparison to peers. The Group does not use any form of offsets or green electricity to offset Scope 1 or Scope 2 emissions.

For more information, please refer to our Sustainability Review on www.sc.com

Community investment

We work with partners across our markets to deliver programmes that promote positive social and economic outcomes for the communities where we operate. In 2013, we contributed a total investment of $54.1 million to charities and community organisations. This sum includes direct financial support of $15.4 million and indirect contributions of $38.7 million such as employees' time, the donation of non-monetary goods and fundraising by our employees. We focus our community investment programmes on health and education, with a particular emphasis on young people. Our global programmes include Seeing is Believing, our global campaign to tackle avoidable blindness; Goal, our youth development programme that combines sports training with life skills and financial literacy training to empower adolescent girls; and Living with HIV, our workplace and community education initiative. We also promote financial education through dedicated training programmes for youth and small businesses. We actively encourage our staff to share their time and core skills to benefit their local communities. Each staff member is entitled to three days of paid volunteering leave per year. In 2013, our staff volunteered more than 90,300 days across our communities.

Further details of community projects can be found on page 37.

HIV and AIDS Procedures

Across the markets where we operate, HIV and AIDS remain a serious challenge impacting our staff, their families and the broader community. The HIV and AIDS Procedures, as part of the Group Equal Opportunities Diversity and Dignity at Work Policy, outline our commitment to support our employees. The HIV and AIDS Procedures are implemented globally and apply to all staff and their families in a manner consistent with existing medical cover. The HIV and AIDS Procedures are available on our website.

Electronic communication

The Board recognises the importance of good communications with all shareholders. Our directors are in regular contact with our institutional shareholders and general presentations are made when we announce our financial results. The AGM presents an opportunity to communicate with all shareholders. Our shareholders are encouraged to receive our corporate documents electronically. The annual and interim financial statements, Notice of AGM and dividend circulars are all available electronically. If you do not already receive your corporate documents electronically and would like to do so in future please contact our registrars at the address on page 331.

Shareholders are also able to vote electronically on the resolutions being put to the AGM through our registrars' website at www.investorcentre.com

Annual General Meeting

Our 2014 AGM will be held at 11.00am (London time) (6.00pm Hong Kong time) on 8 May 2014 at etc.venues, 200 Aldersgate, St Paul's, London, EC1A 4HD. Details of the business to be conducted are contained in the Notice of AGM.

Our 2013 AGM was held on Wednesday 8 May 2013 at 11.00am London time (6.00pm Hong Kong time) at etc.venues, 200 Aldersgate, St Paul's, London EC1A 4HD. Special business at the meeting included shareholder approval for a new Sharesave plan which would replace both the 2004 UK Sharesave scheme approved by HM Revenue & Customs and the 2004 International Sharesave Scheme. All resolutions were passed at the meeting.

Non-audit services

The Group's non-audit services policy (the 'Policy') was reviewed and approved by the Audit Committee in 2013. The policy is based on a number of core principles. The overriding principle is to ensure that our Group statutory auditor, KPMG Audit Plc's (KPMG), independence and/or objectivity as the audit firm is not (or could not be seen to be) compromised by the appointment of KPMG to provide particular non-audit services. Subject to this overriding principle, the Audit Committee's view is that KPMG can be of value in a wider range of activities than just financial statement audit, and, where a non-audit service demands these qualities, KPMG should be allowed to tender, subject to the Auditing Practices Board's (APB) ethical standards and the terms of the policy. However, the policy makes it clear that KPMG should not be regarded as the automatic or first firm of choice for non-audit services and consideration should always be given to the use of other firms. The policy requires a conservative approach to be taken to the assessment of requests for KPMG to provide non-audit services.

Report of the directors continued

The APB sets out various threats to audit independence including self-interest, self-review, familiarity, taking of a management role or conducting advocacy. In particular, maintaining KPMG's independence from the Group requires them to avoid taking decisions on the Group's behalf. It is also recognised as essential that management retain the decision-making capability as to whether to act on advice given by KPMG as part of a non-audit service. This means not just the ability to action the advice given, but to have sufficient knowledge of the subject matter to be able to make a reasoned and independent judgment as to its validity. Accordingly, the Group is required to take a conservative approach to interpreting the potential threats to auditor independence and requires commensurately robust safeguards against them, if a non-audit service is to be permitted.

After due consideration, the Audit Committee decided not to reduce the policy to a proscribed list of non-audit services that KPMG are permitted to provide. Rather, each request for KPMG to provide non-audit services will be assessed on its own merits. The Audit Committee believes that such a case-by-case approach best accommodates (i) the need for the appropriate rigour and challenge to be applied to each request for KPMG to provide non-audit services while (ii) preserving sufficient flexibility for the Group to engage KPMG to provide non-audit services where they are able to deliver particular value to the Group and where the proposed services can be provided without compromising KPMG's objectivity and independence.

KPMG's objectivity is of particular value to the Group in the context of providing non-audit services which relate to the provision of an independent view, benchmarked either against external laws, regulations or requirements, or the audit firm's own knowledge of best practices. The policy also specifically incorporates the APB's recommended prohibitions and restrictions on the types of non-audit services that are able to be provided by the audit firm.

By way of (non-exhaustive) illustration of the application of the principles set out in the policy, the following types of non-audit services are:

- Likely to be permissible under the policy:
  - Audit-related services as defined by the APB – the Group would also extend this to work on investor circulars in most foreseeable circumstances
  - An objective view as to whether the Group has applied external laws and regulations appropriately, such as checks over regulatory compliance
  - Testing the robustness of controls infrastructure
  - Due diligence over potential purchases or sales
- Not permissible under the policy:
  - Any services that are prohibited (or to the extent they are restricted) by the APB's published guidance from time to time
  - Aggressive tax or regulatory structuring proposals
  - Any services where fees are paid on a contingent basis (in whole or in part)
  - Consulting services, which actively assist in running the business in place of management as opposed to providing or validating information, which management then utilises in the operation of the business

Details relating to KPMG's remuneration as the Group statutory auditor and a description of the broad categories of the types of non-audit services provided by KPMG are given in note 8 to the financial statements on page 253.

There were no significant engagements of KPMG in 2013 for the provision of non-audit services.

Auditor

The Audit Committee reviews the appointment of the Group statutory auditor, its effectiveness and its relationship with the Group, which includes monitoring our use of the auditors for non-audit services and the balance of audit and non-audit fees paid. Following a review of the independence and effectiveness of our Group statutory auditor (details of which can be found on page 160 of the Corporate governance report), a resolution will be proposed at the 2014 AGM to reappoint KPMG.

Each director believes that there is no relevant audit information of which our Group statutory auditor is unaware. Each has taken all steps necessary as a director to be aware of any relevant audit information and to establish that KPMG Audit Plc is made aware of any pertinent information.

By order of the Board

Annemarie Durbin
Group Company Secretary
5 March 2014

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Group and Company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the Company financial statements on the same basis.

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 Company 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
- 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.

Under applicable law and regulations, the directors are also responsible for preparing a Report of the directors, Strategic report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's performance, business model and strategy.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic report 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 taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board

Richard Meddings

R H Meddings
Group Finance Director
5 March 2014

Financial statements and notes

Standard Chartered has been in Hong Kong since 1859 and is the oldest of Hong Kong's three note-issuing banks.

Financial statements and notes

Independent Auditor's report to the members of Standard Chartered PLC

1) Opinions and conclusions arising from our audit

Our opinion on the financial statements is unmodified.

We have audited the financial statements of Standard Chartered PLC (the Group) for the year ended 31 December 2013 set out on pages 229 to 311. In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company'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 International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)
- The parent company 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
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

2) Our assessment of the risks of material misstatement

The starting point for our audit was a consideration of the inherent risks to the Group's business model and how these have been mitigated. This included understanding the strength of the Group's capital and liquidity position, the diversification of its assets, the flexibility and tenor of its balance sheet and the management of its cost base. We assessed and challenged the inherent risks with reference to:

- Independent economic forecasts and commentary
- The perspectives of our in-country audit teams on their local economies and banking industries
- The views of our specialists in a number of areas including bank regulation, IT, tax and financial crime prevention
- The views of the Prudential Regulatory Authority
- The significant changes taking place in banking regulation, both in the UK and in the other jurisdictions in which the Group operates
- Checking for consistency between (among others) the Group's budgets, regular forecasts, stress testing, reporting to the Audit, Board Risk and Group Risk Committees and the many discussions we have with senior management in different countries

We also considered the Group's control environment and in particular whether its systems were processing transactions completely and faithfully, and included appropriate controls designed to prevent fraud. Our work included testing the key controls over the processing of transactions and the key inter-system, bank and custodial reconciliations as well as trade confirmations. In addition we sought to apply industry lessons learned from recent dealing room issues at other banks in our testing of controls.

These assessments enabled us to form a judgment on going concern and also highlighted the key areas of financial statement risk on which our audit has focused. By looking at both broad risk themes across the Group and particular concerns in specific geographies and businesses, we were able to calibrate our work to financial statement risk more precisely. In particular we identified the following issues: economic difficulties in India caused some stress in the Group's wholesale portfolio; high consumer debt levels plus an economic slowdown in South Korea caused some stress in the Group's consumer portfolio; more generally these factors in South Korea continued to depress profitability there; and, while the UAE economy is recovering and property prices are rising, risk in the portfolio does remain from the debt overhang that arose in the financial crisis.

Having addressed the going concern assumption and whether the Group's database of transactions was a sufficient underlying basis for the accounts, the risks of material misstatement lay in decisions over loan and goodwill impairments and the valuation of financial instruments. This is because they require significant judgment in assessing subjective and uncertain estimates. As described on pages 158 to 159 these are also the areas that have been focused on by the Group's Audit Committee. In forming our unmodified opinion on the financial statements, we undertook the following principal procedures on each of these areas as follows.

Impairment of loans and advances

The risk is that bad debts may be misstated. Wholesale Banking (WB) represents 65 per cent ($253 billion) of the Group's loan portfolio, while Consumer Banking (CB) represents 35 per cent ($130 billion). These portfolios are different in nature and require a different approach to loan impairment. WB's portfolio comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on knowledge of each individual borrower. Private banking loans and loans to medium-sized enterprises within CB are assessed in the same way. However, the remainder of CB's portfolio comprises much smaller value loans to a very much greater number of customers. Loans are not monitored on an individual basis, but are grouped by product into homogeneous portfolios. Portfolios are then monitored through delinquency statistics, which also drive the assessment of loan loss provisions.

Our response We undertook the following audit procedures in all in-scope countries:

- For both WB and CB our in-country teams used their local knowledge to assess the trends in their local credit environments and considered the likely impact on the Group's portfolio to focus their testing on key risk areas
- For WB, we tested the key controls over the credit grading process, to assess if the risk grades allocated to counterparties were appropriate. We then performed detailed credit assessments of all loans above $50 million in credit grades 13 and 14 (see page 72) and key loans above $100 million on the Group's early alert list (see page 73) together with a selection of other loans. In doing these, we critically assessed the reasonableness of the forecast of recoverable cash flows, realisation of collateral and other possible sources of repayment. We checked the consistency of key assumptions and compared them to progress against business plans and our own understanding of the relevant industries and business environments. We also checked them where possible to externally derived evidence, such as commodity prices and forecasts, real estate valuations and regulatory approvals

- For CB, the impairment process is based on projecting losses based on the prior historical payment performance of each portfolio, adjusted for current market conditions. We used our own valuation specialists to evaluate the integrity and quality of the models used and tested the accuracy of the historical payment performance data input into them. We then challenged the appropriateness of the adjustments made by management to reflect current market conditions, with reference to our own knowledge and to market and economic conditions

Our focus in particular risk areas was as follows:

- For Indian exposures we analysed the portfolio to identify those more vulnerable to the slowdown, including those adversely impacted by the depreciation of the rupee, the infrastructure sector and exposures to government and state dependent entities
- In the UAE we revisited restructured legacy exposures to assess whether they were still performing as expected and whether the recovery assumptions remained appropriate
- In South Korea, the principal risk lay in the impact of the Personal Debt Rehabilitation Scheme (PDRS) on the consumer book (see page 43). Applicants only qualify for PDRS if they meet certain criteria, not all of which are visible to the external credit bureaux. This makes precise assessment of the exposure challenging. We confirmed trends in PDRS filings to external market data, checked loss forecasts to historical experience and checked the Group's analysis of the vulnerable parts of its portfolio to external credit bureaux data

Finally we assessed whether the financial statement disclosures, including sensitivity to key inputs, appropriately reflect the Group's exposure to credit risk.

Goodwill

The risk is that goodwill in the balance sheet may not be supported by the future cash flows of the underlying business. Total goodwill in the balance sheet is $5.2 billion but approximately $2.5 billion of this relates to businesses where post-acquisition growth in cash flows now provides substantial headroom over the goodwill balance. We regard these as very low risk from a misstatement perspective. Our work was therefore focused on the acquisitions where the headroom is lower, amounting to $2.7 billion.

Our response We used our own valuation specialists to assess the appropriateness of the Group's forecasting approach and its derivation of discount rates. We compared the latter to external sources. Our challenge to the cash flow forecasts included: confirming the internal consistency of assumptions and comparing them to progress against business plans and our knowledge of the local banking environment; comparing forecasts to past performance and to GDP forecasts from the IMF; assessing past forecasting accuracy, by comparing past forecasts to actual outcomes; and checking non-financial assumptions to evidence where necessary.

In 2013, our primary focus was on South Korea. Given the complex interplay of factors relating to the local economic, regulatory, and social conditions, the Senior Statutory Auditor visited Seoul to gain a deeper insight into the issues. In addition: we assessed the vulnerability of the business to further loan losses, drawing on our work on loan impairment described above; we sought supporting evidence for key non-financial improvements to the business (such as the introduction of new products); and we critically assessed the reasonableness of forecast product mixes against historical outcomes.

Finally we assessed whether the financial statement disclosures, including sensitivity to key inputs, are appropriate.

Valuation of financial instruments in the balance sheet

The risk is that financial instruments may be mispriced in the balance sheet, because they are not based on objective external prices or, where these are not easily observable, the best estimate of what they may be. Of the financial instruments that are carried at fair value or as available for sale in the Group's balance sheet, 98 per cent qualified as Level 1 or 2 as at 31 December 2013. This means they were valued using prices that were observable in the market place or through models with market observable inputs, resulting in the valuation risk being low. However, liquidity has drained rapidly from emerging and developing markets in past periods and it is important to ascertain that prices are liquid enough to be genuinely observable in the market. The remaining 2 per cent ($5 billion) of financial instruments are classed as Level 3, because certain pricing inputs to them are unobservable. The determination of these prices is considerably more subjective.

Our response For all financial instruments we checked for a selection that prices used were externally sourced and were correctly input into pricing models. We used our own valuation specialists to check that the models were appropriate and they valued a selection of the Group's debt securities and derivative positions independently and compared their valuation to the Group's valuation.

In order to assess the liquidity of the prices for Level 1 and 2 instruments, we tested a selection of instruments to establish how many institutions contributed to pricing inputs and how wide the ranges of observable quotes were. We checked that these factors were taken into account by the Group.

In 2013, Level 3 instruments mainly comprised unlisted private equity investments and a small number of illiquid, thinly traded loans and debt securities. For this portfolio, we performed additional procedures over a selection of investments, critically assessing key inputs, assumptions and models, considering alternative valuation methods and assessing sensitivities to key factors. For example, for unlisted private equity positions, we assessed the appropriateness of the pricing multiples available from comparable listed companies and for material loans and debt instruments, we assessed the reasonableness of the forecast cash flows and discount rates used by comparing them to similar instruments.

Finally we assessed whether the financial statement disclosures, including sensitivity to key inputs, appropriately reflect the Group's exposure to financial instrument valuation risk.

3) Our application of materiality and an overview of the scope of the audit

The materiality for the group financial statements as a whole was set at $300 million. This was determined with reference to a benchmark against group profit before tax (of which it represents around 5 per cent), because we consider this to be the principal measure used by shareholders in assessing the Group's financial performance.

We agreed with the Audit Committee to report to it any uncorrected misstatement affecting group profit and loss or group shareholders' funds of more than $10 million and any uncorrected misstatement affecting group assets and liabilities only of more than $100 million. In addition we agreed to report any other audit misstatements below these thresholds that we believed warranted reporting on qualitative grounds.

Independent Auditor's report to the members of Standard Chartered PLC continued

How we scoped our audit
Audits for Group reporting purposes were performed at 32 branches and subsidiaries in 23 countries, together with the necessary supporting test work at the Group's seven central hubs that perform or support many of its financial processes. More limited audit testing was performed at a further three branches, primarily because they either hold significant amounts of liquid assets or because they clear significant volumes of transactions. Our audit testing at these three branches, when combined with work we did at central hubs, ensured coverage of these and other higher risk areas. The entities scoped into these two categories of testing included all significant dealing room activities.

The audit work undertaken for Group reporting purposes at these branches, subsidiaries and hubs, (together key reporting 'components'), were all performed by the component auditor to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component and ranged from $1 million to $80 million. The key reporting components represent 95 per cent of group profit before tax and 97 per cent of total assets.

As well as drawing up the scope, Group audit instructions and exercising overall oversight, the Group audit team performed the work on valuation of financial instruments and goodwill impairment itself. In addition it performed quality assurance checks on loan loss audit judgments made by component auditors for all key loans above $50 million in credit grades 13 and 14 (see page 72) and key loans above $100 million on the Group's early alert list (see page 73). Further, the Senior Statutory Auditor and other members of the Group audit team visited key locations to gain first-hand knowledge of key risks and issues. This year they visited Hong Kong, Singapore, India, the UAE, China, Taiwan and South Korea.

A particular focus was managing the audit of the centralised hubs, which require component audit teams to co-operate effectively. Common audit objectives were co-ordinated through common global audit programmes, which set out the responsibilities of each component team on a test-by-test basis. This process was overseen by the Group audit team and a group of audit partners, based in each of the Group's key regions, who oversaw their region in more detail and helped to ensure that the audit approach was fully understood and that key issues were properly addressed.

4) Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006
- The information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

5) We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy
- The Corporate Governance section of the Annual Report and Accounts describing the work of the Group Audit Committee does not appropriately address matters communicated by us to the Group Audit Committee

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns
- Certain disclosures of directors' remuneration specified by law are not made
- We have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 223, in relation to going concern
- The part of the Corporate Governance Statement on pages 144 and 145 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review

We have nothing to report in respect of the above responsibilities.

6) Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statements set out on page 223, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

John C Hughes

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

Consolidated income statement

For the year ended 31 December 2013

	Notes	2013 $million	2012[1] $million
Interest income	3	**17,593**	17,827
Interest expense	4	**(6,437)**	(7,046)
Net interest income		**11,156**	10,781
Fees and commission income	5	**4,581**	4,575
Fees and commission expense	5	**(480)**	(496)
Net trading income	6	**2,514**	2,739
Other operating income	7	**1,006**	1,184
Non-interest income		**7,621**	8,002
Operating income		**18,777**	18,783
Staff costs	8	**(6,570)**	(6,492)
Premises costs	8	**(877)**	(863)
General administrative expenses	8	**(2,032)**	(2,707)
Depreciation and amortisation	9	**(714)**	(660)
Operating expenses		**(10,193)**	(10,722)
Operating profit before impairment losses and taxation		**8,584**	8,061
Impairment losses on loans and advances and other credit risk provisions	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		**6,064**	6,851
Taxation	12	**(1,864)**	(1,866)
Profit for the year		**4,200**	4,985
Profit attributable to:			
Non-controlling interests	37	**110**	98
Parent company shareholders		**4,090**	4,887
Profit for the year		**4,200**	4,985
		cents	cents
Earnings per share:			
Basic earnings per ordinary share	14	**164.4**	199.7
Diluted earnings per ordinary share	14	**163.0**	197.7

[1] Amounts have been restated as explained in note 43

The notes on pages 236 to 311 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Notes	2013 $million	2012[1] $million
Profit for the year		**4,200**	4,985
Other comprehensive income:			
Items that will not be reclassified to Income statement:			
Actuarial gain/(losses) on retirement benefit obligations	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		**(1,206)**	568
Net losses on net investment hedges		**(35)**	(73)
Share of other comprehensive income from associates and joint ventures		**(15)**	4
Available-for-sale investments:			
Net valuation gains taken to equity		**171**	1,054
Reclassified to income statement		**(248)**	(336)
Cash flow hedges:			
Net (losses)/gains taken to equity		**(83)**	133
Reclassified to income statement		**6**	(20)
Taxation relating to components of other comprehensive income	12	**34**	(132)
Other comprehensive income for the year, net of taxation		**(1,297)**	1,122
Total comprehensive income for the year		**2,903**	6,107
Total comprehensive income attributable to:			
Non-controlling interests	37	**79**	84
Parent company shareholders		**2,824**	6,023
		2,903	6,107

[1] Amounts have been restated as explained in note 43

The notes on pages 236 to 311 form an integral part of these financial statements.

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	**29,335**	27,076
Derivative financial instruments	15, 17	**61,802**	49,495
Loans and advances to banks	15, 18	**83,702**	67,797
Loans and advances to customers	15, 19	**290,708**	279,638
Investment securities	15, 21	**102,716**	99,225
Other assets	15, 22	**33,570**	28,548
Current tax assets		**234**	215
Prepayments and accrued income		**2,510**	2,552
Interests in associates and joint ventures	23	**1,767**	1,684
Goodwill and intangible assets	26	**6,070**	7,145
Property, plant and equipment	27	**6,903**	6,620
Deferred tax assets	28	**529**	676
Total assets		**674,380**	631,208
Liabilities			
Deposits by banks	15, 29	**43,517**	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	**61,236**	47,192
Debt securities in issue	15, 31	**64,589**	55,979
Other liabilities	15, 32	**27,338**	24,285
Current tax liabilities		**1,050**	1,066
Accruals and deferred income		**4,668**	4,811
Subordinated liabilities and other borrowed funds	15, 33	**20,397**	18,588
Deferred tax liabilities	28	**176**	161
Provisions for liabilities and charges	34	**107**	215
Retirement benefit obligations	35	**365**	491
Total liabilities		**627,539**	585,153
Equity			
Share capital	36	**1,214**	1,207
Reserves		**45,032**	44,155
Total parent company shareholders' equity		**46,246**	45,362
Non-controlling interests	37	**595**	693
Total equity		**46,841**	46,055
Total equity and liabilities		**674,380**	631,208

[1] Amounts have been restated as explained in note 43

The notes on pages 236 to 311 form an integral part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 5 March 2014 and signed on its behalf by:

Richard Meddings

Sir John Peace
Chairman

P A Sands
Group Chief Executive

R H Meddings
Group Finance Director

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Share capital $million	Share premium account $million	Capital and capital redemption reserve[1] $million	Merger reserve $million	Available-for-sale reserve $million	Cash flow hedge reserve $million	Translation reserve $million	Retained earnings $million	Parent company shareholders equity $million	Non-controlling interests $million	Total $million
At 1 January 2012	1,192	5,432	18	12,421	(109)	(13)	(1,394)	23,167	40,714	661	41,375
Profit for the year	–	–	–	–	–	–	–	4,887	4,887	98	4,985
Other comprehensive income	–	–	–	–	587	94	509	(54)[2]	1,136	(14)	1,122
Distributions	–	–	–	–	–	–	–	–	–	(60)	(60)
Shares issued, net of expenses	2	57	–	–	–	–	–	–	59	–	59
Net own shares adjustment	–	–	–	–	–	–	–	(386)	(386)	–	(386)
Share option expense, net of taxation	–	–	–	–	–	–	–	359	359	–	359
Capitalised on scrip dividend	13	(13)	–	–	–	–	–	–	–	–	–
Dividends, net of scrip	–	–	–	–	–	–	–	(1,407)	(1,407)	–	(1,407)
Other increases	–	–	–	–	–	–	–	–	–	8	8
At 31 December 2012	**1,207**	**5,476**	**18**	**12,421**	**478**	**81**	**(885)**	**26,566**	**45,362**	**693**	**46,055**
Profit for the year	–	–	–	–	–	–	–	**4,090**	**4,090**	**110**	**4,200**
Other comprehensive income	–	–	–	–	**(32)**	**(66)**	**(1,221)**	**53**[3]	**(1,266)**	**(31)**	**(1,297)**
Distributions	–	–	–	–	–	–	–	–	–	**(77)**	**(77)**
Shares issued, net of expenses	**5**	**19**	–	–	–	–	–	–	**24**	–	**24**
Net own shares adjustment	–	–	–	–	–	–	–	**(124)**	**(124)**	–	**(124)**
Share option expense, net of taxation	–	–	–	–	–	–	–	**240**	**240**	–	**240**
Capitalised on scrip dividend	**2**	**(2)**	–	–	–	–	–	–	–	–	–
Dividends, net of scrip	–	–	–	–	–	–	–	**(2,068)**	**(2,068)**	–	**(2,068)**
Other decreases[4]	–	–	–	–	–	–	–	**(12)**	**(12)**	**(100)**	**(112)**
At 31 December 2013	**1,214**	**5,493**	**18**	**12,421**	**446**	**15**	**(2,106)**	**28,745**	**46,246**	**595**	**46,841**

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

[2] Comprises actuarial losses, net of taxation and non-controlling interests, of $58 million and share of comprehensive income from associates and joint ventures of $4 million

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

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

Note 36 includes a description of each reserve.

The notes on pages 236 to 311 form an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2013

		Group		Company	
	Notes	**2013 $million**	2012[1] $million	**2013 $million**	2012 $million
Cash flows from operating activities					
Profit before taxation		6,064	6,851	2,150	1,570
Adjustments for:					
Non-cash items included within income statement	39	4,121	2,421	(1,488)	(1,390)
Change in operating assets	39	(44,144)	(8,409)	(50)	(718)
Change in operating liabilities	39	45,148	18,970	1,273	5,104
Contributions to defined benefit schemes	35	(168)	(203)	–	–
UK and overseas taxes paid		(1,716)	(1,767)	150	(114)
Net cash from operating activities		9,305	17,863	2,035	4,452
Net cash flows from investing activities					
Purchase of property, plant and equipment		(205)	(162)	–	–
Disposal of property, plant and equipment		156	195	–	–
Acquisition or investment in subsidiaries, associates, and joint ventures, net of cash acquired		(46)	(63)	(5,753)	(78)
Purchase of investment securities	21	(142,888)	(156,883)	(2,501)	(4,810)
Disposal and maturity of investment securities	21	137,163	145,327	925	–
Dividends received from investment in subsidiaries, associates and joint ventures	23	5	14	2,096	1,433
Net cash used in investing activities		(5,815)	(11,572)	(5,233)	(3,455)
Net cash flows from financing activities					
Issue of ordinary and preference share capital, net of expenses		24	59	24	59
Purchase of own shares		(154)	(425)	(154)	(425)
Exercise of share options through ESOP		30	39	30	39
Interest paid on subordinated liabilities		(813)	(989)	(93)	(132)
Gross proceeds from issue of subordinated liabilities		5,448	3,390	5,448	3,222
Repayment of subordinated liabilities		(2,616)	(1,701)	(925)	(225)
Interest paid on senior debts		(563)	(867)	(439)	(320)
Gross proceeds from issue of senior debts		6,816	11,453	3,054	–
Repayment of senior debts		(3,730)	(5,938)	–	(807)
Dividends paid to non-controlling interests and preference shareholders, net of scrip		(178)	(161)	(101)	(101)
Dividends paid to ordinary shareholders, net of scrip		(1,967)	(1,306)	(1,967)	(1,306)
Net cash from financing activities		2,297	3,554	4,877	4
Net increase in cash and cash equivalents		5,787	9,845	1,679	1,001
Cash and cash equivalents at beginning of the year		79,518	69,566	16,879	15,878
Effect of exchange rate movements on cash and cash equivalents		(1,149)	107	–	–
Cash and cash equivalents at end of the year	40	84,156	79,518	18,558	16,879

[1] Amounts have been restated as explained in note 43

The notes on pages 236 to 311 form an integral part of these financial statements.

Company balance sheet
As at 31 December 2013

	Notes	2013 $million	2012 $million
Non-current assets			
Investments in subsidiary undertakings	23	**20,122**	14,369
Current assets			
Derivative financial instruments	48	**1,053**	1,002
Investment securities	48	**10,411**	8,835
Amounts owed by subsidiary undertakings	48	**18,558**	16,879
Taxation		**–**	115
		30,022	26,831
Current liabilities			
Derivative financial instruments	48	**346**	–
Other creditors		**434**	338
Taxation		**49**	–
Deferred income	47	**18**	18
		847	356
Net current assets		**29,175**	26,475
Total assets less current liabilities		**49,297**	40,844
Non-current liabilities			
Debt securities in issue	48	**18,650**	14,534
Deferred income	47	**18**	36
Subordinated liabilities and other borrowed funds	33, 48	**8,955**	4,806
		27,623	19,376
Total assets less liabilities		**21,674**	21,468
Equity			
Share capital	36	**1,214**	1,207
Reserves		**20,460**	20,261
Total equity		**21,674**	21,468

The notes on pages 236 to 311 form an integral part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 5 March 2014 and signed on its behalf by:

Richard Meddings

Sir John Peace
Chairman

P A Sands
Group Chief Executive

R H Meddings
Group Finance Director

Company statement of changes in equity

For the year ended 31 December 2013

	Share capital $million	Share premium account $million	Capital and capital redemption reserve[1] $million	Merger reserve $million	Retained earnings $million	Total $million
At 1 January 2012	1,192	5,432	18	12,421	2,277	21,340
Profit for the year	–	–	–	–	1,526	1,526
Shares issued, net of expenses	2	57	–	–	–	59
Net own shares adjustment	–	–	–	–	(386)	(386)
Share option expense	–	–	–	–	336	336
Capitalised on scrip dividend	13	(13)	–	–	–	–
Dividends, net of scrip	–	–	–	–	(1,407)	(1,407)
At 31 December 2012	**1,207**	**5,476**	**18**	**12,421**	**2,346**	**21,468**
Profit for the year	**–**	**–**	**–**	**–**	**2,136**	**2,136**
Shares issued, net of expenses	**5**	**19**	**–**	**–**	**–**	**24**
Net own shares adjustment	**–**	**–**	**–**	**–**	**(124)**	**(124)**
Share option expense	**–**	**–**	**–**	**–**	**238**	**238**
Capitalised on scrip dividend	**2**	**(2)**	**–**	**–**	**–**	**–**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**(2,068)**	**(2,068)**
At 31 December 2013	**1,214**	**5,493**	**18**	**12,421**	**2,528**	**21,674**

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

Note 36 includes a description of each reserve.

The notes on pages 236 to 311 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

(a) Statement of compliance

The Group financial statements consolidate those of Standard Chartered PLC (the Company) and its subsidiaries (together referred to as the Group) and equity account the Group's interest in associates and jointly controlled entities. 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 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 page 67; from the start of the 'Risk Management' section on page 69 to the end of the 'Pension Risk' section on page 125 excluding: 'Asset Backed Securities', page 106 'Mapping of market risk items to the balance sheet', page 113, 'Encumbered assets', page 117, and 'Liquidity Coverage Ratio' and 'Net Stable Funding Ratio, page 119; and from the start of the 'Capital Management' section on page 128 to the end of 'Current compliance with Capital Adequacy Regulations' on page 129 and from the start of the 'Capital Base' section on page 131 until the end of 'Movement in total capital' on page 132.

(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 judgments

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 Risk review on page 85)
- 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.

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 judgments 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.

1. Accounting policies continued

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 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 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, among 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 43.

The accounting policies set out below have been applied consistently across the Group and to all periods presented in these financial statements.

Notes to the financial statements continued

1. Accounting policies continued

(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 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 or joint ventures, 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, among 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 provides 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 is 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.

(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.

1. Accounting policies continued

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
- 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.

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.

1. Accounting policies continued

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.

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 substantially 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 is 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 of 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 data.

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 data. 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 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.

1. Accounting policies continued

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 are 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 83. 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 85 to 86.

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, among 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.

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.

Notes to the financial statements continued

1. Accounting policies continued

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 forecast 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.

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.

1. Accounting policies continued

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 and joint ventures is included in Investments in associates and joint ventures. 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 judgment. 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.

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.

Notes to the financial statements continued

1. Accounting policies continued

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 are 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 Group operates equity-settled and cash-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the start of the performance period to the vesting date. For example, the expense for awards granted in 2013 in respect of 2012 performance, which vest in 2014-2016, is recognised as an expense over the period from 1 January 2012 to the vesting dates in 2014-2016. For all other awards the expense is recognised over period from the date of grant to the vesting date.

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 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 schemes 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 are set out in note 36.

(u) Assets held for sale

Non-current assets (such as property) and disposal groups (including both 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 costs 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 amount 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 client and customer needs and trends in the market place. The strategies adopted by Consumer Banking and Wholesale Banking need to be adapted to local market and regulatory requirements, which is the responsibility of country management teams. While not the primary driver of the business, country performance is an important part of the Group's matrix structure and is also used to evaluate performance and reward staff. Corporate items not allocated are not aggregated into the businesses because of the one-off nature of these items.

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

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

As disclosed in note 46, the Group will adopt a new segmental disclosure in 2014 following a reorganisation of its business.

By class of business

	2013					2012[4]				
	Consumer Banking $million	Wholesale Banking[1] $million	Total reportable segments $million	Corporate items not allocated[2] $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total reportable segments $million	Corporate items not allocated[3] $million	Total $million
Internal income	9	(9)	–	–	–	(16)	16	–	–	–
Net interest income	4,940	6,216	11,156	–	11,156	4,780	6,001	10,781	–	10,781
Non interest income	2,230	5,391	7,621	–	7,621	2,257	5,655	7,912	90	8,002
Operating income	7,179	11,598	18,777	–	18,777	7,021	11,672	18,693	90	18,783
Operating expenses	(4,632)	(5,326)	(9,958)	(235)	(10,193)	(4,596)	(5,952)	(10,548)	(174)	(10,722)
Operating profit before impairment losses and taxation	2,547	6,272	8,819	(235)	8,584	2,425	5,720	8,145	(84)	8,061
Impairment losses on loans and advances and other credit risk provisions	(1,034)	(583)	(1,617)	–	(1,617)	(674)	(522)	(1,196)	–	(1,196)
Other impairment										
Goodwill impairment	–	–	–	(1,000)	(1,000)	–	–	–	–	–
Other impairment	(7)	(122)	(129)	–	(129)	(45)	(151)	(196)	–	(196)
Profit from associates and joint ventures	44	182	226	–	226	43	139	182	–	182
Profit before taxation	1,550	5,749	7,299	(1,235)	6,064	1,749	5,186	6,935	(84)	6,851
Total assets employed	138,764	528,783	667,547	6,833	674,380	138,699	484,473	623,172	8,036	631,208
Total liabilities employed	191,275	435,038	626,313	1,226	627,539	186,327	397,599	583,926	1,227	585,153
Other segment items:										
Capital expenditure[5]	235	1,216	1,451	–	1,451	204	2,042	2,246	–	2,246
Depreciation	133	300	433	–	433	147	259	406	–	406
Investment in associates and joint ventures	537	1,230	1,767	–	1,767	559	1,125	1,684	–	1,684
Amortisation of intangible assets	87	194	281	–	281	81	173	254	–	254

[1] Wholesale Banking non-interest income includes own credit adjustment (OCA) of $106 million

[2] Relates to UK bank levy and goodwill impairment charge on Korea business

[3] Relates to profits realised from repurchase of subordinated liabilities and UK bank levy

[4] Amounts have been restated as explained in note 43

[5] Includes capital expenditure in Wholesale Banking of $874 million in respect of operating lease assets (2012: $1,788 million)

Notes to the financial statements continued

2. Segmental Information continued

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

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

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

Entity-wide information

By geography

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

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

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

2 Includes capital expenditure of $874 million in Hong Kong in respect of operating lease assets. Other capital expenditure comprises additions to property, 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

	2012								
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe[1] $million	Total $million
Internal income	111	(107)	(85)	93	129	84	60	(285)	–
Net interest income	1,564	1,251	1,421	2,168	920	1,143	917	1,397	10,781
Fees and commissions income, net	830	551	210	677	304	471	416	620	4,079
Net trading income	653	377	147	575	157	448	157	225	2,739
Other operating income	190	131	159	159	75	88	43	339	1,184
Operating income	3,348	2,203	1,852	3,672	1,585	2,234	1,593	2,296	18,783
Operating expenses	(1,572)	(1,169)	(1,081)	(2,258)	(753)	(1,100)	(784)	(2,005)	(10,722)
Operating profit before impairment losses and taxation	1,776	1,034	771	1,414	832	1,134	809	291	8,061
Impairment losses on loans and advances and other credit risk provisions	(109)	(66)	(249)	(221)	(165)	(316)	(38)	(32)	(1,196)
Other impairment	(7)	(2)	(8)	(157)	9	(32)	–	1	(196)
Profit from associates and joint ventures	–	–	–	181	–	–	–	1	182
Profit before taxation	1,660	966	514	1,217	676	786	771	261	6,851
Capital expenditure[2]	1,825	232	22	18	22	55	31	41	2,246

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

2 Includes capital expenditure in Hong Kong of $1,788 million in respect of operating lease assets. Other capital expenditure comprises additions to property, plant and equipment (note 27) and software related intangibles (note 26) including any post-acquisition additions made by the acquired entities

Net interest margin and yield

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

Net interest margin by geography

	2013									
	Hong Kong $million	**Singapore $million**	**Korea $million**	**Other Asia Pacific $million**	**India $million**	**Middle East & Other S Asia $million**	**Africa $million**	**Americas, UK & Europe[1] $million**	**Intra-group/ tax assets $million**	**Total $million**
Total assets employed	**149,327**	**115,561**	**55,921**	**118,337**	**34,962**	**47,166**	**24,892**	**193,499**	**(65,285)**	**674,380**
Of which :										
Loans to customers[2]	**61,173**	**57,540**	**29,760**	**54,843**	**23,019**	**26,124**	**13,122**	**30,434**	**–**	**296,015**
Average interest-earning assets	**114,713**	**86,070**	**49,219**	**101,459**	**30,111**	**39,193**	**20,061**	**131,686**	**(51,225)**	**521,287**
Net interest income	**1,835**	**1,072**	**1,199**	**2,351**	**1,116**	**1,256**	**1,123**	**1,204**	**–**	**11,156**
Net interest margin (%)	**1.6**	**1.2**	**2.4**	**2.3**	**3.7**	**3.2**	**5.6**	**0.9**		**2.1**

1 Americas, UK & Europe includes total assets employed of $122,182 million in respect of the UK, the Company's country of domicile

2 The analysis of loans and advances to customers is based on the location of the customer rather than booking location of the loan

	2012									
	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe[1] $million	Intra-group/ tax assets $million	Total $million
Total assets employed	130,601	107,973	62,903	112,476	36,935	46,219	20,890	179,516	(66,305)	631,208
Of which :										
Loans to customers[2]	53,330	51,318	36,165	54,730	23,994	25,200	11,304	28,575	–	284,616
Average interest-earning assets	107,434	76,689	54,064	98,695	29,796	36,806	18,177	114,768	(52,938)	483,491
Net interest income	1,716	1,144	1,335	2,232	1,050	1,230	976	1,098	–	10,781
Net interest margin (%)	1.6	1.5	2.5	2.3	3.5	3.3	5.4	1.0	–	2.2

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

2 The analysis of loans and advances to customers is based on the location of the customer rather than booking location of the loan

Notes to the financial statements continued

2. Segmental Information continued

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

2013

	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Non-interest bearing current and demand accounts	9,166	8,654	50	3,376	2,169	10,309	5,465	6,293	45,482
Interest bearing current accounts and savings deposits	59,348	30,851	19,157	28,230	1,826	4,573	2,429	34,745	181,159
Time deposits	39,476	38,020	12,096	38,175	7,633	12,683	3,985	48,074	200,142
Other deposits	214	1,482	541	1,563	1,557	299	207	2,851	8,714
Total	108,204	79,007	31,844	71,344	13,185	27,864	12,086	91,963	435,497
Deposits by banks	2,091	4,792	1,479	6,926	459	1,574	566	26,639	44,526
Customer accounts	106,113	74,215	30,365	64,418	12,726	26,290	11,520	65,324	390,971
Of which:									
Protected under government insurance schemes	17,875	6,319	25,080	28,655	11,465	2,283	697	–	92,374
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	91,963	435,497
Debt securities in issue:									
Senior debt	144	–	4,094	2,043	–	53	6	18,839	25,179
Other debt securities	2,167	2,621	3,215	3,875	46	–	214	34,095	46,233
Subordinated liabilities and other borrowed funds	1,359	–	635	337	–	24	51	17,991	20,397
Total	111,874	81,628	39,788	77,599	13,231	27,941	12,357	162,888	527,306

The above table includes financial instruments held at fair value (see note 15).

2012

	Hong Kong $million	Singapore $million	Korea $million	Other Asia Pacific $million	India $million	Middle East & Other S Asia $million	Africa $million	Americas, UK & Europe $million	Total $million
Non-interest bearing current and demand accounts	8,178	9,260	49	3,529	2,691	9,223	4,380	4,920	42,230
Interest bearing current accounts and savings deposits	56,261	28,978	21,368	30,481	2,224	4,159	2,392	27,240	173,103
Time deposits	35,224	37,968	16,989	38,596	7,380	12,367	3,318	49,281	201,123
Other deposits	199	242	595	915	1,636	455	163	1,851	6,056
Total	99,862	76,448	39,001	73,521	13,931	26,204	10,253	83,292	422,512
Deposits by banks	1,585	2,005	1,769	5,628	441	1,934	540	23,493	37,395
Customer accounts	98,277	74,443	37,232	67,893	13,490	24,270	9,713	59,799	385,117
Of which:									
Protected under government insurance schemes	16,194	6,279	24,692	30,586	11,248	1,383	1,543	–	91,925
Other accounts	82,083	68,164	12,540	37,307	2,242	22,887	8,170	59,799	293,192
	99,862	76,448	39,001	73,521	13,931	26,204	10,253	83,292	422,512
Debt securities in issue:									
Senior debt	1,291	–	4,038	1,485	–	69	6	14,767	21,656
Other debt securities	5	1,903	1,999	3,617	47	–	294	31,719	39,584
Subordinated liabilities and other borrowed funds	1,454	–	871	349	–	29	62	15,823	18,588
Total	102,612	78,351	45,909	78,972	13,978	26,302	10,615	145,601	502,340

The above table includes financial instruments held at fair value (see note 15).

2. Segmental Information continued

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

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

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

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

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

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

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

Notes to the financial statements continued

2. Segmental Information continued

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

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

3. Interest income

	2013 $million	2012 $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	**13,109**	13,182
Listed debt securities	**709**	781
Unlisted debt securities	**1,566**	1,521
Accrued on impaired assets (discount unwind)	**93**	77
	17,593	17,827
Of which from financial instruments held at:		
Amortised cost	**14,910**	14,361
Available-for-sale	**2,132**	2,411
Held at fair value through profit or loss	**551**	1,055

4. Interest expense

	2013 $million	2012 $million
Deposits by banks	**388**	532
Customer accounts:		
Interest bearing current accounts and savings deposits	**1,014**	1,277
Time deposits	**3,370**	3,529
Debt securities in issue	**1,010**	1,139
Subordinated liabilities and other borrowed funds:		
Wholly repayable within five years	**160**	124
Other	**495**	445
	6,437	7,046
Of which from financial instruments held at:		
Amortised cost	**5,843**	6,331
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**	381
Wealth Management	**1,047**	875
Deposits	**221**	225
Mortgages and Auto Finance	**117**	91
Others	**1**	79
	1,798	1,651
Wholesale Banking		
Lending and Portfolio Management	**80**	87
Transaction Banking	**1,365**	1,439
Financial Markets	**356**	230
Corporate Finance	**502**	670
Others	**–**	2
	2,303	2,428
Net fee and commission income	**4,101**	4,079

Total fee income arising from financial instruments that are not fair valued through profit or loss is $1,584 million (2012: $1,583 million) and arising from trust and other fiduciary activities of $162 million (2012: $118 million).

Total fee expense arising from financial instruments that are not fair valued through profit or loss is $98 million (2012: $83 million) and arising from trust and other fiduciary activities of $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]	**1,118**	1,498
Trading securities	**(203)**	648
Interest rate derivatives	**889**	428
Credit and other derivatives	**633**	28
	2,437	2,602
Gains less losses from fair value hedging:		
Gains less losses from fair value hedged items	**1,307**	10
Gains less losses from fair value hedging instruments	**(1,322)**	(13)
	(15)	(3)
Gains less losses on instruments designated at fair value:		
Financial assets designated at fair value through profit or loss	**97**	229
Financial liabilities designated at fair value through profit or loss	**172**	(256)
Own credit adjustment (OCA)	**106**	–
Derivatives managed with financial instruments designated at fair value through profit or loss	**(283)**	167
	92	140
	2,514	2,739

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

[2] Amounts reclassified for consistent presentation

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.

Notes to the financial statements continued

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
Gains arising on repurchase of subordinated liabilities	**–**	90
Rental income from operating lease assets	**485**	347
Gains on disposal of property, plant and equipment	**102**	100
Gain arising on sale of business	**–**	15
Fair value loss on business classified as held for sale	**(49)**	–

8. Operating expenses

	2013 $million	2012 $million
Staff costs:		
Wages and salaries	**4,982**	4,877
Social security costs	**160**	148
Other pension costs (note 35)	**336**	299
Share-based payment costs (note 38)	**264**	374
Other staff costs	**828**	794
	6,570	6,492

Variable compensation is included within wages and salaries. Further details are disclosed in the Directors' remuneration report on page 194. Other staff costs include training and travel costs.

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

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

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

The company employed nil staff at 31 December 2013 (2012: nil) and it incurred costs of $4 million (2012: $3 million).

Details of directors' pay and benefits and interests in shares are disclosed in the Directors' remuneration report on pages 176 to 212.

Transactions with directors, officers and other related parties are disclosed in note 47.

8. Operating expenses continued

Premises and equipment expenses

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

General administrative expenses

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

[1] The UK bank levy is applied on the chargeable equities and liabilities on the Group's consolidated balance sheet. Key exclusions from chargeable equities and liabilities include Tier 1 capital, insured or guaranteed retail deposits, repos secured on certain sovereign debt and liabilities subject to netting

The rate of the levy for 2013 is 0.13 per cent for chargeable short-term liabilities, with a lower rate of 0.065 per cent generally applied to chargeable equity and long-term liabilities (i.e. liabilities with a remaining maturity greater than one year). The rate for 2014 has been increased to 0.156 per cent for qualifying liabilities, with a long-term rate of 0.078 per cent. The charge for 2013 has been reduced by a refund of $31 million relating to prior years, $11 million of which related to 2012

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

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 PLC. They exclude amounts payable for the audit of Standard Chartered PLC'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 PLC are not separately disclosed because such fees are disclosed on a consolidated basis for the Group.

Notes to the financial statements continued

9. Depreciation and amortisation

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

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 charge	**1,597**	1,230
Portfolio impairment charge/(release)	**15**	(35)
	1,612	1,195
Provisions related to credit commitments	**–**	5
Impairment charge/(release) relating to debt securities classified as loans and receivables	**5**	(4)
Total impairment losses and other credit risk provisions	**1,617**	1,196

An analysis of impairment provisions on loans and advances by geography and business is set out within the Risk review on pages 85, 94 and 103.

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 judgment.

Analysis of taxation charge in the year:

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

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

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

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	**6,064**	6,851
Tax at 23.25 per cent (2012: 24.5 per cent)	**1,410**	1,679
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 prior periods	**(25)**	14
Goodwill impairment	**232**	–
Non-deductible expenses	**431**	437
Other items	**(91)**	(33)
Tax on profits on ordinary activities	**1,864**	1,866

	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**	**38**	**44**	(40)	(87)	(127)
Cash flow hedges	**–**	**11**	**11**	–	(19)	(19)
Retirement benefit obligations	**–**	**(21)**	**(21)**	–	14	14
	6	**28**	**34**	(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**	**27**	**36**	(26)	(84)	(110)

Notes to the financial statements continued

13. Dividends

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

[1] The amounts are gross of scrip adjustments

The amounts in the table above reflect the actual dividends per share declared and paid to shareholders in 2013 and 2012. Dividends on ordinary equity shares are recorded in the period in which they are declared and, in respect of the final dividend, have been approved by the shareholders. Accordingly, the final ordinary equity share dividends set out above relate to the respective prior years. The 2012 final dividend of 56.77 cents per ordinary share ($1,366 million) was paid to eligible shareholders on 14 May 2013 and the 2013 interim dividend of 28.80 cents per ordinary share ($696 million) was paid to eligible shareholders on 17 October 2013.

2013 recommended final ordinary equity share dividend

The 2013 final ordinary equity share dividend recommended by the Board is 57.20 cents per share ($1,385 million), which makes the total dividend for 2013 of 86.00 cents per share (2012: 84.00 cents per share). The final dividend will be paid in either pounds sterling, Hong Kong dollars or US dollars on 14 May 2014 to shareholders on the UK register of members at the close of business in the UK (10:00 pm London time) on 14 March 2014, and to shareholders on the Hong Kong branch register of members at the opening of business in Hong Kong (9:00 am Hong Kong time) on 14 March 2014. The 2013 final ordinary equity share dividend will be paid in Indian rupees on 15 May 2014 to Indian Depository Receipt holders on the Indian register at the close of business in India on 14 March 2014.

It is intended that shareholders on the UK register and Hong Kong branch register will be able to elect to receive shares credited as fully paid instead of all or part of the final cash dividend. Details of the dividend arrangements will be sent to shareholders on or around 28 March 2014. Indian Depository Receipt holders will receive their dividend in Indian rupees only.

Preference shares		**2013** **$million**	2012 $million
Non-cumulative irredeemable preference shares:	7⅜ per cent preference shares of £1 each[1]	**11**	11
	8¼ per cent preference shares of £1 each[1]	**13**	13
Non-cumulative redeemable preference shares:	8.125 per cent preference shares of $5 each[1,3]	**75**	75
	7.014 per cent preference shares of $5 each[2]	**53**	53
	6.409 per cent preference shares of $5 each[2]	**48**	48

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

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

[3] On 27 November 2013 these preference shares were redeemed (see note 36)

14. Earnings per ordinary share

	2013 **Profit[1]** **$million**	**2013** **Weighted average number of shares (000)**	**2013** **Per share amount cents**	2012 Profit[1] $million	2012 Weighted average number of shares (000)	2012 Per share amount cents
Basic earnings per ordinary share	**3,989**	**2,426,238**	**164.4**	4,786	2,396,737	199.7
Effect of dilutive potential ordinary shares:						
Options[2]	**–**	**20,671**	**–**	–	24,534	–
Diluted earnings per ordinary share	**3,989**	**2,446,909**	**163.0**	4,786	2,421,271	197.7

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

14. Earnings per ordinary share continued

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

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

[1] The profit amounts represent the profit attributable to ordinary shareholders, which is profit for the year after non-controlling interest and the declaration of dividends payable to the holders of the non-cumulative redeemable preference shares classified as equity (note 13)

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

[3] Amounts have been restated as explained in note 43

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

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.

		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	**2,932**	**–**	**769**	**–**	**–**	**–**	**3,701**
		27,132	**–**	**2,203**	**–**	**–**	**–**	**29,335**
Derivative financial instruments	17	**59,765**	**2,037**	**–**	**–**	**–**	**–**	**61,802**
Loans and advances to banks[1]	18	**–**	**–**	**–**	**–**	**83,702**	**–**	**83,702**
Loans and advances to customers[1]	19	**–**	**–**	**–**	**–**	**290,708**	**–**	**290,708**
Investment securities								
Treasury bills and other eligible bills	21	**–**	**–**	**–**	**26,243**	**–**	**–**	**26,243**
Debt securities	21	**–**	**–**	**–**	**70,546**	**2,828**	**–**	**73,374**
Equity shares	21	**–**	**–**	**–**	**3,099**	**–**	**–**	**3,099**
		–	**–**	**–**	**99,888**	**2,828**	**–**	**102,716**
Other assets	22	**–**	**–**	**–**	**–**	**26,351**	**7,219**	**33,570**
Total at 31 December 2013		**86,897**	**2,037**	**2,203**	**99,888**	**458,123**	**7,219**	**656,367**
Cash and balances at central banks		–	–	–	–	60,537	–	60,537
Financial assets held at fair value through profit or loss								
Loans and advances to banks[1]		677	–	97	–	–	–	774
Loans and advances to customers[1]		4,793	–	185	–	–	–	4,978
Treasury bills and other eligible bills	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	47,133	2,362	–	–	–	–	49,495
Loans and advances to banks[1]	18	–	–	–	–	67,797	–	67,797
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	7,142	28,548
Total at 31 December 2012		72,580	2,362	1,629	95,374	433,229	7,142	612,316

[1] Further analysed in Risk review on pages 99 and 100

15. Financial instruments continued

Liabilities	Notes	Liabilities at fair value Trading $million	Derivatives held for hedging $million	Designated at fair value through profit or loss $million	Amortised cost $million	Non-financial liabilities $million	Total $million
Financial liabilities held at fair value through profit or loss							
Deposits by banks		**–**	**–**	**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	**60,322**	**914**	**–**	**–**	**–**	**61,236**
Deposits by banks	29	**–**	**–**	**–**	**43,517**	**–**	**43,517**
Customer accounts	30	**–**	**–**	**–**	**381,066**	**–**	**381,066**
Debt securities in issue	31	**–**	**–**	**–**	**64,589**	**–**	**64,589**
Other liabilities	32	**–**	**–**	**–**	**21,894**	**5,444**	**27,338**
Subordinated liabilities and other borrowed funds	33	**–**	**–**	**–**	**20,397**	**–**	**20,397**
Total at 31 December 2013		**65,615**	**914**	**17,737**	**531,463**	**5,444**	**621,173**
Financial liabilities held at fair value through profit or loss							
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	46,459	733	–	–	–	47,192
Deposits by banks	29	–	–	–	36,427	–	36,427
Customer accounts	30	–	–	–	372,874	–	372,874
Debt securities in issue	31	–	–	–	55,979	–	55,979
Other liabilities	32	–	–	–	19,547	4,738	24,285
Subordinated liabilities and other borrowed funds	33	–	–	–	18,588	–	18,588
Total at 31 December 2012		51,051	733	18,472	503,415	4,738	578,409

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 which is a sub-committee of the Group Market Risk 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's 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 into 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, among other reasons.

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, the 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.

Day one profit and loss

A financial instrument is initially recognised 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 recognise that initial difference in profit and loss unless the valuation model used is widely accepted and all inputs to the model are observable.

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	**31.12.13**	31.12.12
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 own debit valuation 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. The table on page 266 sets out the significant unobservable inputs used to measure Level 3 instruments.

A sensitivity analysis is presented on page 267 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 Earnings 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 with historical levels with benchmark data.

Debt securities in issue

These debt securities relate to 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

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2013.

Assets	Level 1 $million	Level 2 $million	Level 3 $million	Total $million
Financial instruments held at fair value through profit or loss				
Loans and advances to banks	244	2,223	–	2,467
Loans and advances to customers	–	4,587	720	5,307
Treasury bills and other eligible bills	4,904	257	–	5,161
Debt securities	6,596	5,944	159	12,699
Of which:				
Government bonds	6,396	1,220	–	7,616
Issued by corporates other than financial institutions	79	3,211	159	3,449
Issued by financial institutions	121	1,513	–	1,634
Equity shares	2,797	–	904	3,701
Derivative financial instruments	323	60,881	598	61,802
Of which:				
Foreign exchange	56	41,942	366	42,364
Interest rate	–	16,013	53	16,066
Commodity	267	2,104	–	2,371
Credit	–	573	13	586
Equity and stock index	–	249	166	415
Investment securities				
Treasury bills and other eligible bills	22,701	3,523	19	26,243
Debt securities	24,445	45,493	608	70,546
Of which:				
Government bonds	14,513	5,451	64	20,028
Issued by corporates other than financial institutions	6,480	7,314	493	14,287
Issued by financial institutions	3,452	32,728	51	36,231
Equity shares	1,635	8	1,456	3,099
At 31 December 2013	63,645	122,916	4,464	191,025
Liabilities				
Financial instruments held at fair value through profit or loss				
Deposit by banks	–	1,009	–	1,009
Customer accounts	–	9,897	8	9,905
Debt securities in issue	7	6,777	39	6,823
Short positions	4,917	376	–	5,293
Derivative financial instruments	420	60,375	441	61,236
Of which:				
Foreign exchange	84	41,738	315	42,137
Interest rate	–	15,863	24	15,887
Commodity	336	1,500	–	1,836
Credit	–	874	–	874
Equity and stock index	–	400	102	502
At 31 December 2013	5,344	78,434	488	84,266

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

Notes to the financial statements continued

15. **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.

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 corporate other than financial institutions	132	2,683	172	2,987
Issued by financial institutions	105	2,351	–	2,456
Equity shares	2,029	–	1,125	3,154
Derivative financial instruments	260	48,749	486	49,495
Of which:				
Foreign exchange	41	25,125	401	25,567
Interest rate	–	20,364	9	20,373
Commodity	219	2,151	–	2,370
Credit	–	824	6	830
Equity and stock index	–	285	70	355
Investment securities				
Treasury bills and other eligible bills	22,781	3,901	58	26,740
Debt securities	20,771	44,189	396	65,356
Of which:				
Government bonds	11,809	3,419	87	15,315
Issued by corporate 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 issue	–	5,147	114	5,261
Short positions	4,320	272	–	4,592
Derivative financial instruments	383	46,246	563	47,192
Of which:				
Foreign exchange	72	24,584	411	25,067
Interest rate	–	19,106	33	19,139
Commodity	311	1,173	–	1,484
Credit	–	1,120	10	1,130
Equity and stock index	–	263	109	372
At 31 December 2012	4,771	64,808	677	70,256

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

15. Financial instruments continued

Level 3 movement tables

Financial assets

Assets	Held at fair value through profit or loss				Investment securities			
	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	17	37	–	(18)	51	61
Total losses recognised in other comprehensive income	–	–	–	–	–	(23)	(46)	(69)
Purchases	–	18	264	86	–	6	119	493
Sales	–	(30)	(502)	(11)	(36)	(59)	(446)	(1,084)
Settlements	(103)	(38)	–	(50)	(3)	(100)	–	(294)
Transfers out	–	(44)	–	(1)	–	(56)	(180)	(281)
Transfers in	2	14	–	51	–	462	–	529
At 31 December 2013	720	159	904	598	19	608	1,456	4,464
Total (losses)/gains recognised in the income statement relating to assets held at 31 December 2013	(86)	3	16	24	–	–	3	(40)

Transfers in during the year primarily relate to 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.

Assets	Held at fair value through profit or loss				Investment securities			
	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 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 corporate debt securities 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

Financial liabilities

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

Transfers in during the year primarily relate to certain financial instruments for 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.

The following tables present the Group's primary Level 3 financial instruments which are held at the fair value. The table also presents the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, 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	0	Comparable pricing	Yield	5.2% to 36.0%	8.1%
			Internal pricing model	Equity correlation	40% to 97%	N/A
Asset Backed Securities	293	0	Discounted cash flows	Yield	1.49% to 4.01%	4.3%
			Discounted cash flows	Discount Margin	16.8%	16.8%
Government bonds	83	0	Comparable pricing	Yield	2.6% to 8.5%	5%
Debt securities in issue	0	39	Discounted cash flows	Credit correlation	0.6% to 3.0%	1%
			Internal pricing model	Equity correlation	40% to 97%	N/A
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 (includes private equity investments)	2,360		Comparable pricing	EV/EBITDA multiples	7.3x to 15.2x	8.7x
				P/B multiples	2.6x	2.6x
				P/E multiples	9.0x to 29.1x	17.4x
				Liquidity discount	10.0% to 30.0%	13.8%
Total	4,464	488				

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[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 has 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.

Sensitivities in respect of the fair values of Level 3 assets and liabilities

	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	**904**	**996**	**815**	**1,456**	**1,602**	**1,310**
Treasury Bills	**–**	**–**	**–**	**19**	**19**	**19**
Loan and advances	**712**	**734**	**683**	**–**	**–**	**–**
Derivative financial instruments	**157**	**269**	**111**	**–**	**–**	**–**
Debt securities in issue	**(39)**	**(39)**	**(39)**	**–**	**–**	**–**
At 31 December 2013	**1,893**	**2,122**	**1,726**	**2,083**	**2,249**	**1,916**
Debt securities	176	180	171	396	401	385
Equity shares	1,125	1,237	1,013	1,958	2,167	1,759
Treasury 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

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 IFRS 7. 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 $237 million (2012: $209 million) and available-for-sale by $185 million (2012: $214 million) or decreased fair values of financial instruments held at fair value through profit or loss by $161 million (2012: $208 million) and available-for-sale by $185 million (2012: $210 million).

15. Financial instruments continued

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

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

Deposits and borrowings

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity. Following the adoption of IFRS 13 the Group also adjusts the fair value of deposits and borrowings for own credit adjustment using the principles described above.

Debt securities in issue, subordinated liabilities and other borrowed funds

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

Financial hierarchy for instruments at amortised cost

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

	Level 1	**Level 2**	**Level 3**
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)
Types of financial assets:	Actively traded corporate or other debt	Cash and balances at central banks Loans to banks and other financial institutions	Loans and advances to customers Illiquid or highly structured corporate bonds Illiquid loans and advances
Types of financial liabilities:	Quoted debt securities in issue Quoted subordinated liabilities	Unquoted debt securities in issue Unquoted subordinated liabilities Time deposits by customers Deposits by banks	Illiquid or highly structured debt securities in issue

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.

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

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

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

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

Notes to the financial statements continued

15. Financial instruments continued

Reclassification of financial assets

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

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

			If assets had not been reclassified, fair value gains from 1 January 2013 to 31 December 2013 that would have been recognised within				
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 in 2013 $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**	**6.2**	**214**
From AFS to loans and receivables	**486**	**520**	**–**	**12**	**21**	**5.5**	**626**
	715	**745**	**25**	**12**	**39**		
Of which Asset Backed Securities:							
reclassified to AFS	**46**	**46**	**7**[1]	**–**	**6**		
reclassified to loans and receivables	**614**	**647**	**–**	**33**	**33**		

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

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

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

15. Financial instruments continued

Transfers of financial assets

Transfers where financial assets are not derecognised

Repurchase transactions

The Group enters into collateralised repurchase agreements (repos) and securities borrowing and lending transactions. These transactions typically entitle the Group and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Securities sold subject to repos continue to be recognised on the balance sheet as the Group retains substantially the associated risk and rewards of these securities. The counterparty liability is included in deposits by banks or customer accounts, as appropriate. Assets sold under repurchase agreements are considered encumbered as the group cannot pledge these to obtain funding.

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

Collateral pledged against repurchase agreements	**Fair value through profit and loss $million**	**Available for sale $million**	**Loans and receivables $million**	**Total $million**
On balance sheet				
Treasury bills and other eligible bills	**391**	**256**	**–**	**647**
Debt securities	**1,706**	**1,163**	**–**	**2,869**
Loan and advances to banks and customers	**–**	**–**	**2,714**	**2,714**
Off balance sheet				
Repledged collateral received	**257**	**–**	**1,547**	**1,804**
At 31 December 2013	**2,354**	**1,419**	**4,261**	**8,034**

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

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

Balance sheet liabilities – Repurchase agreements	
Deposits by banks	1,338
Customer accounts	1,917
At 31 December 2012	3,255

Notes to the financial statements continued

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 SEs. The holders of the liability instruments have recourse only to the assets transferred to the SEs. Further details of SEs 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.

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 predetermined 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 on the next page 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) 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.

15. Financial instruments continued

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

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

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

Loans and advances held at fair value through profit or loss

The maximum exposure to credit risk for loans designated at fair value through profit or loss was $1,142 million (2012: $282 million).

The net fair value loss on loans and advances to customers designated at fair value through profit or loss was $(3.3) million (2012: gain $0.2 million). 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

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

	2012			
	Debt securities $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:				
Government securities	10,174			
Other public sector securities	131			
	10,305			
Issued by banks:				
Certificates of deposit	255			
Other debt securities	1,723			
	1,978			
Issued by corporate entities and other issuers:				
Other debt securities	2,932			
Total debt securities	15,215			
Of which:				
Listed on a recognised UK exchange	467	23	–	490
Listed elsewhere	9,086	2,081	949	12,116
Unlisted	5,662	1,050	2,006	8,718
	15,215	3,154	2,955	21,324
Market value of listed securities	9,553	2,104	949	12,606

Financial liabilities held at fair value through profit or loss

The net fair value loss on liabilities designated at fair value through profit or loss was $(219) million for the year (2012: $256 million). Of this, $(106) 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 $(95.6) million (2012: $10.4 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 $597 million higher (2012: $29 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 derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

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

The Group limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business. Details of the amounts available for offset under master netting agreement can be found in the Risk review on page 76.

The Derivatives and Hedging sections of the Risk review on page 114 explain the Group's risk management of derivative contracts and application of hedging.

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 237). The tables below list the types of derivatives that the Group holds for hedge accounting.

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

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

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 $1,322 million (2012: $13 million) compared to net gains arising on the hedged items of $1,307 million (2012: $10 million).

17. Derivative financial instruments continued

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.

	2013 $million	2012 $million
(Losses)/gains reclassified from reserves to income statement	**(6)**	20
(Losses)/gains recognised in operating costs	**(5)**	16
Gains/(losses) recognised in net income	**1**	(4)

The Group 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	**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)

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 of. 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

	2013 $million	2012 $million
Loans and advances to banks	**86,271**	68,676
Individual impairment provision	**(100)**	(103)
Portfolio impairment provision	**(2)**	(2)
	86,169	68,571
Of which: loans and advances held at fair value through profit or loss (note 15)	**(2,467)**	(774)
	83,702	67,797

Analysis of loans and advances to banks by geography are set out in the Risk review section on page 100.

19. Loans and advances to customers

	2013 $million	2012 $million
Loans and advances to customers	**299,460**	287,668
Individual impairment provision	**(2,749)**	(2,330)
Portfolio impairment provision	**(696)**	(722)
	296,015	284,616
Of which: loans and advances held at fair value through profit or loss (note 15)	**(5,307)**	(4,978)
	290,708	279,638

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

Analysis of loans and advances to customers by geography and business and related impairment provisions are set out within the Risk review on page 78.

20. Assets leased to customers

Finance leases and instalment credit

	2013 $million	2012 $million
Finance leases	**519**	576
Instalment credit agreements	**1,945**	2,248
	2,464	2,824

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).

	2013 $million	2012 $million
Minimum lease receivables under finance leases falling due:		
Within one year	**194**	116
Later than one year and less than five years	**199**	370
After five years	**214**	188
	607	674
Interest income relating to future periods	**(88)**	(98)
Present value of finance lease receivables	**519**	576
Of which:		
Falls due within one year	**183**	98
Falls due later than one year and less than five years	**166**	332
Falls due after five years	**170**	146

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).

	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

Notes to the financial statements continued

21. Investment securities

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

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

	2012				
	Debt securities				
	Available-for-sale $million	Loans and receivables $million	Equity shares $million	Treasury bills $million	Total $million
Issued by public bodies:					
Government securities	23,059	390			
Other public sector securities	1,229	–			
	24,288	390			
Issued by banks:					
Certificates of deposit	5,974	–			
Other debt securities	24,195	114			
	30,169	114			
Issued by corporate entities and other issuers:					
Other debt securities	10,899	3,347			
Total debt securities	65,356	3,851			
Of which:					
Listed on a recognised UK exchange	6,858	173[1]	70	–	7,101
Listed elsewhere	22,816	878[1]	1,104	13,039	37,837
Unlisted	35,682	2,800	2,104	13,701	54,287
	65,356	3,851	3,278	26,740	99,225
Market value of listed securities	29,674	1,006	1,174	13,039	44,893

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

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

21. Investment securities continued

The change in the carrying amount of investment securities comprised:

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

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

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

The following table sets out the movement in the allowance of impairment provisions for investment securities classified as loans and receivables.

	2013 $million	2012 $million
At 1 January	**27**	33
Exchange translation differences	**(1)**	–
Amounts written off	**(5)**	(2)
Impairment charge/(release)	**5**	(4)
At 31 December	**26**	27

22. Other assets

	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
Acceptances and endorsements	**5,501**	4,957
Unsettled trades and other financial assets	**7,150**	7,190
	26,351	21,406
Non-financial assets		
Commodities	**3,965**	5,574
Assets held for sale[2]	**1,623**	43
Other	**1,631**	1,525
	33,570	28,548

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

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

Notes to the financial statements continued

22. Other assets continued

The assets and liabilities of the businesses 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 also have total net liabilities due to Group undertakings of $1.1 billion. These liabilities will be transferred to the acquirer 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	**14,369**	14,291
Additions	**5,753**	78
At 31 December	**20,122**	14,369

During the year the Company made a deemed contribution and received a deemed dividend of $253 million (2012: $270 million) on account of share-based payments and made a deemed contribution of $nil million (2012: $78 million) relating to a waiver of an intercompany receivable from Standard Chartered Bank.

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, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100
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	100
Standard Chartered Bank (Singapore) Limited, Singapore	Singapore	100
Standard Chartered Bank (China) Limited, China	China	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 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 the 25.7 per cent non-controlling interests amounting to $98 million (2012: $82 million) in Standard Chartered Bank Kenya Limited. This contributes 1.93 per cent of the Group's operating profit and 0.37 per cent of the Group's assets.

While 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.

23. Investments in subsidiary undertakings, joint ventures and associates continued

Joint ventures

The Group has 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 investments in joint ventures using the 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.

Interests in joint ventures

	2013 $million	2012 $million
At 1 January	**731**	617
Exchange translation difference	**(152)**	(42)
Additions	**9**	90
Share of profits	**73**	66
Share of AFS and Other reserves	**(5)**	–
At 31 December	**656**	731

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 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.

Notes to the financial statements continued

23. Investments in subsidiary undertakings, joint ventures and associates continued

Interests in associates

	2013 $million	2012 $million
At 1 January	**953**	903
Exchange translation difference	**10**	14
Additions	**10**	4
Share of profits	**153**	116
Dividends received	**(5)**	(14)
Share of AFS and Other reserves	**(10)**	–
Impairment	**–**	(70)
At 31 December	**1,111**	953

The Group's principal associates are:

Associate	**Main areas of operation**	**Group interest in ordinary share capital %**
China Bohai Bank	China	19.9
Asia Commercial Bank	Vietnam	15.0
Fleming Family and Partners	United Kingdom	20.0

China Bohai Bank and Asia Commercial Bank provide commercial banking service to retail and wholesale customers. The fair value 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).

The following amounts represent the total profit, assets and liabilities of the Group's associated undertakings:

	2013 $million	2012 $million
Profit for the year	**777**	609
Total assets	**96,596**	79,637
Total liabilities	**(91,807)**	(75,770)
Net assets	**4,789**	3,867

Reconciliation of the above summarised financial information to the carrying amount of the interest in associates recognised in the consolidated financial statements:

	2013 $million	2012 $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

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 narrow and well-defined objectives and are predominately thinly capitalised, 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 272 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 Total assets $million	2012 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 SEs' 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.

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 Asset Backed Securities are set out on page 106 of the Risk review.

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.

Notes to the financial statements continued

24. Structured entities continued

The following table presents the Group's interests in unconsolidated structured entities by balance sheet caption, together with the total assets of the related entities.

	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**	**22**	**–**	**168**	–	156	21	–	177
Investment securities– Debt securities (AFS)	**44**	**6**	**–**	**5,202**	**5,252**	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**	**6,928**	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)

Interest in structured entities arising in the normal course of business

The Group also transacts with SE in the normal course of business. Where the Group transacts with an SE having regard to the design and risks to which that SE is exposed and that transaction results in the Group holding a variable interest in that SE, for the purpose of this disclosure the Group is deemed to have an exposure to an SE that does not arise as part of a normal customer-supplier relationship.

Included within this category are:

- Commercial and corporate finance lending to SEs. These loans were disbursed in the normal course of business and for the vast majority the Group has a guarantee from the operating parent company. As a result, the Group's exposure is to the parent company and not the unconsolidated structured entity. These loans are managed in the same way as all other loans and advances, except that the credit grading applied to these entities is typically CG11
- Trading exposure to SEs, where the Group undertakes derivative transactions with unconsolidated structured entities in the normal course of business. These exposures are managed in the same way as all other derivative exposures and the amounts in the table below reflect the on-balance sheet valuation and not the notional amounts

The table below sets out the Group's exposure to these unconsolidated structured entities as at 31 December 2013.

	Lending $million	**Derivatives $million**	**Total $million**
Loans and advances	**3,212**	**–**	**3,212**
Derivatives	**–**	**105**	**105**
Total	**3,212**	**105**	**3,317**

25. Business Combinations

2013 acquisitions

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

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

2012 acquisitions

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

26. Goodwill and intangible assets

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

At 1 January 2012, the net book value was: goodwill, $6,186 million; acquired intangibles, $239 million; and software, $466 million.

At 31 December 2013, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to $1,069 million (2012: $69 million), of which $1 billion recognised in 2013 related to goodwill held against Korea.

	2013 $million	2012 $million
Acquired intangibles comprise:		
Core deposits	**12**	18
Customer relationships	**115**	125
Brand names	**19**	31
Licences	**2**	3
Net book value	**148**	177

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).

Notes to the financial statements continued

26. Goodwill and intangible assets continued

Testing of goodwill for impairment

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

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

Methodology for determining value-in-use

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

27. Property, plant and equipment

	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 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, transferred 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.

28. Deferred tax

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 $million**	**Charge/(credit) to profit $million**	**Charge/(credit) to equity $million**	**At 31 December 2013 $million**
Deferred taxation comprises:						
Accelerated tax depreciation	**128**	**(5)**	**–**	**91**	**–**	**214**
Impairment provisions on loans and advances	**(154)**	**11**	**–**	**(87)**	**–**	**(230)**
Tax losses carried forward	**(476)**	**11**	**–**	**43**	**–**	**(422)**
Available-for-sale assets	**86**	**(1)**	**–**	**(5)**	**(38)**	**42**
Premises revaluation	**–**	**–**	**–**	**–**	**–**	**–**
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**	**(15)**	**7**	**123**	**–**	**184**
Net deferred tax assets	**(515)**	**2**	**7**	**180**	**(27)**	**(353)**

	At 1 January 2012 $million	Exchange & other adjustments $million	Acquisitions $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)	(1)	–	17	(8)	(80)
Other temporary differences	(31)	(4)	–	104	–	69
Net deferred tax assets	(687)	16	–	72	84	(515)

Notes to the financial statements continued

28. **Deferred tax** continued

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	**214**	**(7)**	**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	**42**	**27**	**15**	86	51	35
Premises revaluation	**–**	**–**	**–**	–	–	–
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)
	(353)	**(529)**	**176**	(515)	(676)	161

Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

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 $353 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 five years. The tax losses expire after 10 years.

$35 million of the deferred tax asset relating to losses has arisen in Australia, where there 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.

	2013 $million	2012 $million
No account has been taken of the following potential deferred taxation assets/(liabilities):		
Withholding tax on unremitted earnings from overseas subsidiaries	**(328)**	(316)
Foreign exchange movements on investments in branches	**(85)**	36
Tax losses	**106**	112
Held over gains on incorporation of overseas branches	**(506)**	(496)

29. Deposits by banks

	2013 $million	2012 $million
Deposits by banks	**43,517**	36,427
Deposits by banks included within:		
Financial liabilities held at fair value through profit or loss (note 15)	**1,009**	968
	44,526	37,395

30. Customer accounts

	2013 $million	2012 $million
Customer accounts	**381,066**	372,874
Customer accounts included within:		
Financial liabilities held at fair value through profit or loss (note 15)	**9,905**	12,243
	390,971	385,117

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

31. Debt securities in issue

	2013			2012		
	Certificates of deposit of $100,000 or more $million	Other debt securities in issue $million	Total $million	Certificates of deposit of $100,000 or more $million	Other debt securities in issue $million	Total $million
Debt securities in issue	**21,082**	**43,507**	**64,589**	16,982	38,997	55,979
Debt securities in issue included within:						
Financial liabilities held at fair value through profit or loss (note 15)	**141**	**6,682**	**6,823**	165	5,096	5,261
	21,223	**50,189**	**71,412**	17,147	44,093	61,240

32. Other liabilities

	2013 $million	2012 $million
Financial liabilities held at amortised cost (note 15)		
Notes in circulation	**4,460**	4,191
Acceptances and endorsements[1]	**5,501**	4,900
Cash collateral	**5,147**	3,245
Unsettled trades and other financial liabilities	**6,786**	7,211
	21,894	19,547
Non-financial liabilities		
Cash-settled share-based payments	**73**	84
Liabilities held for sale[2]	**344**	–
Other liabilities	**5,027**	4,654
	27,338	24,285

[1] Hong Kong currency notes in circulation of $4,460 million (2012: $4,191 million) that are secured by the government of Hong Kong SAR certificates of indebtedness of the same amount included in other assets (note 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 disclosed here are classified as level 2

Notes to the financial statements continued

33. Subordinated liabilities and other borrowed funds

	2013 $million	2012 $million
Subordinated loan capital – issued by subsidiary undertakings		
£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
€1.1 billion 5.875 per cent subordinated notes 2017	1,704	1,706
€675 million floating rate subordinated notes 2018 (callable 2013)	–	890
$1.5 billion 9.5 per cent Step up perpetual preferred securities (callable 2014)	1,542	1,582
$1 billion 6.4 per cent subordinated notes 2017	1,134	1,188
$750 million 5.875 per cent subordinated notes 2020	789	847
$700 million 8.0 per cent subordinated notes 2031	592	675
$100 million floating rate subordinated notes 2018 (callable 2013)	–	100
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
JPY 10 billion 3.35 per cent subordinated notes 2023 (callable 2018)	101	128
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
SGD 450 million 5.25 per cent subordinated notes 2023 (callable and floating rate from 2018)	380	408
TWD 10 billion 2.9 per cent subordinated debt 2019 (callable 2014)	337	348
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
	11,415	13,687
Issued by Company:		
Primary capital floating rate notes		
$400 million	44	44
$300 million (Series 2)	80	80
$400 million (Series 3)	64	64
$200 million (Series 4)	50	50
£150 million	50	50
$2 billion 3.95 per cent subordinated debt 2023	1,823	–
$1.25 billion 4.0 per cent subordinated notes 2022 (callable 2017)	1,238	1,255
$1 billion 5.7 per cent subordinated notes 2022	939	1,022
$1 billion 5.2 per cent subordinated debt 2024	995	–
$750 million 5.3 per cent subordinated debt 2043	611	–
€1.25 billion 4 per cent subordinated debt 2025 (callable 2020)	1,722	–
€750 million 3.625 per cent subordinated notes 2022	1,000	1,000
Other borrowings – issued by company[1,2]	366	1,336
	8,982	4,901
Total for Group	20,397	18,588

[1] In the balance sheet of the Company the amount recognised is $339 million (2012: $1,241 million) with the difference being the effect of hedge accounting achieved on a Group basis

[2] Other borrowings comprise irredeemable sterling preference shares (note 36) and US dollar non-cumulative redeemable preference shares

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	**9,663**	**3,922**	**4,426**	**2,060**	7,512	4,638	2,706	2,400
Floating rate subordinated debt	**238**	**50**	**–**	**38**	338	50	890	54
Total	**9,901**	**3,972**	**4,426**	**2,098**	7,850	4,688	3,596	2,454

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

Issuances

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

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

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

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

Redemptions

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

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

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

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

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

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

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

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

- $22 million 9.75 per cent fixed to floating interest rate note 2021 (callable and floating rate from 2016)
- IDR 700 billion 8.9 per cent subordinated notes 2019
- IDR 1,750 billion 11.0 per cent subordinated notes 2018
- IDR 1,800 billion 9.4 per cent subordinated notes 2019

34. Provisions for liabilities and charges

	Provision for credit commitments $million	**Other provisions $million**	**Total $million**
At 1 January 2013	**30**	**185**	**215**
Exchange translation differences	**–**	**(2)**	**(2)**
Charge against profit	**–**	**20**	**20**
Provisions utilised	**(6)**	**(120)**	**(126)**
At 31 December 2013	**24**	**83**	**107**

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 settlements, legal claims and restructuring.

Notes to the financial statements continued

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 obligation	**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

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 Group (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 per cent 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 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 are 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 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. While changes in other assumptions would also have an impact, the effect would not be as significant.

	Unfunded schemes			
	Post-retirement medical[1]		**Other[2]**	
	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

1 The post-retirement medical plan is in the US

2 The range of assumptions shown is for the main Unfunded schemes in India, Indonesia, the 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[1]	**(1,855)**	**(875)**	**(26)**	**(170)**	(1,795)	(854)	(28)	(159)
Net pension liability	**(23)**	**(122)**	**(26)**	**(170)**	(93)	(190)	(28)	(159)

1 Includes $1 million (2012: $nil) impact as a result of unrecognised surplus in Kenya

Notes to the financial statements continued

35. Retirement benefit obligations continued

The pension cost for defined benefit schemes was:

	Funded defined benefit schemes		**Unfunded schemes**		
Year ending 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**
Gain 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 statement of 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 ending 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
Gain 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[1]	(53)	(22)	–	–	(75)
Loss on liabilities	115	28	–	8	151
Total loss recognised directly in statement of comprehensive income before tax	62	6	–	8	76
Deferred taxation	(14)	–	–	–	(14)
Total loss after tax	48	6	–	8	62

[1] The actual return on the UK fund assets was $133 million and on overseas scheme assets was $54 million

35. Retirement benefit obligations continued

Movement in the defined benefit pension schemes and post-retirement medical deficit during the year comprise:

	Funded defined benefit schemes		Unfunded schemes		
Year ending 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 asset/liability	**(2)**	**(4)**	**(1)**	**(8)**	**(15)**
Actuarial gains	**14**	**50**	**3**	**12**	**79**
Exchange rate adjustment	**2**	**–**	**–**	**(1)**	**1**
Deficit at 31 December 2013	**(23)**	**(122)**	**(26)**	**(170)**	**(341)**

Movement in the defined benefit pension schemes and post-retirement medical deficit during the year comprise:

	Funded defined benefit schemes		Unfunded schemes		
Year ending 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)

Movement in pension schemes and post-retirement medical gross assets and obligations during the year comprise:

Year ending 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 $14 million loss from experience

Year ending 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)

Notes to the financial statements continued

36. Share capital, reserves and own shares

Share capital

In 2010 the Company amended its Articles of Association to remove the provision for authorised share capital following an amendment to corporate law in the UK through the Companies Act 2006.

The available profits of the company are distributed to the holders of the issued preference shares in priority to payments made to holders of the ordinary shares and in priority to, or pari passu with, any payments to the holders of any other class of shares in issue. On a winding up, the assets of the Company are applied to the holders of the preference shares in priority to any payment to the ordinary shareholders and in priority to, or pari passu with, the holders of any other shares in issue, for an amount equal to any dividends accrued and/or payable and the nominal value of the shares together with any premium as determined by the Board. The redeemable preference shares are redeemable at the paid up amount (which includes premium) at the option of the Company in accordance with the terms of the shares. The holders of the preference shares are not entitled to attend or vote at any general meeting except where any relevant dividend due is not paid in full or where a resolution is proposed varying the rights of the preference shares. The nominal value of each ordinary share is 50 cents.

At 31 December 2013 and 2012, the company has 15,000 $5 non-cumulative redeemable preference shares in issue, which were issued at their nominal value with no premium and are classified in equity.

At 31 December 2012, the company had 462,500 $5 non-cumulative redeemable preference shares in issue classified within subordinated liabilities and other borrowed funds and included a premium of $923 million. On 27 November 2013, in accordance with its Articles of Association the Company redeemed all these shares at the issued value.

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.

Group and Company

	Number of ordinary shares millions	Ordinary share capital $million	Preference share capital $million	Total $million
At 1 January 2012	2,384	1,192	–	1,192
Capitalised on scrip dividend	25	13	–	13
Shares issued	4	2	–	2
At 31 December 2012	**2,413**	**1,207**	**–**	**1,207**
Capitalised on scrip dividend	**4**	**2**	**–**	**2**
Shares issued	**10**	**5**	**–**	**5**
At 31 December 2013	**2,427**	**1,214**	**–**	**1,214**

2013

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

During the year 10,542,375 new ordinary shares were issued under employee share plans at prices between nil and 1,463 pence.

2012

On 14 May 2012, the Company issued 6,961,782 new ordinary shares instead of the 2011 final dividend and on 11 October 2012 the Company issued 18,454,741 new ordinary shares instead of the 2012 interim dividend.

During the year 3,559,652 new ordinary shares were issued under employee share plans at prices between nil and 1,463 pence.

Reserves

Transaction costs relating to share issues deducted from reserves account total $149 million (2012: $149 million).

The cumulative amount of goodwill on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is $27 million (2012: $27 million).

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 merger reserve represents the premium arising on shares issued using a cash box financing structure, which required the Company to create a merger reserve under section 612 of the Companies Act 2006. Shares were issued using this structure in 2005 and 2006 to assist in the funding of certain acquisitions, in 2008 and 2010 for the shares issued by way of a rights issue, and for the shares issued in 2009 in the placing. The funding raised by the 2008 and 2010 rights issues and 2009 share issue was retained within the Company.

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.

The 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 held (treasury shares).

36. Share capital, reserves and own shares continued

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.

Own shares

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

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

	1995 Trust		**2004 Trust**		**Total**	
Number of shares	**2013**	2012	**2013**	2012	**2013**	2012
Shares purchased	**4,855,145**	15,984,057	**790,829**	977,761[1]	**5,645,974**	16,961,818
Market price of shares purchased ($ million)	**133**	386	**21**	25	**154**	411
Shares held at the end of the year	**5,575,821**	6,809,269[2]	**141,160**	211,415	**5,716,981**	7,020,684
Maximum number of shares held during year					**7,278,439**	18,321,546

1 The acquisition of shares in the year to 31 December 2012 was overstated by 4,472 shares in the 2012 accounts and has therefore been restated

2 The closing balance at 31 December 2012 was understated by 894 shares in the 2012 accounts and has therefore been restated

37. Non-controlling interests

	$300m 7.267% Hybrid Tier 1 securities $million	**Other non-controlling interests $million**	**Total $million**
At 1 January 2012	320	341	661
Expenses in equity attributable to non-controlling interests	–	(14)	(14)
Other profits attributable to non-controlling interests	22	76	98
Comprehensive income for the year	22	62	84
Distributions	(22)	(38)	(60)
Other increases	–	8	8
At 31 December 2012	**320**	**373**	**693**
Expenses in equity attributable to non-controlling interests	**–**	**(31)**	**(31)**
Other profits attributable to non-controlling interests	**22**	**88**	**110**
Comprehensive income for the year	**22**	**57**	**79**
Distributions	**(22)**	**(55)**	**(77)**
Other decreases	**–**	**(100)**	**(100)**
At 31 December 2013	**320**	**275**	**595**

The $300 million 7.267% Hybrid Tier 1 securities were issued by Standard Chartered Bank Korea Limited, a wholly owned subsidiary of the Group, and are classified in equity. The Group has no interest in these securities.

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			2012		
	Cash $million	**Equity $million**	**Total $million**	Cash $million	Equity $million	Total $million
Deferred share awards	**12**	**219**	**231**	32	292	324
Other share awards	**9**	**24**	**33**	5	45	50
Total share-based payments	**21**	**243**	**264**	37	337	374

Notes to the financial statements continued

38. Share-based payments continued

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.

Valuation

The fair value, for all employees including directors, is based 100 per cent of the face value of the share at 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**	20 June	13 March
Share price at grant date (£)	**14.62**	**18.22**	14.17	15.65
Vesting period (years)	**1/2/3**	**1/2/3**	1/2/3	1/2/3
Expected dividend yield (%)	**n/a**	**n/a**	n/a	n/a
Fair value (£)	**14.62**	**18.22**	14.17	15.65

Deferred awards accrue dividend equivalent payments during the vesting period.

38. Share-based payments continued

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 expected 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 10th, 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 (2001 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.

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.

38. Share-based payments continued

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

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 (£)	–	–	–	–	–	–	5.82-7.89		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 and other adjustments included within income statement

	Group		Company	
	2013 $million	2012 $million	**2013 $million**	2012 $million
Amortisation of discounts and premiums of investment securities	**(206)**	(442)	**–**	–
Interest expense on subordinated liabilities	**655**	569	**298**	186
Interest expense on senior debt securities in issue	**492**	418	**346**	–
Other non-cash items (including own credit adjustment)	**173**	120	**(36)**	(143)
Pension costs for defined benefit schemes	**119**	96	**–**	–
Share-based payment costs	**264**	374	**–**	–
UK bank levy	**55**	10	**–**	–
Impairment losses on loans and advances and other credit risk provisions	**1,617**	1,196	**–**	–
Dividend income from subsidiaries	**–**	–	**(2,096)**	(1,433)
Other impairment	**1,129**	196	**–**	–
Loss on business classified as held for sale	**49**	–	**–**	–
Profit from associates and joint ventures	**(226)**	(116)	**–**	–
Total	**4,121**	2,421	**(1,488)**	(1,390)

Change in operating assets

	Group		Company	
	2013 $million	2012 $million	**2013 $million**	2012 $million
(Increase)/decrease in derivative financial instruments	**(13,065)**	18,684	**(50)**	(401)
Decrease/(increase) in debt securities, treasury bills and equity shares held at fair value through profit or loss	**5,220**	(3,077)	**–**	–
Net increase in loans and advances to banks and customers	**(29,918)**	(20,925)	**–**	–
Increase in pre-payments and accrued income	**(8)**	(39)	**–**	–
Increase in other assets	**(6,373)**	(3,052)	**–**	(317)
Total	**(44,144)**	(8,409)	**(50)**	(718)

Change in operating liabilities

	Group		Company	
	2013 $million	2012 $million	**2013 $million**	2012 $million
Increase/(decrease) in derivative financial instruments	**14,804**	(18,968)	**346**	(43)
Net increase in deposits from banks, customer accounts, debt securities in issue, Hong Kong notes in circulation and short positions	**28,996**	37,826	**1,330**	4,286
(Decrease)/increase in accruals and deferred income	**(39)**	113	**112**	123
Increase/(decrease) in other liabilities	**1,387**	(1)	**(515)**	738
Total	**45,148**	18,970	**1,273**	5,104

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	**–**	–
Less restricted balances	**(9,946)**	(9,336)	**–**	–
Treasury bills and other eligible bills	**6,561**	3,101	**–**	–
Loans and advances to banks	**29,509**	23,909	**–**	–
Trading securities	**3,498**	1,307	**–**	–
Amounts owed by and due to subsidiary undertakings	**–**	–	**18,558**	16,879
Total	**84,156**	79,518	**18,558**	16,879

Notes to the financial statements continued

41. Capital commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

	2013 **$million**	2012 $million
Contracted	**11**	51

42. Operating lease commitments

	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).

43. Restatement of prior year

The Group has introduced the following changes in its financial statements and has re-presented prior year balances on a similar basis to enhance the comparability of information presented.

Restatements impacting 31 December 2012

- **Application of IFRS 11 Joint Arrangements as discussed in Note 1**
  The Group's investment in Permata has been presented using the equity method of accounting, applied on a retrospective basis. There is no impact on the profit for the period or Shareholders' equity, however, profit before taxation is lower as a result of profits from joint ventures being reported on a net of tax basis (see pages 303 and 306).

- **Allocation of associates and joint ventures to Consumer Banking and Wholesale Banking**
  The Group's profits and interests in associates are allocated to Consumer Banking and Wholesale Banking. The associates balances were previously reported as corporate items not allocated. Joint venture balances were previously allocated to Consumer Banking and Wholesale Banking on a line by line basis and has been presented within the line following adoption of IFRS 11 (see page 306).

  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 306).

The impact of the above restatements on the primary statements is set out on pages 303 to 306.

43. Restatement of prior year continued

Income statement

	Notes	As reported 2012 $million	Permata restatement $million	Restated 2012 $million
Interest income	3	18,258	(431)	17,827
Interest expense	4	(7,248)	202	(7,046)
Net interest income		11,010	(229)	10,781
Fees and commission income	5	4,618	(43)	4,575
Fees and commission expense	5	(497)	1	(496)
Net trading income	6	2,748	(9)	2,739
Other operating income	7	1,192	(8)	1,184
Non-interest income		8,061	(59)	8,002
Operating income		19,071	(288)	18,783
Staff costs	8	(6,584)	92	(6,492)
Premises costs	8	(886)	23	(863)
General administrative expenses	8	(2,758)	51	(2,707)
Depreciation and amortisation	9	(668)	8	(660)
Operating expenses		(10,896)	174	(10,722)
Operating profit before impairment losses and taxation		8,175	(114)	8,061
Impairment losses on loans and advances and other credit risk provisions	10	(1,221)	25	(1,196)
Other impairment	11	(194)	(2)	(196)
Profit from associates and joint ventures		116	66	182
Profit before taxation		6,876	(25)	6,851
Taxation	12	(1,891)	25	(1,866)
Profit for the year		4,985	–	4,985

Statement of other comprehensive income

	Notes	As reported 2012 $million	Permata restatement $million	Restated 2012 $million
Profit for the year		4,985	–	4,985
Other comprehensive income:				
Items that will not be reclassified to Income statement:				
Actuarial losses on retirement benefit obligations	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		6,107	–	6,107

Notes to the financial statements continued

43. 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	68,381	(584)	67,797
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	28,818	(270)	28,548
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	7,312	(167)	7,145
Property, plant and equipment	27	6,646	(26)	6,620
Deferred tax assets	28	691	(15)	676
Total assets		636,518	(5,310)	631,208
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	47,192	–	47,192
Debt securities in issue	15, 31	55,979	–	55,979
Other liabilities	15, 32	24,504	(219)	24,285
Current tax liabilities		1,069	(3)	1,066
Accruals and deferred income		4,860	(49)	4,811
Subordinated liabilities and other borrowed funds	15, 33	18,799	(211)	18,588
Deferred tax liabilities	28	161	–	161
Provisions for liabilities and charges	34	215	–	215
Retirement benefit obligations	35	504	(13)	491
Total liabilities		590,463	(5,310)	585,153
Equity				
Share capital	36	1,207	–	1,207
Reserves		44,155	–	44,155
Total parent company shareholders' equity		45,362	–	45,362
Non-controlling interests	37	693	–	693
Total equity		46,055	–	46,055
Total equity and liabilities		636,518	(5,310)	631,208

43. Restatement of prior year continued

Cash flow statement

	Notes	As reported 2012 $million	Permata restatement $million	Restated 2012 $million
Cash flows from operating activities				
Profit before taxation		6,876	(25)	6,851
Adjustments for:				
Non-cash items and other adjustments included within income statement	39	2,465	(44)	2,421
Change in operating assets	39	(15,882)	7,473	(8,409)
Change in operating liabilities	39	26,416	(7,446)	18,970
Contributions to defined benefit schemes		(204)	1	(203)
UK and overseas taxes paid		(1,791)	24	(1,767)
Net cash from operating activities		17,880	(17)	17,863
Net cash flows from investing activities				
Purchase of property, plant and equipment		(168)	6	(162)
Disposal of property, plant and equipment		195	–	195
Acquisition or 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				
Issue of ordinary and preference share capital, net of expenses		59	–	59
Purchase of own shares		(425)	–	(425)
Exercise of share options through ESOP		39	–	39
Interest paid on subordinated liabilities		(871)	(118)	(989)
Gross proceeds from issue of subordinated liabilities		3,390	–	3,390
Repayment of subordinated liabilities		(1,701)	–	(1,701)
Interest paid on senior debts		(867)	–	(867)
Gross proceeds from issue of senior debts		11,453	–	11,453
Repayment of senior debts		(5,938)	–	(5,938)
Dividends paid to non-controlling interests and preference shareholders, net of scrip		(161)	–	(161)
Dividends paid to ordinary shareholders, net of scrip		(1,306)	–	(1,306)
Net cash from financing activities		3,672	(118)	3,554
Net increase 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

Notes to the financial statements continued

43. Restatement of prior year continued

Restatement by class of business

The Group's profits and interests in associates are allocated to CB and WB. The associates balances were previously reported as corporate items not allocated. Joint venture balances were previously allocated to CB and WB 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 $million	Wholesale Banking $million	Corporate items not allocated $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Corporate items not allocated $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Corporate items not allocated $million	Total reportable segments $million
Operating income	7,202	11,779	90	19,071	(181)	(107)	–	(288)	7,021	11,672	90	18,783
Operating expenses	(4,723)	(5,999)	(174)	(10,896)	127	47	–	174	(4,596)	(5,952)	(174)	(10,722)
Operating profit before impairment losses and taxation	2,479	5,780	(84)	8,175	(54)	(60)	–	(114)	2,425	5,720	(84)	8,061
Impairment losses on loans and advances and other credit risk provisions	(697)	(524)	–	(1,221)	23	2	–	25	(674)	(522)	–	(1,196)
Other impairment	(4)	(120)	(70)	(194)	(41)	(31)	70	(2)	(45)	(151)	–	(196)
Profit from associates	–	–	116	116	43	139	(116)	66	43	139	–	182
Profit before taxation	1,778	5,136	(38)	6,876	(29)	50	(46)	(25)	1,749	5,186	(84)	6,851
Total assets employed	143,250	491,409	1,859	636,518	(4,551)	(6,936)	6,177	(5,310)	138,699	484,473	8,036	631,208
Total liabilities employed	189,779	399,454	1,230	590,463	(3,452)	(1,855)	(3)	(5,310)	186,327	397,599	1,227	585,153

Reclassification of financial liabilities

	As reported 2012			Restatements 2012			Restated 2012		
	Trading $million	Designated at fair value through profit or loss $million	Total $million	Trading $million	Designated at fair value through profit or loss $million	Total $million	Trading $million	Designated at fair value through profit or loss $million	Total $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

44. Contingent liabilities and commitments

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

	2013 $million	2012 $million
Contingent liabilities		
Guarantees and irrevocable letters of credit	**36,936**	34,258
Other contingent liabilities	**10,002**	10,035
	46,938	44,293
Commitments		
Documentary credits and short-term trade-related transactions	**7,409**	7,610
Forward asset purchases and forward deposits placed	**459**	711
Undrawn formal standby facilities, credit lines and other commitments to lend:		
One year and over	**43,294**	39,294
Less than one year	**17,983**	17,353
Unconditionally cancellable	**123,481**	110,138
	192,626	175,106

The Group's share of contingent liabilities and commitments relating to joint venture is $388 million (2012: $348 million).

Contingent liabilities

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 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.

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.

45. 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 sections are set out on pages 67 and 68 of Risk review.

46. Post balance sheet events

On 1 January 2014 the Group adopted a new regional geographic structure in order to better align with how the Group is managed. The new regions are Greater China (including Hong Kong); Northeast Asia (including Korea); ASEAN (including Singapore); South Asia (including India); Middle East, North Africa and Pakistan; Africa; Americas; and Europe.

On 9 January 2014 the Group announced that with effect from 1 April 2014 the two businesses of the Group, WB and CB would be integrated to form one business. The new business will be organised into three client 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.

47. Related party transactions

Directors and officers

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

IAS 24 'Related party disclosures' requires the following additional information for key management compensation. Key management comprises non-executive directors, executive directors of Standard Chartered PLC and the Court Directors of Standard Chartered Bank.

	2013 **$million**	2012 $million
Salaries, allowances and benefits in kind	**25**	21
Pension contributions	**5**	5[1]
Bonuses paid or receivable	**7**	10
Share-based payments	**28**	35
	65	71

[1] The 2012 pension balance has been restated (previously stated as $6 million). In addition, for 2013 the methodology for calculating pension value has been changed to be consistent with the new UK remuneration reporting requirements. The change in methodology does not affect the restated 2012 figure as the difference in value is not material

Transactions with directors, officers and others

At 31 December 2013, the total amounts to be disclosed under the Companies Act 2006 (the Act) and the Listing Rules of the Hong Kong Stock Exchange Limited (HK Listing Rules) about loans to directors and officers were as follows:

	2013		2012	
	Number	**$000**	Number	$000
Directors	**5**	**6,446**	4	4,898
Officers[1]	**–**	**–**	1	18

[1] For 2012 disclosure, the term 'Officers' means the members of the Executive Management Group, other than those who were directors of Standard Chartered PLC and the Group Company Secretary

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.

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

Associates

The Group has loans and advances to Merchant Solutions and China Bohai Bank totalling $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).

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).

Company

The Company has received $663 million (2012: $510 million) of interest income from Standard Chartered Bank. The Company issues debt externally and lends proceeds to Group companies. At 31 December 2013, it had loans to and debt instruments issued by Standard Chartered Bank of $14,253 million (2012: $13,436 million), derivative financial assets of $1,053 million (2012: $1,002 million) and $346 million derivative financial liabilities (2012: $nil million) with Standard Chartered Bank, loans of $1,699 million (2012: $1,770 million) to Standard Chartered Holdings Limited. At 31 December 2013, it had loans to Standard Chartered International Holdings of $619 million (2012: $nil).

In 2006, the Company licensed intellectual property rights related to the Company's main brands to an indirect wholly owned subsidiary, Standard Chartered Strategic Brand Management Limited, the income from which is held on the Company's balance sheet and released over the term of licence, which expires in 2015. At 31 December 2013, $36 million (2012: $54 million) has been included as deferred income in the Company balance sheet in relation to this licence.

The Company has an agreement with Standard Chartered Bank that in the event of Standard Chartered Bank defaulting on its debt coupon interest payments, where the terms of such debt requires it, the Company shall issue shares as settlement for non-payment of the coupon interest.

48. Standard Chartered PLC (Company)

Classification and measurement of financial instruments

	2013			2012		
Financial assets	**Derivatives held for hedging $million**	**Amortised cost $million**	**Total $million**	Derivatives held for hedging $million	Amortised cost $million	Total $million
Derivatives	**1,053**	**–**	**1,053**	1,002	–	1,002
Debt securities	**–**	**10,411**	**10,411**	–	8,835	8,835
Amounts owed by subsidiary undertakings	**–**	**18,558**	**18,558**	–	16,879	16,879
Total at 31 December	**1,053**	**28,969**	**30,022**	1,002	25,714	26,716

Derivatives held for hedging are held at fair value, are classified as Level 2 and the counterparty is Standard Chartered Bank.

Debt securities comprise corporate securities issued by Standard Chartered Bank with a fair value of $10,411 million (2012: $8,876 million).

In 2012 and 2013, amounts owed by subsidiary undertakings have a fair value equal to carrying value.

	2013			2012		
Financial liabilities	**Derivatives held for hedging $million**	**Amortised cost $million**	**Total $million**	Derivatives held for hedging $million	Amortised cost $million	Total $million
Derivatives	**346**	**–**	**346**	–	–	–
Debt securities in issue	**–**	**18,650**	**18,650**	–	14,534	14,534
Subordinated liabilities and other borrowed funds	**–**	**8,955**	**8,955**	–	4,806	4,806
Total at 31 December	**346**	**27,605**	**27,951**	–	19,340	19,340

Derivatives held for hedging are held at fair value, classified as Level 2 and the counterparty is Standard Chartered Bank.

The fair value of debt securities in issue is $16,478 million (2012: $15,563 million).

The fair value of subordinated liabilities and other borrowed funds is $9,172 million (2012: $4,953 million).

Derivative financial instruments

	2013			2012		
Total derivatives	**Notional principal amounts $million**	**Assets $million**	**Liabilities $million**	Notional principal amounts $million	Assets $million	Liabilities $million
Foreign exchange derivative contracts:						
Currency swaps	**12,590**	**880**	**46**	9,224	663	–
Interest rate derivative contracts:						
Swaps	**10,250**	**173**	**300**	7,500	339	–
Total derivatives	**22,840**	**1,053**	**346**	16,724	1,002	–

Credit risk

Maximum exposure to credit risk

	2013 $million	2012 $million
Derivative financial instruments	**1,053**	1,002
Debt securities	**10,411**	8,835
Amounts owed by subsidiary undertakings	**18,558**	16,879
	30,022	26,716

In 2012 and 2013, amounts owed by subsidiary undertakings were neither past due nor impaired; the Company had no individually impaired loans.

In 2012 and 2013, the Company had no impaired debt securities. The debt securities held by the Group are issued by Standard Chartered Bank, a wholly owned subsidiary undertaking with a credit rating AA– to AA+.

Notes to the financial statements continued

48. Standard Chartered PLC (Company) continued

Liquidity risk

The following table analyses the residual contractual maturity of the assets and liabilities of the Company on a discounted basis:

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									
Derivative financial instruments	–	–	203	–	34	312	230	274	1,053
Investment securities	–	–	–	–	–	–	–	10,411	10,411
Amount owed by subsidiary undertakings	–	–	–	–	–	–	–	18,558	18,558
Investments in subsidiary undertakings	–	–	–	–	–	–	–	20,122	20,122
Total assets	–	–	203	–	34	312	230	49,365	50,144
Liabilities									
Derivative financial instruments	–	–	–	–	–	–	180	166	346
Senior debt	–	–	2,565	–	–	6,412	7,140	2,533	18,650
Other liabilities	–	–	9	–	9	18	–	483	519
Subordinated liabilities and other borrowed funds	–	–	–	–	–	–	–	8,955	8,955
Total liabilities	–	–	2,574	–	9	6,430	7,320	12,137	28,470
Net liquidity gap	–	–	(2,371)	–	25	(6,118)	(7,090)	37,228	21,674

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									
Derivative financial instruments	–	–	–	–	–	233	508	261	1,002
Investment securities	–	–	250	–	–	–	–	8,585	8,835
Amount owed by subsidiary undertakings	–	–	–	–	–	–	–	16,879	16,879
Investments in subsidiary undertakings	–	–	–	–	–	–	–	14,369	14,369
Other assets	–	–	–	–	–	–	–	115	115
Total assets	–	–	250	–	–	233	508	40,209	41,200
Liabilities									
Senior debt	–	56	459	–	–	3,577	9,061	1,381	14,534
Other liabilities	–	–	–	–	–	–	–	392	392
Subordinated liabilities and other borrowed funds	–	41	71	–	–	–	470	4,224	4,806
Total liabilities	–	97	530	–	–	3,577	9,531	5,997	19,732
Net liquidity gap	–	(97)	(280)	–	–	(3,344)	(9,023)	34,212	21,468

48. Standard Chartered PLC (Company) continued

Financial liabilities excluding derivative financial instruments on an undiscounted basis

	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**
Debt securities in issue	**–**	**114**	**2,726**	**161**	**161**	**6,686**	**7,962**	**3,742**	**21,552**
Subordinated liabilities and other borrowed funds	**–**	**202**	**51**	**51**	**51**	**355**	**355**	**12,120**	**13,185**
Other liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total liabilities	**–**	**316**	**2,777**	**212**	**212**	**7,041**	**8,317**	**15,862**	**34,737**

	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
Debt securities in issue	–	56	460	–	–	4,383	9,643	1,444	15,986
Subordinated liabilities and other borrowed funds	–	41	77	–	–	157	314	6,089	6,678
Other liabilities	–	–	–	–	–	–	–	203	203
Total liabilities	–	97	537	–	–	4,540	9,957	7,736	22,867

Derivative 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.

	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**
Derivative financial instruments	**73**	**15**	**119**	**85**	**88**	**358**	**1,064**	**2,803**	**4,605**

	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
Derivative financial instruments	28	15	79	42	80	214	508	335	1,301

Supplementary information

Standard Chartered is Kenya's oldest foreign bank, banking Kenyans for over 100 years.

Supplementary financial information

Average balance sheets and yield

The following tables set out the average balances and yields for the Group's assets and liabilities for the years ended 31 December 2013 and 31 December 2012. For the purpose of the following table, average balances have generally been determined on the basis of daily balances, except for certain categories, for which balances have been determined less frequently. The Group does not believe that the information presented in this table would be significantly different had such balances been determined on a daily basis.

	2013			
	Average non-interest earning balance $million	**Average interest earning balance $million**	**Interest income $million**	**Gross yield %**
Assets				
Cash and balances at central banks	**23,607**	**35,293**	**153**	**0.4**
Gross loans and advances to banks	**2,353**	**71,884**	**1,082**	**1.5**
Gross loans and advances to customers	**336**	**303,107**	**13,202**	**4.4**
Impairment provisions against loans and advances to banks and customers	**–**	**(2,730)**	**–**	**–**
Investment securities	**6,799**	**113,733**	**3,156**	**2.8**
Property, plant and equipment and intangible assets	**8,635**	**–**	**–**	**–**
Prepayments, accrued income and other assets	**97,861**	**–**	**–**	**–**
Total average assets	**139,591**	**521,287**	**17,593**	**3.4**

	2012			
	Average non-interest earning balance $million	Average interest earning balance $million	Interest income $million	Gross yield %
Assets				
Cash and balances at central banks	18,561	31,668	159	0.5
Gross loans and advances to banks	2,456	65,310	1,202	1.8
Gross loans and advances to customers	–	282,586	13,259	4.7
Impairment provisions against loans and advances to banks and customers	–	(2,450)	–	–
Investment securities	5,962	106,377	3,207	3.0
Property, plant and equipment and intangible assets	7,382	–	–	–
Prepayments, accrued income and other assets	103,078	–	–	–
Total average assets	137,439	483,491	17,827	3.7

Average balance sheets and yield continued

	2013			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
Liabilities				
Deposits by banks	3,881	44,744	388	0.9
Customer accounts:				
Current accounts and savings deposits	32,323	160,160	1,014	0.6
Time and other deposits	3,484	197,864	3,370	1.7
Debt securities in issue	2,823	66,214	1,010	1.5
Accruals, deferred income and other liabilities	86,825	377	–	–
Subordinated liabilities and other borrowed funds	66	19,234	655	3.4
Non-controlling interests	432	–	–	–
Shareholders' funds	45,804	–	–	–
Total average liabilities and shareholders' funds	175,638	488,593	6,437	1.3
Net yield				2.1
Net interest margin				2.1

	2012			
	Average non-interest bearing balance $million	Average interest bearing balance $million	Interest expense $million	Rate paid %
Liabilities				
Deposits by banks	3,207	44,986	532	1.2
Customer accounts:				
Current accounts and savings deposits	29,890	141,832	1,277	0.9
Time and other deposits	2,908	189,394	3,529	1.9
Debt securities in issue	–	62,786	1,139	1.8
Accruals, deferred income and other liabilities	94,987	–	–	–
Subordinated liabilities and other borrowed funds	–	18,000	569	3.2
Non-controlling interests	486	–	–	–
Shareholders' funds	43,037	–	–	–
Total average liabilities and shareholders' funds	174,515	456,998	7,046	1.5
Net yield				2.1
Net interest margin				2.2

Supplementary financial information continued

Volume and price variances

The following table analyses the estimated change in the Group's net interest income attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, and changes in their respective interest rates for the periods presented. Volume and rate variances have been determined based on movements in average balances and average exchange rates over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Variances caused by changes in both volume and rate have been allocated to changes in volume.

	2013 versus 2012		
	Increase/(decrease) in interest due to:		**Net increase/ (decrease) in interest $million**
	Volume $million	**Rate $million**	
Interest-earning assets			
Cash and unrestricted balances at central banks	**16**	**(22)**	**(6)**
Loans and advances to banks	**99**	**(219)**	**(120)**
Loans and advances to customers	**891**	**(948)**	**(57)**
Investment securities	**195**	**(246)**	**(51)**
Total interest-earning assets	**1,201**	**(1,435)**	**(234)**
Interest-bearing liabilities			
Subordinated liabilities and other borrowed funds	**63**	**23**	**86**
Deposits by banks	**(93)**	**(51)**	**(144)**
Customer accounts:			
Current accounts and savings deposits	**133**	**(396)**	**(263)**
Time and other deposits	**300**	**(459)**	**(159)**
Debt securities in issue	**51**	**(180)**	**(129)**
Total interest-bearing liabilities	**454**	**(1,063)**	**(609)**

	2012 versus 2011		
	Increase/(decrease) in interest due to:		Net increase/ (decrease) in interest $million
	Volume $million	Rate $million	
Interest-earning assets			
Cash and unrestricted balances at central banks	59	(59)	–
Loans and advances to banks	211	(248)	(37)
Loans and advances to customers	607	593	1,200
Investment securities	316	86	402
Total interest-earning assets	1,193	372	1,565
Interest-bearing liabilities			
Subordinated liabilities and other borrowed funds	75	30	105
Deposits by banks	326	(69)	257
Customer accounts:			
Current accounts and savings deposits	(150)	28	(122)
Time and other deposits	263	117	380
Debt securities in issue	318	(128)	190
Total interest-bearing liabilities	832	(22)	810

Five-year summary

	2013 $million	2012 $million	2011 $million	2010 $million	2009 $million
Operating profit before impairment losses and taxation	**8,584**	8,061	7,720	7,039	7,232
Impairment losses on loans and advances and other credit risk provisions	**(1,617)**	(1,196)	(908)	(883)	(2,000)
Other impairment	**(1,129)**	(196)	(111)	(76)	(102)
Profit before taxation	**6,064**	6,851	6,775	6,122	5,151
Profit attributable to shareholders	**4,090**	4,887	4,849	4,332	3,380
Loans and advances to banks[1]	**83,702**	67,797	65,981	52,058	50,885
Loans and advances to customers[1,4]	**290,708**	279,638	266,790	240,358	198,292
Total assets[4]	**674,380**	631,208	592,686	516,560	436,653
Deposits by banks[1]	**43,517**	36,427	35,296	28,551	38,461
Customer accounts[1,4]	**381,066**	372,874	345,726	306,992	251,244
Shareholders' equity	**46,246**	45,362	40,714	38,212	27,340
Total capital resources[2]	**67,238**	64,643	58,092	54,804	44,650
Information per ordinary share					
Basic earnings per share	**164.4c**	199.7c	200.8c	196.3c	161.8c
Normalised earning per share[3]	**204.0c**	225.2c	198.0c	197.0c	173.2c
Dividends per share	**86.00c**	84.00c	76.00c	69.15c	63.61c
Net asset value per share	**1,872.8c**	1,852.3c	1,653.2c	1,573.2c	1281.6c
Net tangible asset value per share	**1,597.6c**	1,526.5c	1,355.6c	1,273.4c	953.4c
Return on assets[5]	**0.6%**	0.8%	0.8%	0.9%	0.8%
Ratios					
Normalised return on ordinary shareholders' equity[3]	**11.2%**	12.8%	12.2%	14.1%	14.3%
Basic cost-income ratio	**54.3%**	57.1%	56.2%	56.2%	52.4%
Cost-income ratio – normalised basis[3]	**54.4%**	53.7%	56.5%	55.9%	51.3%
Capital ratios:					
Tier 1 capital[6]	**13.1%**	13.4%	13.7%	14.0%	11.5%
Total capital[6]	**18.0%**	17.4%	17.6%	18.4%	16.5%

1 Excludes amounts held at fair value through profit or loss

2 Shareholders' funds, non-controlling interests and subordinated loan capital

3 Results on a normalised basis reflect the Group's results, excluding amortisation and impairment of intangible assets, gains and losses of a capital nature, and gains and losses on repurchase of subordinated liabilities

4 Amounts have been restated as explained in note 43

5 Represents profit attributable to shareholders divided by the total assets of the Group

6 Unaudited

Supplementary financial information continued

A. Convenience translation of selected financial statements into Indian rupees

In compliance with clause 37(3) of the Indian Depository Receipts Listing agreement, the Consolidated financial statements on pages 229 to 233 are presented in Indian rupees (INR) using a US dollar/Indian rupee exchange rate of 61.897 as at 31 December 2013 as published by Reserve Bank of India. Amounts have been translated using the said exchange rate including totals and sub-totals and any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Consolidated income statement (translated to INR)

For the year ended 31 December 2013

	2013 **₹ million**	2012[1] ₹ million
Interest income	**1,088,954**	1,103,438
Interest expense	**(398,431)**	(436,126)
Net interest income	**690,523**	667,312
Fees and commission income	**283,550**	283,179
Fees and commission expense	**(29,711)**	(30,701)
Net trading income	**155,609**	169,536
Other operating income	**62,268**	73,286
Non-interest income	**471,717**	495,300
Operating income	**1,162,240**	1,162,611
Staff costs	**(406,663)**	(401,835)
Premises costs	**(54,284)**	(53,417)
General administrative expenses	**(125,775)**	(167,555)
Depreciation and amortisation	**(44,194)**	(40,852)
Operating expenses	**(630,916)**	(663,660)
Operating profit before impairment losses and taxation	**531,324**	498,952
Impairment losses on loans and advances and other credit risk provisions	**(100,087)**	(74,029)
Other impairment		
Goodwill impairment	**(61,897)**	–
Other	**(7,985)**	(12,132)
Profit from associates and joint ventures	**13,989**	11,265
Profit before taxation	**375,343**	424,056
Taxation	**(115,376)**	(115,500)
Profit for the year	**259,967**	308,557
Profit attributable to:		
Non-controlling interests	**6,809**	6,066
Parent company shareholders	**253,159**	302,491
Profit for the year	**259,967**	308,557
	Rupees	Rupees
Earnings per share:		
Basic earnings per ordinary share	**101.8**	123.6
Diluted earnings per ordinary share	**100.9**	122.4

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1 Amounts have been restated as explained in note 43

Consolidated statement of comprehensive income (translated to INR)

For the year ended 31 December 2013

	2013 ` million	2012[1] ` million
Profit for the year	**259,967**	308,557
Other comprehensive income:		
Items that will not be reclassified to Income statement:		
Actuarial gains/(losses) on retirement benefit obligations	**4,890**	(4,704)
Items that may be reclassified subsequently to Income statement:		
Exchange differences on translation of foreign operations:		
Net (losses)/gains taken to equity	**(74,648)**	35,157
Net losses on net investment hedges	**(2,166)**	(4,518)
Share of other comprehensive income from associates	**(928)**	248
Available-for-sale investments:		
Net valuation gains taken to equity	**10,584**	65,239
Reclassified to income statement	**(15,350)**	(20,797)
Cash flow hedges:		
Net (losses)/gains taken to equity	**(5,137)**	8,232
Reclassified to income statement	**371**	(1,238)
Taxation relating to components of other comprehensive income	**2,104**	(8,170)
Other comprehensive income for the year, net of taxation	**(80,280)**	69,448
Total comprehensive income for the year	**179,687**	378,005
Total comprehensive income attributable to:		
Non-controlling interests	**4,890**	5,199
Parent company shareholders	**174,797**	372,806
	179,687	378,005

[1] Amounts have been restated as explained in note 43

Supplementary financial information continued

Consolidated balance sheet (Translated to INR)

As at 31 December 2013

	2013 **` million**	2012[1] ` million
Assets		
Cash and balances at central banks	**3,375,491**	3,747,059
Financial assets held at fair value through profit or loss	**1,815,748**	1,675,923
Derivative financial instruments	**3,825,358**	3,063,592
Loans and advances to banks	**5,180,903**	4,196,431
Loans and advances to customers	**17,993,953**	17,308,753
Investment securities	**6,357,812**	6,141,730
Other assets	**2,077,882**	1,767,036
Current tax assets	**14,484**	13,308
Prepayments and accrued income	**155,361**	157,961
Interests in associates and joint ventures	**109,372**	104,235
Goodwill and intangible assets	**375,715**	442,254
Property, plant and equipment	**427,275**	409,758
Deferred tax assets	**32,744**	41,842
Total assets	**41,742,099**	39,069,882
Liabilities		
Deposits by banks	**2,693,572**	2,254,722
Customer accounts	**23,586,842**	23,079,782
Financial liabilities held at fair value through profit or loss	**1,425,488**	1,427,592
Derivative financial instruments	**3,790,325**	2,921,043
Debt securities in issue	**3,997,865**	3,464,932
Other liabilities	**1,692,140**	1,503,169
Current tax liabilities	**64,992**	65,982
Accruals and deferred income	**288,935**	297,786
Subordinated liabilities and other borrowed funds	**1,262,513**	1,150,541
Deferred tax liabilities	**10,894**	9,965
Provisions for liabilities and charges	**6,623**	13,308
Retirement benefit obligations	**22,592**	30,391
Total liabilities	**38,842,781**	36,219,215
Equity		
Share capital	**75,143**	74,710
Reserves	**2,787,346**	2,733,062
Total parent company shareholders' equity	**2,862,489**	2,807,772
Non-controlling interests	**36,829**	42,895
Total equity	**2,899,317**	2,850,666
Total equity and liabilities	**41,742,099**	39,069,882

[1] Amounts have been restated as explained in note 43

Consolidated statement of changes in equity (translated to INR)

For the year ended 31 December 2013

	Share capital ₹million	Share premium account ₹million	Capital and capital redemption reserve[1] ₹million	Merger reserve ₹million	Available-for-sale reserve ₹million	Cash flow hedge reserve ₹million	Translation reserve ₹million	Retained earnings ₹million	Parent company share-holders' equity ₹million	Non-controlling interests ₹million	Total ₹million
At 1 January 2012	73,781	336,225	1,114	768,823	(6,747)	(805)	(86,284)	1,433,968	2,520,074	40,914	2,560,988
Profit for the year	–	–	–	–	–	–	–	302,491	302,491	6,066	308,557
Other comprehensive income	–	–	–	–	36,334	5,818	31,506	(3,342)[2]	70,315	(867)	69,448
Distributions	–	–	–	–	–	–	–	–	–	(3,714)	(3,714)
Shares issued, net of expenses	124	3,528	–	–	–	–	–	–	3,652	–	3,652
Net own shares adjustment	–	–	–	–	–	–	–	(23,892)	(23,892)	–	(23,892)
Share option expense, net of taxation	–	–	–	–	–	–	–	22,221	22,221	–	22,221
Capitalised on scrip dividend	805	(805)	–	–	–	–	–	–	–	–	–
Dividends, net of scrip	–	–	–	–	–	–	–	(87,089)	(87,089)	–	(87,089)
Other increases	–	–	–	–	–	–	–	–	–	495	495
At 31 December 2012	**74,710**	**338,948**	**1,114**	**768,823**	**29,587**	**5,014**	**(54,779)**	**1,644,356**	**2,807,772**	**42,895**	**2,850,666**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**253,159**	**253,159**	**6,809**	**259,967**
Other comprehensive income	**–**	**–**	**–**	**–**	**(1,981)**	**(4,085)**	**(75,576)**	**3,281**[3]	**(78,362)**	**(1,919)**	**(80,280)**
Distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,766)**	**(4,766)**
Shares issued, net of expenses	**309**	**1,176**	**–**	**–**	**–**	**–**	**–**	**–**	**1,486**	**–**	**1,486**
Net own shares adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,675)**	**(7,675)**	**–**	**(7,675)**
Share option expense, net of taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14,855**	**14,855**	**–**	**14,855**
Capitalised on scrip dividend	**124**	**(124)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(128,003)**	**(128,003)**	**–**	**(128,003)**
Other decreases[4]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(743)**	**(743)**	**(6,190)**	**(6,932)**
At 31 December 2013	**75,143**	**340,000**	**1,114**	**768,823**	**27,606**	**928**	**(130,355)**	**1,779,229**	**2,862,489**	**36,829**	**2,899,317**

[1] Includes capital reserve of ₹309 million and capital redemption reserve of ₹805 million

[2] Comprises actuarial losses, net of taxation and non-controlling interests, of ₹3,590 million and share of comprehensive income from associates and joint ventures of ₹248 million

[3] Comprises actuarial gains, net of taxation and non-controlling interests, of ₹3,590 million and share of comprehensive income from associates and joint ventures of ₹(309) million

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

Supplementary financial information continued

Cash flow statement (translated to INR)

For the year ended 31 December 2013

	Group		**Company**	
	2013 **`million**	2012[1] `million	**2013** **`million**	2012 `million
Cash flows from operating activities				
Profit before taxation	**375,343**	424,056	**133,079**	97,178
Adjustments for:				
Non-cash items included within income statement	**255,078**	149,853	**(92,103)**	(86,037)
Change in operating assets	**(2,732,381)**	(520,492)	**(3,095)**	(44,442)
Change in operating liabilities	**2,794,526**	1,174,186	**78,795**	315,922
Contributions to defined benefit schemes	**(10,399)**	(12,565)	**–**	–
UK and overseas taxes paid	**(106,215)**	(109,372)	**9,285**	(7,056)
Net cash from operating activities	**575,952**	1,105,666	**125,960**	275,565
Net cash flows from investing activities				
Purchase of property, plant and equipment	**(12,689)**	(10,027)	**–**	–
Disposal of property, plant and equipment	**9,656**	12,070	**–**	–
Acquisition or investment in subsidiaries, associates and joint ventures, net of cash acquired	**(2,847)**	(3,900)	**(356,093)**	(4,828)
Purchase of investment securities	**(8,844,339)**	(9,710,587)	**(154,804)**	(297,725)
Disposal and maturity of investment securities	**8,489,978**	8,995,305	**57,255**	–
Dividends received from investment in subsidiaries and associates	**309**	867	**129,736**	88,698
Net cash used in investing activities	**(359,931)**	(716,272)	**(323,907)**	(213,854)
Net cash flows from financing activities				
Issue of ordinary and preference share capital, net of expenses	**1,486**	3,652	**1,486**	3,652
Purchase of own shares	**(9,532)**	(26,306)	**(9,532)**	(26,306)
Exercise of share options through ESOP	**1,857**	2,414	**1,857**	2,414
Interest paid on subordinated liabilities	**(50,322)**	(61,216)	**(5,756)**	(8,170)
Gross proceeds from issue of subordinated liabilities	**337,215**	209,831	**337,215**	199,432
Repayment of subordinated liabilities	**(161,923)**	(105,287)	**(57,255)**	(13,927)
Interest paid on senior debts	**(34,848)**	(53,665)	**(27,173)**	(19,807)
Gross proceeds from issue of senior debts	**421,890**	708,906	**189,033**	–
Repayment of senior debts	**(230,876)**	(367,544)	**–**	(49,951)
Dividends paid to non-controlling interests and preference shareholders, net of scrip	**(11,018)**	(9,965)	**(6,252)**	(6,252)
Dividends paid to ordinary shareholders, net of scrip	**(121,751)**	(80,837)	**(121,751)**	(80,837)
Net cash from financing activities	**142,177**	219,982	**301,872**	248
Net increase in cash and cash equivalents	**358,198**	609,376	**103,925**	61,959
Cash and cash equivalents at beginning of the year	**4,921,926**	4,305,927	**1,044,759**	982,801
Effect of exchange rate movements on cash and cash equivalents	**(71,120)**	6,623	**–**	–
Cash and cash equivalents at end of the year	**5,209,004**	4,921,926	**1,148,685**	1,044,759

[1] Amounts have been restated as explained in note 43

Company balance sheet (translated to INR)

As at 31 December 2013

	2013 ₹ million	2012 ₹ million
Non-current assets		
Investments in subsidiary undertakings	**1,245,491**	889,398
Current assets		
Derivative financial instruments	**65,178**	62,021
Investment securities	**644,410**	546,860
Amounts owed by subsidiary undertakings	**1,148,685**	1,044,759
Taxation	**–**	7,118
	1,858,272	1,660,758
Current liabilities		
Derivative financial instruments	**21,416**	–
Other creditors	**26,863**	20,921
Taxation	**3,033**	–
Deferred income	**1,114**	1,114
	52,427	22,035
Net current assets	**1,805,845**	1,638,723
Total assets less current liabilities	**3,051,336**	2,528,121
Non-current liabilities		
Debt securities in issue	**1,154,379**	899,611
Deferred income	**1,114**	2,228
Subordinated liabilities and other borrowed funds	**554,288**	297,477
	1,709,781	1,199,316
Total assets less liabilities	**1,341,556**	1,328,805
Equity		
Share capital	**75,143**	74,710
Reserves	**1,266,413**	1,254,095
Total equity	**1,341,556**	1,328,805

Supplementary financial information continued

Company statement of changes in equity (translated to INR)

For the year ended 31 December 2013

	Share capital `million	Share premium account `million	Capital and capital redemption reserve[1] `million	Merger reserve `million	Retained earnings `million	Total `million
At 1 January 2012	73,781	336,225	1,114	768,823	140,939	1,320,882
Profit for the year	–	–	–	–	94,455	94,455
Shares issued, net of expenses	124	3,528	–	–	–	3,652
Net own shares adjustment	–	–	–	–	(23,892)	(23,892)
Share option expense	–	–	–	–	20,797	20,797
Capitalised on scrip dividend	805	(805)	–	–	–	–
Dividends, net of scrip	–	–	–	–	(87,089)	(87,089)
At 31 December 2012	**74,710**	**338,948**	**1,114**	**768,823**	**145,210**	**1,328,805**
Profit for the year	**–**	**–**	**–**	**–**	**132,212**	**132,212**
Shares issued, net of expenses	**309**	**1,176**	**–**	**–**	**–**	**1,486**
Net own shares adjustment	**–**	**–**	**–**	**–**	**(7,675)**	**(7,675)**
Share option expense	**–**	**–**	**–**	**–**	**14,731**	**14,731**
Capitalised on scrip dividend	**124**	**(124)**	**–**	**–**	**–**	**–**
Dividends, net of scrip	**–**	**–**	**–**	**–**	**(128,003)**	**(128,003)**
At 31 December 2013	**75,143**	**340,000**	**1,114**	**768,823**	**156,476**	**1,341,556**

[1] Includes capital reserve of `309 million and capital redemption reserve of `805 million

B. Summary of significant differences between Indian GAAP and IFRS

The consolidated financial statements of the Group for the year ended 31 December 2013 with comparatives as at 31 December 2012 are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union.

IFRS differs in certain significant respects from Indian Generally Accepted Accounting Principles (GAAP). Such differences involve methods for measuring the amounts shown in the financial statements of the Group, as well as additional disclosures required by Indian GAAP.

Set out below are descriptions of certain accounting differences between IFRS and Indian GAAP that could have a significant effect on profit attributable to parent company shareholders for the years ended 31 December 2013 and 31 December 2012 and total parent company shareholders' equity as at the same dates. This section does not provide a comprehensive analysis of such differences. In particular, this description considers only those Indian GAAP pronouncements for which adoption or application is required in financial statements for years ended on or prior to 31 December 2013. The Group has not quantified the effect of differences between IFRS and Indian GAAP, nor prepared consolidated financial statements under Indian GAAP, nor undertaken a reconciliation of IFRS and Indian GAAP financial statements. Had the Group undertaken any such quantification or preparation or reconciliation, other potentially significant accounting and disclosure differences may have come to its attention which are not identified below. Accordingly, the Group does not provide any assurance that the differences identified below represent all the principal differences between IFRS and Indian GAAP relating to the Group. Furthermore, no attempt has been made to identify future differences between IFRS and Indian GAAP. Finally, no attempt has been made to identify all differences between IFRS and Indian GAAP that may affect the financial statements as a result of transactions or events that may occur in the future. In making an investment decision, potential investors should consult their own professional advisers for an understanding of the differences between IFRS and Indian GAAP and how those differences may have affected the financial results of the Group. The summary does not purport to be complete and is subject and qualified in its entirety by reference to the pronouncements of the International Accounting Standards Board (IASB), together with the pronouncements of the Indian accounting profession.

Changes in accounting policy

IFRS (IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

Changes in accounting policy are applied retrospectively. Comparatives are restated and the effect of period(s) not presented is adjusted against opening retained earnings of the earliest year presented. Policy changes made on the adoption of a new standard are made in accordance with that standard's transitional provisions.

Indian GAAP (AS 5 Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies)

The cumulative amount of the change is included in the income statement for the period in which the change is made except as specified in certain standards (transitional provision) where the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact disclosed.

Where a change in accounting policy has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such an amount is not ascertainable this fact should be indicated.

Functional and presentation currency

IFRS (IAS 21 The Effects of Changes in Foreign Exchange Rates)

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.

Assets and liabilities are translated at the closing rate at the date of that statement of financial position. Income statement items are translated at the exchange rate at the date of transaction or at average rates. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Group is US dollars.

Indian GAAP (AS 11 The Effects of Changes in Foreign Exchange Rates)

There is no concept of functional or presentation currency. Entities in India have to prepare their financial statements in Indian rupees.

Consolidation

IFRS (IFRS 10 Consolidation of Financial Statements)

Entities are consolidated when the Group controls an entity. 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. This includes entities where control is not derived through voting rights such as structured entities.

Indian GAAP (AS 21 Consolidated Financial Statements)

Guidance is based on the power through the ability to govern the financial and operating policies of an entity so as to obtain benefits while not taking into consideration potential voting rights.

Indian GAAP (Consolidation of Structured Entities)

No specific guidance.

Business combinations

IFRS (IFRS 3 Business Combinations)

All business combinations are treated as acquisitions. Assets, liabilities and contingent liabilities acquired are measured at their fair values. Pooling of interest method is prohibited.

For acquisitions occurring on or after 1 January 2004, IFRS 3 'Business Combinations' (IFRS 3) requires that, when assessing the value of the assets of an acquired entity, certain identifiable intangible assets must be recognised and if considered to have a finite life, amortised through the income statement over an appropriate period. As the Group has not applied IFRS 3, or its predecessor IAS 22, to transactions that occurred before 1 January 2004, no intangible assets, other than goodwill, were recognised on acquisitions prior to that date.

Adjustments to provisional fair values are permitted provided those adjustments are made within 12 months from the date of acquisition, with a corresponding adjustment to goodwill.

After re-assessment of respective fair values of net assets acquired, any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised immediately in the income statement.

Where less than 100 per cent of an entity is acquired, non-controlling interests are stated at their proportion of the fair value of the identifiable net assets and contingent liabilities acquired.

B. Summary of significant differences between Indian GAAP and IFRS continued

Indian GAAP (AS 14 Accounting for Amalgamations)
Treatment of a business combination depends on whether the acquired entity is held as a subsidiary, whether it is an amalgamation or whether it is an acquisition of a business.

For an entity acquired and held as a subsidiary, the business combination is accounted for as an acquisition. The assets and liabilities acquired are incorporated at their existing carrying amounts.

For an amalgamation of an entity, either pooling of interests or acquisition accounting may be used. The assets and liabilities amalgamated are incorporated at their existing carrying amounts or, alternatively, if acquisition accounting is adopted, the consideration can be allocated to individual identifiable assets (which may include intangible assets) and liabilities on the basis of their fair values.

Adjustments to the value of acquired or amalgamated balances are not permitted after initial recognition.

Any excess of acquirer's interest in the net fair values of acquirer's identifiable assets is recognised as capital reserve, which is neither amortised nor available for distribution to shareholders. However, in case of an amalgamation accounted under the purchase method, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation.

Minority interests arising on the acquisition of a subsidiary are recognised at their share of the historical book value.

Goodwill

IFRS (IFRS 3 Business Combinations and IAS 38 Intangible Assets)
IFRS 3 requires that goodwill arising on all acquisitions by the Group and associated undertakings is capitalised but not amortised and is subject to an annual review for impairment. Under the transitional provisions of IFRS 1, the Group has not applied IFRS 3, or its predecessor IAS 22, to transactions that occurred before 1 January 2004, the date of transition to IFRS. Accordingly, goodwill previously written off to reserves, as permitted under UK GAAP until the implementation of FRS 10 'Goodwill and intangible assets' in 1998, has not been reinstated nor will it be written back on disposal.

Amortisation of goodwill that has been charged up to 31 December 2003 has not been reversed and the deemed carrying value of the goodwill on transition to IFRS is equal to the net book value as at 31 December 2003.

Goodwill is tested annually for impairment. Any impairment losses recognised may not be reversed in subsequent accounting periods.

Indian GAAP (AS 14 Accounting for Amalgamations and AS 26 Intangible Assets)
Goodwill arising for amalgamations is capitalised and amortised over useful life not exceeding five years, unless a longer period can be justified.

For goodwill arising on acquisition of a subsidiary or a business, there is no specific guidance – in practice there is either no amortisation or amortisation not exceeding 10 years.

Goodwill is reviewed for impairment whenever an indicator of impairment exists. Impairment losses recognised may be reversed under exceptional circumstances only in subsequent accounting periods through the income statement.

Acquired and internally generated intangible assets

IFRS (IAS 38 Intangible Assets)
Intangible assets are recognised if the specific criteria are met. Assets with a finite useful life are amortised on a systematic basis over their useful life. An asset with an indefinite useful life and which is not yet available for use should be tested for impairment annually.

Indian GAAP (AS 26 Intangible Assets)
Intangible assets are capitalised if specific criteria are met and are amortised over their useful life, generally not exceeding 10 years. The recoverable amount of an intangible asset that is not available for use or is being amortised over a period exceeding 10 years should be reviewed at least at each financial year end even if there is no indication that the asset is impaired.

Property, plant and equipment

IFRS (IAS 16 Property, Plant and Equipment, IAS 23 Borrowing Costs)
Fixed assets are recorded at cost or revalued amounts. Under the transition rules of IFRS 1, the Group elected to freeze the value of all its properties held for its own use at their 1 January 2004 valuations, their 'deemed cost' under IFRS. They will not be revalued in the future.

Foreign exchange gains or losses relating to the procurement of property, plant and equipment, under very restrictive conditions, can be capitalised as part of the asset.

Depreciation is recorded over the asset's estimated useful life. The residual value and the useful life of an asset and the depreciation method shall be reviewed at least at each financial year end.

The Group has the option to capitalise borrowing costs incurred during the period that the asset is getting ready for its intended use.

Indian GAAP (AS 10 Fixed Assets, AS 16 Borrowing Cost and AS 6 Depreciation Accounting)
Fixed assets are recorded at historical costs or revalued amounts.

Relevant borrowing costs are capitalised if certain criteria in AS 16 are met and depreciation is recorded over the asset's useful life. Schedule XIV of the Companies Act and Banking Regulations prescribe minimum rates of depreciation and these are typically used as the basis for determining useful life.

Recognition and measurement of financial instruments

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)
IAS 39 requires all financial instruments to be initially measured at their fair value, which is usually to be the transaction price. In those cases where the initial 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 but is amortised to the income statement until the inputs become observable, the transaction matures or is terminated.

At the time of initial recognition, IAS 39 requires all financial assets to be classified as either:

- Held at fair value through profit or loss (as a trading instrument or as designated by management), with realised and unrealised gains or losses reflected in profit or loss
- Available-for-sale at fair value, with unrealised gains and losses reflected in shareholders' equity, and recycled to the income statement when the asset is sold or is impaired
- Held-to-maturity at amortised cost, where there is the intent and the ability to hold them to maturity
- As loans and receivables at amortised cost

At the time of initial recognition, IAS 39 requires all financial liabilities to be classified as either:

- Held at fair value through profit or loss (as a trading instrument or as designated by management), with realised and unrealised gains or losses reflected in profit or loss
- At amortised cost

B. Summary of significant differences between Indian GAAP and IFRS continued

A financial asset or financial liability, other than one held for trading, can be designated as being held at fair value through profit or loss if it meets the criteria set out below:

- 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
- Assets or liabilities include embedded derivatives and such derivatives are not recognised separately

The designation of a financial instrument as held at fair value through profit or loss is irrevocable in respect of the financial instruments to which it relates. Subsequent to initial recognition instruments cannot be classified into or out of this category.

Changes in the fair value of available for sale financial assets resulting from movements in foreign currency exchange rates are included in the income statement as exchange differences. Foreign currency exchange movements for available-for-sale equity securities is recognised in reserves.

For banks, there is guidance on measurement and accounting of IRS and FRA entered into for hedging purposes.

Indian GAAP (AS 13 Investments)

- Current investments, which are those readily realisable and intended to be held for less than one year, are carried at the lower of cost and fair value, with changes in fair value taken directly to profit or loss
- Long-term investments, which are those investments not classified as current, are carried at cost unless there is a permanent diminution in value, in which case a provision for diminution is required to be made by the entity. This is because current investments and long-term investments are not categories as per Indian GAAP

For investments, Reserve Bank of India (RBI) regulations outline similar classifications to IFRS, but the classification criteria and measurement requirements differ from those set out in IFRS.

Financial liabilities are usually carried at cost. There is no ability to designate instruments at fair value.

AS 30 provides guidance on classification criteria and measurement requirements, however this is not mandatory.

Derivatives

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)
IAS 39 requires that all derivatives be recognised on balance sheet at fair value. Changes in the fair value of derivatives that are not hedges are reported in the income statement. Changes in the fair value of derivatives that are designated as hedges are either offset against the change in fair value of the hedged asset or liability through earnings or recognised directly in equity until the hedged item is recognised in earnings, depending on the nature of the hedge. The ineffective portion of the hedge's change in fair value is immediately recognised in earnings. A derivative may only be classified as a hedge if an entity meets stringent qualifying criteria in respect of documentation and hedge effectiveness.

IAS 39 requires the separation of derivatives embedded in a financial instrument if it is not deemed to be closely related to the economic characteristics of the underlying host instrument.

Indian GAAP
Foreign exchange contracts held for trading or speculative purposes are carried at fair value, with gains and losses recognised in the income statement.

In the absence of specific guidance, equity options are carried at the lower of cost or market value.

There is no specific guidance on hedge accounting since Accounting Standard 30 is not mandatory. However, requirements of AS 30 with respect to hedge accounting are largely similar to that of IAS 39.

Impairment of financial assets

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)
At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment.

Assets held at amortised cost
If objective evidence of impairment exists, an assessment is made to determine what, if any, impairment loss should be recognised. The impairment loss is the difference between the asset's carrying amount and its estimated recoverable amount.

The recoverable amount is determined based on the present value of expected future cash flows, discounted at the instrument's original effective interest rate, either individually or collectively. Individually assessed assets for which there is no objective evidence of impairment are collectively assessed for impairment.

Available-for-sale assets
If objective evidence of impairment exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any previously recognised impairment) is removed from equity and recognised in the income statement.

Market recoveries leading to a reversal of an impairment provision for available-for-sale debt securities are recognised in the income statement. Impairment losses for equity instruments classified as available-for-sale are not permitted to be reversed through profit or loss.

Indian GAAP (AS 13 Investments)
Held to maturity (HTM) investments are written down when there is a decline in fair value which is deemed to be other than temporary. Impairments may be reversed through the income statement in subsequent periods if the investment rises in value, or the reasons for the impairment no longer exist. For loans and advances, the RBI regulations additionally require banks to hold provisions in respect of standard assets and for specific country risk exposures.

Derecognition of financial assets

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)
A financial asset is derecognised if substantially all the risks and rewards of ownership have been transferred. If substantially all the risks and rewards have not been transferred, the asset will continue to be recognised to the extent of any continuing involvement.

Indian GAAP (RBI Guidelines on Securitisation of Standard Assets)
There is limited guidance on derecognition of financial assets. Securitised financial assets can only be derecognised if the originator has surrendered control over the assets. Control is not surrendered where the securitised assets are not beyond the reach of the creditors of the originator or where the transferee does not have the right to pledge, sell, transfer or exchange the securitised asset for its own benefit, or where there is an option that entitles the originator to repurchase the financial assets transferred under a securitisation transaction from the transferee.

Supplementary financial information continued

B. Summary of significant differences between Indian GAAP and IFRS continued

Liabilities and equity

IFRS (IAS 39 Financial Instruments: Recognition and Measurement)
A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled.

Preference shares, which carry a mandatory coupon or 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.

Indian GAAP
Classification is based on the legal form rather than substance.

Provisions for liabilities and charges

IFRS (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)
The amount recognised as a provision is the best estimate at the balance sheet date of the expenditure required to settle the obligation, discounted using a pre-tax market discount rate if the effect is material.

Indian GAAP (AS 29 Provisions, Contingent Liabilities and Contingent Assets)
Provisions are recognised and measured on a similar basis to IFRS, except that discounting is not permitted.

Pension obligations

IFRS (IAS 19 Employee Benefits)
The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on high quality corporate bonds of a currency and term consistent with the currency and term of the post employment benefit obligations.

Actuarial gains or losses are recognised in 'Other comprehensive income' (retained earnings).

Under the transitional provisions of IFRS 1 'First time adoption of International Financial Reporting Standards' (IFRS 1) and in accordance with IAS 19, the Group elected to record all actuarial gains and losses on the pension surplus or deficit in the year in which they occur within the 'Consolidated statement of comprehensive income'.

Indian GAAP (AS 15 Employee Benefits)
The discount rate to be used for determining defined benefit obligations is established by reference to market yields at the balance sheet date on government bonds.

Actuarial gains or losses are recognised immediately in the statement of income.

In respect of termination benefits, the revised AS 15 (2005) specifically contains a transitional provision providing that where expenditure on termination benefits is incurred on or before 31 March 2009, the entities can choose to follow the accounting policy of deferring such expenditure over its pay-back period. However, any expenditure deferred cannot be carried forward to accounting periods commencing on or after 1 April 2010. Therefore any expenditure deferred should be written off over the shorter of (a) the pay-back period or (b) the period from the date expenditure on termination benefits is incurred to 1 April 2010.

Share-based compensation

IFRS (IFRS 2 Share-based payments)
IFRS 2 'Share-based payment' requires that all share-based payments are accounted for using a fair value method.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For equity-settled awards, the total amount to be expensed over the vesting period must be determined by reference to the fair value of the options granted (determined using an option pricing model), excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions must be included in assumptions about the number of options that are expected to become exercisable.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. 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. 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 must be revalued at each balance sheet date on an intrinsic value basis (being the difference between the market price of the share at the measurement date and the exercise price) with any changes in fair value charged or credited to staff costs in the income statement.

Deferred tax is recognised based on the intrinsic value of the award and is recorded in the income statement if the tax deduction is less than or equal to the cumulative share-based compensation expense or equity if the tax deduction exceeds the cumulative expense.

Indian GAAP
Entities may either follow the intrinsic value method or the fair value method for determining the costs of benefits arising from share-based compensation plans. Although the fair value approach is recommended, entities may use the intrinsic value method and provide fair value disclosures.

Deferred tax is not recognised as it is not considered to represent a timing difference.

Entities are also permitted the option of recognising the related compensation cost over the service period for the entire award (that is, over the service period of the last separately vesting portion of the award), provided that the amount of compensation cost recognised at any date at least equals the fair value of the vested portion of the award at that date.

Deferred Taxation

IFRS (IAS 12 Income Taxes)
Deferred tax is determined based on temporary differences, being the difference between the carrying amount and tax base of assets and liabilities, subject to certain exceptions.

Deferred tax assets are recognised if it is probable (more likely than not) that sufficient future taxable profits will be available to utilise to deferred tax assets.

Indian GAAP (AS 22 Accounting for Taxes on Income)
Deferred tax is determined based on timing differences, being the difference between accounting income and taxable income for a period that is capable of reversal in one or more subsequent periods.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

B. Summary of significant differences between Indian GAAP and IFRS continued

Interest income and expense

IFRS (IAS 18 Revenue)
Interest income and expense is recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points 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.

Indian GAAP (AS 9 Revenue Recognition)
In the absence of a specific effective interest rate requirement, premiums and discounts are usually amortised on a straight line basis over the term of the instrument.

Dividends

IFRS (IAS 10 Events After Balance Sheet date)
Dividends to holders of equity instruments, when proposed or declared after the balance sheet date, should not be recognised as a liability on the balance sheet date. A company however is required to disclose the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue.

Indian GAAP
Dividends are reflected in the financial statements of the year to which they relate even if proposed or approved after the year end.

Shareholder information

Dividend and interest payment dates

Ordinary shares	**Final dividend**	**Interim dividend (provisional only)**
Results and dividend announced	5 March 2014	6 August 2014
Ex dividend date	12 March 2014	13 August 2014
Record date for dividend	14 March 2014	15 August 2014
Last date to elect for share dividend or to change standing instructions	24 April 2014	2 October 2014
Dividend payment date	14 May 2014	17 October 2014

Preference shares	**1st half-yearly dividend**	**2nd half-yearly dividend**
$7\frac{3}{8}$ per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2014	1 October 2014
$8\frac{1}{4}$ per cent Non-cumulative irredeemable preference shares of £1 each	1 April 2014	1 October 2014
6.409 per cent Non-cumulative redeemable preference shares of $5 each	30 January 2014	30 July 2014
7.014 per cent Non-cumulative redeemable preference shares of $5 each	30 January 2014	30 July 2014

Annual general meeting

The annual general meeting (AGM) will be held at 11.00 am London time (6.00 pm Hong Kong time) on Thursday 8 May 2014 at etc.venues, 200 Aldersgate, St Paul's, London EC1A 4HD. Details of the business to be transacted at the AGM are included in the accompanying Notice of AGM.

Details of voting at the Company's AGM and of proxy votes cast can be found on the Company's website at investors.sc.com on 9 May 2014.

Interim results

The interim results will be announced to the London Stock Exchange, The Stock Exchange of Hong Kong, the Bombay Stock Exchange and put on the Company's website.

Country-by-Country Reporting

In accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013, which are effective from 1 January 2014, the Group will publish additional country-by-country information in respect of the year ended 31 December 2013, on or before 1 July 2014. This information will be available on the Group's website at www.sc.com

ShareCare

ShareCare is available to shareholders on the Company's UK register who have a UK address and bank account, and allows you to hold your Standard Chartered shares in a nominee account. Your shares will be held in electronic form so you will no longer have to worry about keeping your share certificates safe. If you join ShareCare you will still be invited to attend the Company's AGM and receive your dividend at the same time as everyone else. ShareCare is free to join and there are no annual fees to pay. If you would like to receive more information please visit our website at investors.sc.com/en/resource.cfm or contact the shareholder helpline on 0870 702 0138.

Previous dividend payments (Unadjusted for the impact of the 2010/2008 rights issue)

Dividend and financial year	**Payment date**	**Dividend per ordinary share**	**Cost of one new ordinary share under share dividend scheme**
Interim 2003	10 October 2003	15.51c/9.3625p/HK$1.205	£8.597/$14.242
Final 2003	14 May 2004	36.49c/20.5277p/HK$2.8448	£8.905/$15.830
Interim 2004	8 October 2004	17.06c/9.4851p/HK$1.3303	£9.546/$17.16958
Final 2004	13 May 2005	40.44c/21.145p/HK$3.15156	£9.384/$17.947
Interim 2005	14 October 2005	18.94c/10.7437p/HK$1.46911	£11.878/$21.3578
Final 2005	12 May 2006	45.06c/24.9055p/HK$3.49343	£14.2760/$24.77885
Interim 2006	11 October 2006	20.83c/11.14409p/HK$1.622699	£13.2360/$25.03589
Final 2006	11 May 2007	50.21c/25.17397p/HK$3.926106	£14.2140/$27.42591
Interim 2007	10 October 2007	23.12c/11.39043p/HK$1.794713	£15.2560/$30.17637
Final 2007	16 May 2008	56.23c/28.33485p/HK$4.380092	£16.2420/$32.78447
Interim 2008	9 October 2008	25.67c/13.96133p/HK$1.995046	£14.00/$26.0148
Final 2008	15 May 2009	42.32c/28.4693p/HK$3.279597	£8.342/$11.7405
Interim 2009	8 October 2009	21.23c/13.25177p/HK$1.645304	£13.876/$22.799
Final 2009	13 May 2010	44.80c/29.54233p/HK$3.478306	£17.351/$26.252
Interim 2010	5 October 2010	23.35c/14.71618p/HK$1.811274/INR0.984124	£17.394/$27.190
Final 2010	11 May 2011	46.45c/28.272513p/HK$3.623404/INR1.9975170*	£15.994/$25.649
Interim 2011	7 October 2011	24.75c/15.81958125p/HK$1.928909813/INR1.13797125*	£14.127/$23.140
Final 2011	15 May 2012	51.25c/31.63032125p HK$3.9776083375/INR2.6667015*	£15.723/$24.634
Interim 2012	11 October 2012	27.23c/16.799630190p/HK$2.111362463/INR1.349803950*	£13.417/$21.041
Final 2012	14 May 2013	56.77c/36.5649893p/HK$4.4048756997/INR2.976283575*	£17.40/$26.28792
Interim 2013	17 October 2013	28.80c/17.8880256p/HK$2.233204992/INR1.6813*	£15.362/$24.07379

*The INR dividend is per Indian Depository Receipt

Donating shares to ShareGift

Shareholders who have a small number of shares often find it uneconomical to sell them. An alternative is to consider donating them to the charity ShareGift (registered charity 1052686), which collects donations of unwanted shares until there are enough to sell and uses the proceeds to support UK charities. Further information can be obtained from the Company's Registrars or from ShareGift on 020 7930 3737 or from www.ShareGift.org. There is no implication for Capital Gains Tax (no gain or loss) when you donate shares to charity and UK taxpayers may be able to claim income tax relief on the value of their donation.

Bankers' Automated Clearing System (BACS)

Dividends can be paid straight into your bank or building society account. Please register online at www.investorcentre.co.uk or contact our registrar for a mandate form.

Registrars and shareholder enquiries

If you have any enquiries relating to your shareholding and you hold your shares on the United Kingdom register, please contact our registrar Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 7ZY shareholder helpline number 0870 702 0138.

If you hold your shares on the Hong Kong branch register please contact Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. You can check your shareholding at: www.investorcentre.co.uk

If you hold Indian Depository Receipts and you have enquiries, please contact Karvy Computershare Private Limited, 17-24, Vithalrao Nagar, Madhapur, Hyderabad 500 001, India.

Chinese translation

If you would like a Chinese version of the 2013 Report and Accounts please contact: Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

本年報之中文譯本可向香港中央證券登記有限公司索取，地址：
香 港灣仔皇后大道東183號合和中心17M樓。

Shareholders on the Hong Kong branch register who have asked to receive corporate communications in either Chinese or English can change this election by contacting Computershare.

If there is a dispute between any translation and the English version of this Report and Accounts, the English text shall prevail.

Taxation

Information on taxation applying to dividends paid to you if you are a shareholder in the United Kingdom, Hong Kong or the United States will be sent to you with your dividend documents.

Electronic communications

If you hold your shares on the United Kingdom register and in future you would like to receive the Report and Accounts electronically rather than by post, please register online at www.investorcentre.co.uk. Then click on Register and follow the instructions. You will need to have your Shareholder or ShareCare Reference number when you log on. You can find this on your share certificate or ShareCare statement. Once registered you can also submit your proxy vote and dividend election electronically and change your bank mandate or address information.

Forward-looking statements

It is possible that this document could or may contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

Any forward-looking statement contained in this document is based on past or current trends and/or activities of the Group and should not be taken as a representation that such trends or activities will continue in the future.

The Group undertakes no obligation to revise or update any forward-looking statement contained within this document, regardless of whether those statements are affected as a result of new information, future events or otherwise.

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 operations in Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Attributable profit to ordinary shareholders

Profit for the year after non-controlling interests and the declaration of dividends on preference shares classified as equity.

Basel II

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

Basel III

In December 2010, the BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The new requirements are being phased in from 1 January 2013 with full implementation by 31 December 2019.

Basis point (bp)

One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. 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 (CRE)

Includes office buildings, industrial property, medical centres, hotels, malls, retail stores, shopping centres, farm land, multifamily housing buildings, warehouses, garages, and industrial properties. CRE loans are those backed by a package of commercial real estate assets.

Constant currency

Constant currency change is derived by applying a simple translation of the previous period functional currency number in each entity using the current average and period end US dollar exchange rates to the income statement and balance sheet respectively.

Contractual maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Core Tier 1 capital

Core Tier 1 capital comprises called-up ordinary share capital and eligible reserves plus non-controlling interests, less goodwill and other intangible assets and deductions relating to excess expected losses over eligible provisions and securitisation positions as specified by the UK's Prudential Regulatory Authority (PRA).

Core Tier 1 capital ratio

Core Tier 1 capital as a percentage of risk-weighted assets.

Cost to income ratio

Represents the proportion of total operating expenses to total operating income.

Cover ratio

Represents the extent to which non-performing loans are covered by impairment allowances.

Covered bonds

Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds.

Credit Conversion Factor (CCF)

CCF is an internally modelled parameter based on historical experience to determine the amount that is expected to be further drawn down from the undrawn portion in a committed facility.

Credit default swaps (CDSs)

A credit derivative is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

Credit institutions

An institution whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account.

Credit risk spread

The credit spread is the yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.

Credit valuation adjustments (CVA)

An adjustment to fair value primarily in respect of derivative contracts that reflects the possibility that the counterparty may default such that the Group would not receive the full market value of the transactions.

Customer deposits
Money deposited by all individuals and companies which are not credit institutions including securities sold under repo. Such funds are recorded as liabilities in the Group's balance sheet under Customer accounts.

Debt restructuring
This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge reduction.

Debt securities
Debt securities are assets on the Group's balance sheet and represent certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

Debt securities in issue
Debt securities in issue are transferrable certificates of indebtedness of the Group to the bearer of the certificate. These are liabilities of the Group and include certificates of deposits.

Delinquency
A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as arrears.

Deposits by banks
Deposits by banks comprise amounts owed to other domestic or foreign credit institutions by the Group including securities sold under repo.

Dividend per share
Represents the entitlement of each shareholder in the share of the profits of the company. Calculated in the lowest unit of currency in which the shares are quoted.

Effective tax rate (ETR)
The tax on profits on ordinary activities as a percentage of profit on ordinary activities before taxation.

Expected loss (EL)
The Group measure of anticipated loss for exposures captured under an internal ratings based credit risk approach for capital adequacy calculations. It is measured as the Group-modelled view of anticipated loss based on probability of default (PD), loss given default (LGD) and exposure at default (EAD), with a one-year time horizon.

Exposures
Credit exposures represent the amount lent to a customer, together with an undrawn commitments.

Exposure at default (EAD)
The estimation of the extent to which the Group may be exposed to a customer or counterparty in the event of, and at the time of, that counterparty's default. At default, the customer may not have drawn the loan fully or may already have repaid some of the principal, so that exposure is typically less than the approved loan limit.

Eurozone
Represents the 18 European Union countries that have adopted the euro as their common currency. The 18 countries are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, 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 III Rules require this ratio to be at least 100 per cent and it is 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.

Glossary continued

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 (LTV)
The LTV 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 LTV 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 (NII)
The difference between interest received on assets and interest paid on liabilities.

Net interest margin
The margin is expressed as net interest income divided by average interest earning assets.

Net interest yield
Interest income divided by average interest earning assets less interest expense divided by average interest-bearing liabilities.

Net Stable Funding Ratio (NSFR)
The ratio of available stable funding to required stable funding over a one-year time horizon, assuming a stressed scenario. It is a longer-term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one-year time horizon.

Non-performing loans
A non-performing loan is any loan that is more than 90 days past due or is otherwise individually impaired, other than a loan which is:

- Renegotiated before 90 days past due, and on which no default in interest payments or loss of principal is expected
- 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 agreement which allows 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 (ROE)
Represents the ratio of the current year's profit available for distribution to ordinary shareholders to the weighted average ordinary shareholders equity for the reporting period.

Risks-not-in-VaR (RNIV)
A framework for identifying and quantifying marginal types of market risk that are not captured in the value at risk (VaR) measure for any reason, such as being fat-tail risk or the necessary historical market data not being available.

Risk-weighted assets (RWA)
A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with the Basel Capital Accord as implemented by the PRA.

Seasoning
The emergence of credit loss patterns in portfolios 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 entities (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.

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 judgments 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.

Major awards 2013

Asia Risk Awards 2013

Energy/Commodity Derivatives House of the Year

Currency Derivatives House of the Year

Derivatives House of the Year, Asia ex-Japan

Asia Risk Commodity Rankings 2013

#1 for Gas Oil

#1 for Grains

Asia Risk Corporate Rankings 2013

#1 in Structured Currency Products for RMB & IDR

#1 in Structured Interest Rate Products for G-7 ex JPY, INR, PHP, RMB & TWD

#1 in Vanilla Currency Products for G-7 ex JPY & RMB

#1 in Vanilla Interest Rate Products for G-7 ex JPY, PHP

#1 in Yield Enhancement Interest Rate Products for G7 ex-JPY and Asia ex-Japan

#1 Overall for all categories, Currency Products and Interest Rate Products

The Asset Triple A Asset Servicing, Fund Management and Investor Awards

Best Custody Specialist, Africa

The Asset Triple A Country Awards 2013

Best Debt House in India, Pakistan, Philippines and Singapore

The Asset Triple A Islamic Finance Awards 2013

Best Islamic Investment Bank, Middle East

Islamic Loan House of the Year

The Asset Triple A Regional House and Deal Awards

Best Asian Currency Bond House

Best Leveraged/Structured Finance House

Best Transport Finance House

The Asset Triple A Transaction Banking Awards 2013

Best Transaction Bank

Best in Working Capital & Trade Finance

Best in Structured Trade Finance

Best Renminbi Trade Settlement Bank

Best in Treasury & Cash Management in Middle East and Southeast Asia

Best in Working Capital Trade Finance in Middle East and North Asia

Specialist Awards – SMEs

Specialist Awards – Supply Chain Solutions

Best Cash Management Provider in Hong Kong, India, Korea and Vietnam

Best Structured Trade Finance Provider in China, India, Indonesia, Pakistan and Vietnam

Best Transaction Bank in China, Hong Kong and Korea

The Banker Awards 2013

Islamic Bank of the Year in Pakistan

The Banker Innovation in Technology and Transaction Banking Awards 2013

Innovation in Collateral Management

Banking & Payments Asia Trailblazer Award 2013

Channel Excellence in Internet Banking – Online Sales: Standard Chartered Savings Bank (Korea)

Special Commendation for Loan Origination: Standard Chartered Savings Bank (Korea)

EMEA Finance African Banking Awards 2013

Best Foreign Bank in Ghana, Kenya, Tanzania, Uganda, Zambia and Zimbabwe

Best Bank in Botswana

Euromoney Awards for Excellence 2013

Best Flow House in Africa

Best M&A House in Africa

Best Bank in Zambia

Euromoney Islamic Finance Awards 2013

Best International Islamic Bank

Best Structured Products House

Euromoney FX Survey 2013

#1 African Currencies

#1 for Emerging Market Research in North America and Western Europe

Global Custodian Agent Banks in Major Markets Survey 2013

Leading Clients – Top rated in Hong Kong and Korea

Cross-Border/Non-Affiliated – Top rated in Hong Kong, Korea and Singapore

Domestic Clients – Top rated in Hong Kong, Korea and Singapore

Global Finance Best Internet Banks Awards 2013

Best Consumer Internet Bank (Global)

Best Consumer Internet Bank (Middle East & Africa)

Best Consumer Internet Bank (Bangladesh, Brunei, Ghana, Jersey, Kenya, Korea, Pakistan, Singapore, the UAE, Vietnam & Zambia)

Best Online Deposit, Credit and Investment Product Offering (Middle East & Africa)

Best Information Security Initiatives

Best in Social Media

Best in Social Media (Middle East & Africa)

Best Website Design (Middle East & Africa)

Best Bill Payment and Presentment (Asia)

Best Information Security Initiatives (Asia, Europe, Middle East & Africa)

Global Finance Best Sub-Custodian Bank Awards 2013

Best Sub-Custodian Bank in Africa and Asia-Pacific

Global Finance Best Trade Finance Providers 2013

Best Trade Finance Bank in Middle East

Global Finance Best Treasury & Cash Management Providers 2013

Best Bank for Liquidity Management in Africa, Asia and Middle East

Global Finance World's Best Supply Chain Finance Provider 2013

Best Supply Chain Finance Provider in Africa and Asia

Best Pre-Shipment Financing Solution (Global)

Best Integrated Trade, Supply Chain Finance and Cash Management Solutions (Global)

Global Transport Finance Awards 2013

Shipping Finance Innovator of the Year

Shipping Leasing Innovator of the Year

GTR Asia Leaders in Trade 2013

Best Structured Commodity Finance Bank in Asia-Pacific

Major awards 2013 continued

IFR Asia Awards 2013

Loan House of the Year

The Korea Internet Professionals Association Awards 2013

Winner of integrated finance category – Breeze Mobile

The Korea Internet Professionals Association Awards 2013

Winner of the Bank Section – SC Homepage

Private Banker International Awards 2013

Outstanding Private Bank (South Asia)

Outstanding Banker Asia Pacific (Rajesh Malkani)

Outstanding Young Private Banker
(Jacqueline Too, Vivian Tung & Raghu Venugopal)

PWM & The Banker's Global Private Banking Awards 2013

Best Private Bank in India

Best Private Bank in the Middle East

TMI Awards for Innovation & Excellence in Treasury 2013

Best Bank Trade Finance – Middle East

Best Bank SWIFT for Corporates – Asia

Best Bank Risk Management – Middle East

Best Bank Capital Markets & Investment Banking – Asia

Trade Finance Awards for Excellence 2013

Best Structured Trade Finance Institution

Best Trade Bank in the Middle East & North Africa

Best Islamic Trade Finance Bank (EMEA)

Best Supply Chain Finance Bank Asia-Pacific

WealthBriefingAsia Awards 2013

Best Private Bank – India

Index

Index continued

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