Leading the way
in Asia, Africa and the Middle East

Standard Chartered PLC – Financial highlights

For the six months ended 30 June 2013

Reported results[1]

Profit before goodwill impairment and own credit adjustment

$4,088m

H1 2012: $3,936m / H2 2012: $2,915m

Loans and advances to customers

$292bn

H1 2012: $278bn / H2 2012: $285bn

Profit attributable to ordinary shareholders[2]

$2,131m

H1 2012: $2,806m / H2 2012: $1,980m

Customer deposits

$381bn

H1 2012: $359bn / H2 2012: $385bn

Operating income excluding own credit adjustment

$9,751m

H1 2012: $9,371m / H2 2012: $9,412m

Performance metrics[3]

Normalised earnings per share

121.9 cents

H1 2012: 116.6 cents / H2 2012: 108.7 cents

Interim dividend per share

28.80 cents

H1 2012: 27.23 cents / H2 2012: 56.77 cents

Normalised return on ordinary shareholders' equity

13.3%

H1 2012: 13.8% / H2 2012: 12.4%

Capital and liquidity metrics

Tangible net asset value per share

1,537.9 cents

H1 2012: 1,414.1 cents / H2 2012: 1,519.9 cents

Total capital ratio

16.9%

H1 2012: 16.9% / H2 2012: 17.4%

Core Tier 1 capital ratio

11.4%

H1 2012: 11.6% / H2 2012: 11.7%

Advances-to-deposits ratio

76.6%

H1 2012: 77.6% / H2 2012: 73.9%

Liquid asset ratio

28.3%

H1 2012: 28.3% / H2 2012: 30.5%

Significant highlights

- Delivered broad based performance across multiple markets, including excellent performances from Hong Kong, India and Africa
- Profit before taxation in Hong Kong was over $1 billion for the first time in a six-month period
- Income of over $50 million in 25 markets and 17 markets delivered double digit growth
- Strong volume growth with market share gains in key products, including trade finance volumes up 18 per cent and cash foreign exchange volumes up 30 per cent
- The Group remains highly liquid and well capitalised
- Re-opened in Myanmar and announced the acquisition of a custody business in South Africa

1 Amounts for prior periods have been restated as explained in note 32 on page 149

2 Profit attributable to ordinary shareholders is after the deduction of dividends payable to the holders of those non-cumulative redeemable preference shares classified as equity (see note 10 on page 110)

3 Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the 'Group') excluding items set out in note 11 on page 111

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

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

Standard Chartered PLC

For the six months ended 30 June 2013

Summary of results

	6 months ended 30.06.13 $million	6 months ended 30.06.12[1] $million	6 months ended 31.12.12[1] $million
Results			
Operating income (excluding own credit adjustment of $237 million in H1 2013)	**9,751**	9,371	9,412
Impairment losses on loans and advances and other credit risk provisions	**(730)**	(575)	(621)
Goodwill impairment	**(1,000)**	–	–
Other impairment	**(11)**	(74)	(122)
Profit before goodwill impairment and own credit adjustment	**4,088**	3,936	2,915
Profit before taxation	**3,325**	3,936	2,915
Profit attributable to parent company shareholders	**2,181**	2,856	2,031
Profit attributable to ordinary shareholders[2]	**2,131**	2,806	1,980
Balance sheet			
Total assets	**649,957**	613,556	631,208
Total equity	**45,358**	42,934	46,055
Total capital base	**54,650**	48,311	52,688
Information per ordinary share	**Cents**	Cents	Cents
Earnings per share – normalised[3]	**121.9**	116.6	108.7
– basic	**88.1**	117.6	82.3
Dividend per share[4]	**28.80**	27.23	56.77
Net asset value per share	**1,814.7**	1,736.1	1,852.3
Tangible net asset value per share	**1,537.9**	1,414.1	1,519.9
Ratios			
Return on ordinary shareholders' equity – normalised basis[3]	**13.3%**	13.8%	12.4%
Cost to income ratio – normalised basis[3]	**51.4%**	52.1%	55.3%
Capital ratios			
Core Tier 1 capital	**11.4%**	11.6%	11.7%
Tier 1 capital	**13.0%**	13.4%	13.4%
Total capital	**16.9%**	16.9%	17.4%

Contents

1 Amounts for prior periods have been restated as explained in note 32 on page 149
2 Profit attributable to ordinary shareholders is after the deduction of dividends payable to the holders of those non-cumulative redeemable preference shares classified as equity (see note 10 on page 110)
3 Results on a normalised basis reflect the results of Standard Chartered PLC and its subsidiaries (the 'Group') excluding items presented in note 11 on page 111
4 Represents the interim dividend per share declared for the six months ended 30 June 2013 and 30 June 2012 and the recommended final dividend per share for the six months ended 31 December 2012 (subsequently declared at the Annual General Meeting on 8 May 2013 and recognised in these financial statements)

Profit before taxation, goodwill and own credit adjustment

+4%

$4.09 billion

Interim dividend

28.80 cents

+6%

"Standard Chartered's business remains robust and there are still strong opportunities across our footprint. The external environment will remain challenging for the foreseeable future, but we are in the right markets and have the right strategy in place to deliver growth."

Our results for the first six months of 2013 demonstrate the diversity and resilience of our business:

- Profit before taxation, goodwill and own credit adjustment was up 4 per cent to $4.09 billion
- Reported profit before taxation was $3.33 billion
- Income excluding own credit adjustment was up 4 per cent to $9.75 billion, and up 5 per cent on a normalised basis
- Normalised earnings per share were up 5 per cent to 121.9 cents

The Board has declared an interim dividend of 28.80 cents per share, up 6 per cent.

Despite turbulence in the global economy and increased regulatory headwinds, we have continued to deliver value for our shareholders.

Standard Chartered's business remains robust and there are still strong opportunities across our footprint. The external environment will remain challenging for the foreseeable future, but we are in the right markets and have the right strategy in place to deliver growth. And, as ever, we keep the interests of our shareholders resolutely top of mind.

Public interest in the behaviour of banks remains high, as do expectations. As a bank with over 88,000 employees in 70 markets, we cannot afford to be complacent. We continue to review and enhance our compliance controls and processes, and remain firmly focused on our culture and values, ensuring that we live up to our brand promise, Here for good, at every level of our business. This means putting our clients and customers at the heart of what we do and making sure that we contribute to sustainable economic growth and job creation in our markets. And it means adhering to the spirit as well as the letter of regulations, learning from past failures and being committed to continuously raising the bar on compliance effectiveness.

There is no doubt that our markets will continue to grow and change dramatically. Technological, regulatory and social changes mean we will need to adapt and respond as our clients and customers navigate opportunities in our markets.

We remain focused on the basics of good banking: managing risk, maintaining a strong balance sheet, controlling costs and supporting our clients and customers as they drive economic activity. This continued focus will enable us to drive superior returns for our shareholders through the cycle, delivering on our four financial objectives over time. Banking is a long game and we will continue to invest for the future, because our markets offer exciting opportunities for growth.

Income in both businesses accelerated in the second quarter, we have entered the second half of the year with good momentum and we remain confident for the long term. I would like to thank the Board, the management team and the Group's employees for another good performance.

Sir John Peace
Chairman
6 August 2013

"Once again we have demonstrated the resilience of Standard Chartered … There is no doubt that being spread across such diverse markets is a source of strength for us … We have kept focused and continued to make progress against our strategic aspirations."

Our performance so far this year has been resilient, with good underlying momentum somewhat masked by some big one-off items and weakness in own account income. Headline profit has been hit by the write-down of goodwill in respect of our Korean business, offset in part by own credit adjustment. Excluding these factors, income is up and profits are up. Costs are well controlled, without compromising investment. Credit quality remains good, notwithstanding the increase in Consumer Banking loan impairment, and the balance sheet is in excellent shape.

Despite the squeeze on margins and the fall in own account income, we have continued to grow income, with Consumer Banking income up 7 per cent and Wholesale Banking client income up 6 per cent. Volumes have grown even faster, particularly in our core Commercial Banking businesses, such as Trade Finance, up 18 per cent, Cash, up 13 per cent, or Cash Foreign Exchange, up 30 per cent. Whilst some of our businesses have been slowed by economic turbulence or regulatory or policy interventions, our diversity means we can take such challenges in our stride and still deliver growth.

The benefits of diversity are evident from our geographic performance. This year markets like Hong Kong, India and Africa delivered impressive growth, whilst Korea, Singapore and Other Asia Pacific faltered. However, looking back over the past decade, different markets have driven our growth in different periods.

At a time when market sentiment towards emerging markets seems remarkably correlated, it is worth remembering that these economies don't all rise and fall simultaneously. None are immune to global economic trends, but they don't all respond in the same way. This is partly because of differences in structure – such as whether they import or export energy or how open they are to international trade and investment flows – and partly due to local idiosyncratic factors.

There is no doubt that being spread across such diverse markets is a source of strength for us. It is one reason why we have been able to deliver growth in income and profits so consistently over the last decade and throughout the turbulence that has followed in the wake of the crisis. In the five years since August 2008 we have increased income by 40 per cent and our lending to clients and customers by 65 per cent.

Korea

Korea continues to be our most difficult market. The banking industry as a whole is having an extremely challenging time, given a slowing economy and the impact of multiple policy and regulatory interventions. Banking sector profits were down 48 per cent in the first half. For our part, in the first half we have faced a 5 per cent fall in income and a sharp rise in loan impairment, driven by the government-sponsored personal debt rehabilitation scheme.

The goodwill impairment we have taken reflects the marked shift in industry economics. When we acquired Korea First Bank in 2005, the return on equity in the banking industry was around 18 per cent. Now it is about 4 per cent.

We cannot escape the realities of the Korean context, but we are determined to improve productivity and return on capital, so we are further reducing costs, simplifying the operating structure and reinforcing the balance sheet. We are tightening our focus on core clients, which means exiting unprofitable relationships. We are reconfiguring the branch network, putting greater emphasis on digital and we are reviewing options for some non-core businesses, including potential sale.

This won't be a quick turnaround. Indeed, we expect that the second half will also be very difficult. But we are making good progress in strengthening the underlying dynamics of the business. For example, we continue to make excellent progress in working with Korean clients as they trade and invest across the rest of our footprint. Network income from Korea grew by 12 per cent in the first half, to almost $120 million. We now have dedicated

Korea desks covering 14 cities across ten countries, in places as diverse as Brazil and the UAE, and we see significant opportunities for further growth in network income.

Korea has proved to be a huge challenge, but it is also an opportunity. It is the twelfth largest economy in the world and the sixth largest exporter. We are working to reconfigure the business to improve efficiency and returns and play to our strengths. It is not a quick fix, but we are committed to doing what we have to do to make it work.

Singapore

Whilst Korea has been a challenge for some time, Singapore has been one of our strongest performing markets over recent years. Yet, in the first half income fell 3 per cent, whilst profits fell 12 per cent. The decline in income is a result of three factors: a sharp reduction in own account income, largely in asset and liability management (ALM); pressure on Wholesale Banking margins, particularly Trade Finance; and a slowdown in Consumer Banking, again mainly due to weaker margins on both sides of the balance sheet.

Credit quality is good and costs have been well controlled, despite significant investment in preparing for the subsidiarisation of the Consumer Banking business, which will take place in the fourth quarter, and in migrating to a new core banking platform, which we did successfully in June.

With second quarter volumes up significantly on the first quarter and some signs of margins stabilising, we anticipate a stronger second half.

Other Asia Pacific

The rest of ASEAN forms part of Other Asia Pacific for reporting purposes. We have provided more detail on the countries within Other Asia Pacific in these results and intend to regroup them into ASEAN and Greater China regions for the full year and thereafter.

The two biggest markets, Indonesia and Malaysia, saw declines in income and profits. In Malaysia this was driven by the non-repeat of private equity gains and loan sales. In Indonesia it was due to margin pressures and weak own account income, after a very strong performance in the first half last year.

Taiwan and China, which together with Hong Kong make up Greater China, also contributed to the decline in Other Asia Pacific income and profit. In Taiwan flat income and an increase in impairment drove a 25 per cent reduction in first half profit. Various regulatory constraints have impeded growth, but we are reshaping both businesses and anticipate a modest pickup in the second half.

In mainland China, weak ALM income and significant margin compression contributed to a 9 per cent fall in onshore income. On the other hand, profit from our investment in Bohai Bank increased by 78 per cent to $73 million. Overall profit fell by 8 per cent.

We are actively managing the risks as China adjusts to a different pace and pattern of growth. There are significant stresses in the economy and financial system, but the strength of the underlying drivers of growth in China should not be overlooked. Moreover, the new government is determined to squeeze out excesses and get the economy onto a more sustainable growth path driven more by domestic consumption than investment and exports.

There will be bumps and we are therefore being very thoughtful about the shape of our business and the structure of our balance sheet. Despite the evident stresses in the system, we are very comfortable with the quality of the book. In Wholesale Banking the loan book is trade-focused, short tenor and weighted to high quality clients. We have no exposure to local government investment vehicles and municipalities.

In addition to the business we book onshore, China is also a major source of network income, generating some $350 million in the first half. Much of the network income originating from mainland China and Taiwan ended up in Hong Kong, our biggest market, where it helped to drive an excellent performance.

In Hong Kong income was up 14 per cent and we delivered profits of just over $1 billion, up 19 per cent, with a range of businesses delivering a strong performance.

Our renminbi business continues to grow, despite pressure on margins. And the regulatory changes made in July to further liberalise cross-border treasury and trade flows will create more opportunities.

As business and finance across Hong Kong, Taiwan and mainland China gets ever more integrated, it makes sense to consider our three businesses as parts of an overall Greater China region. Indeed, our ability to make the interconnections is really important to clients. One example is Hutchison Whampoa, a client for over three decades which we serve across 12 countries, including all of Greater China.

India

As an economy, India has had a relatively tough couple of years, with falling GDP growth and a decline in the rupee. As the market began to slow, we took action to reshape the business, adjusting our risk profile and priorities. We are now starting to see the benefits, with Wholesale Banking income up 20 per cent and Consumer Banking income up 10 per cent, despite a 6 per cent foreign exchange drag.

Loan impairment is up slightly year on year, but our portfolio is well diversified, well collateralised and short in tenor. Moreover, network income from India continues to grow strongly, up 37 per cent. This includes clients such as Apollo Tyres, which is investing in the US, or telecoms operator Bharti Group, with widespread operations across Africa.

We expect the macro environment in India to remain somewhat challenging and uncertain, but, despite this, both businesses have very good momentum as we begin the second half.

Africa

In Africa we have also had a strong start to the year, with income up 16 per cent and profits up 10 per cent. Our Africa business has multiple, diverse engines of growth: seven markets delivered income of over $50 million in the first half and nine markets achieved double-digit income growth.

We are using our network to facilitate trade and investment flows between Africa and the rest of the world. We are also making use of our sector expertise to help develop Africa's infrastructure. For example, we are contributing $2 billion to finance power generation and distribution under President Obama's Power Africa initiative, which was launched in July.

We are investing across Africa, in people, systems and new branches. In the second half we will launch our new joint venture bank in Angola, giving us an onshore presence in sub-Saharan Africa's third largest economy for the first time. We also intend to open up in Mozambique.

Macro environment

Whilst growth in emerging markets has been slowing, in our footprint GDP growth rates are still substantially higher than in the major developed economies. In most of our markets demand for financial services is growing around twice as fast as GDP growth.

Furthermore, in most markets our share is relatively small, so we can grow with the market, and we can grow by taking share. We have demonstrated pretty consistently that we can gain share from competitors in our core businesses. For example, in Trade Finance, whilst global trade volumes have been pretty flat, we have achieved an 18 per cent increase year on year.

Enabling trade and investment

One of the things that differentiates us is our network. It is not just the fact that we are present in so many countries, and have been for a very long time, but the way we work across borders, collaborating to support our clients as they trade and invest within, from and into Asia, Africa and the Middle East. Globalisation has many critics, but it is an enormously powerful driver of human wellbeing, and we play a vital role in making it happen.

The patterns of world trade are constantly evolving, and we are well placed to support some of the fastest-growing corridors. One example is the India-Africa trade corridor, which has grown by a compound annual rate of 25 per cent since the beginning of this century. In June we took the chairmen and CEOs from our African subsidiaries to Delhi and Mumbai to meet Indian clients to discuss ways in which we can do even more to facilitate such trade.

With trade comes investment. A recent example from the India-Africa trade corridor is Godrej, an Indian conglomerate that is investing in fast-moving consumer goods businesses across Africa. We recently supported its acquisition of a Kenya-based hair care products business.

The old paradigm of investment and finance flowing from the West into the emerging markets no longer captures the complex reality. The US and Europe are still a huge source of investment in our footprint, and we work closely with many multinationals and financial institutions to facilitate these flows. But we are increasingly seeing massive South-South flows of investment. The new giants of modern globalisation are players like Samsung, which we bank across 27 countries, or Tata, which we bank across 19 countries.

Operations efficiency

For most banks the vast majority of cross-border business is between their home country and their international network. More than any other bank, we are multi-nodal, facilitating trade and investment across multiple corridors across our network.

Doing this well requires continuous investment in our technology platforms. This offers clients more functionality and flexibility and increases our efficiency and resilience.

We were a pioneer in cross-border hubbing and have invested heavily in implementing globally standardised technology platforms. For example, unlike most banks we run all our Trade Finance on a single platform and we are implementing a similar global platform for security services. This enables us to deliver continuous improvement in productivity. For example, in the first half, unit costs in Trade fell by 7 per cent and in Security Services by 3 per cent, and we held headcount almost flat, despite volumes in both businesses increasing significantly.

Achieving continuous improvements in efficiency is how we create the headroom to keep on investing for growth. At a time when the costs of complying with ever more demanding regulations keep on going up, and when margins are under pressure in many of our businesses, it has never been more important and it remains a key component of our strategy.

Technology-driven innovation

Technology-driven innovation can be about reducing costs, but it is also about how we interact with our clients and customers and about the power we put in their hands. For example, we continue to roll out Breeze, our innovative consumer banking platform, to different markets. With an intuitive interface and rich functionality, Breeze has won multiple awards, and, more importantly, is really liked by customers.

We have increased the number of digital customers by 11 per cent since the year end to almost three million, and now have online services across 31 markets.

Big data offers great promise in banking. We can make better use of data to enhance risk management, offer better insights to our clients and tailor the products and services we offer them more effectively. Technology can also help us respond to the ever-increasing expectations from regulators and the public.

Here for good

The avalanche of regulation shows no sign of slowing, and the industry still faces an immense challenge in terms of rebuilding public trust. Strong rules are a vital part of the answer, but effective supervision and good governance are equally important and culture is the foundation.

We recognised the importance of culture some time ago and embedded our values into our performance management systems, so that people got rewarded for how they did things, not just for what they did. We launched Here for good, making explicit our commitment to make a positive contribution to the societies in which we live and work, and to always try to do the right thing.

We are not at all complacent. In an organisation of over 88,000 people, not everyone is going to be doing everything right all the time. So we keep on training, keep learning the lessons when things go wrong, and keep reinforcing the values. In the first half, all key operational staff – over 8,000 people – completed advanced sanctions training, and we are training all our employees on our new code of conduct. We have also stepped up spending on regulatory compliance, by almost $100 million in the first half, particularly in the area of financial crime. We will continue to commit substantial resources to uphold the highest standards of governance and conduct.

We believe that by staying true to our values, by focusing on meeting the needs of our clients and customers, and by running the Group well, we can maximise our contribution to the broader economy and society. That is what being Here for good is all about. It is also about taking a long-term perspective, supporting emerging economies in developing models for sustainable economic growth. We are working with the government of Myanmar to develop Myanmar's financial markets and infrastructure. We have worked with the Bank of Ghana on their National Payments Strategy and provided sovereign ratings advice to countries such as Vietnam, Bangladesh and Nigeria. These are tangible examples of the depth of our commitment to our markets.

Strategy

Once again we have demonstrated the resilience of Standard Chartered. There has been no shortage of challenges over the past six months, but we have kept focused and continued to make progress against our strategic aspirations.

In June we held our annual strategy board in Ghana, which confirmed our commitment to the fundamentals tenets of our strategy: our focus on Asia, Africa and the Middle East; our commitment to building deep, longstanding relationships with our clients and customers; and our commitment to being Here for good. However, whilst our strategy remains unchanged, we have to keep adapting to and anticipating changes in the world around us. Every year brings different challenges, so our priorities evolve, and we have to have the resilience and flexibility to navigate the unexpected.

Outlook

As we consider the outlook for the full year, it is important to bear in mind the growing turbulence and uncertainty in the global economy, whether it be the re-emergence of troubles in the eurozone, the market reaction to the prospect of Federal Reserve tapering, or quantitative easing in Japan. Regulation continues to add complexity, uncertainty and not inconsiderable cost. But the world is also seeing renewed growth prospects in the US, and Asia excluding Japan is expected to show GDP growth of over 6 per cent – a combination that underpins our growth.

We enter the second half with good momentum, high volume growth and excellent client activity levels. We have a robust balance sheet, strong capital and ample liquidity to serve our clients as they achieve their growth aspirations. We are managing business-as-usual costs tightly, whilst continuing to invest selectively, and will target costs growing broadly in line with income for the full year.

Whilst we are clearly not tracking to a double-digit income performance for 2013 – and will not compromise our standards to achieve this – we are still expecting to grow our business at a good rate this year, and remain confident in the potential of our strategy and in the growth of our markets.

The income performance of Consumer Banking has been good, with tight expense control, though loan impairment is higher as a result of past asset growth. And volumes and transaction pipelines in Wholesale Banking remain excellent, supporting strong momentum in client income. Our franchise is in excellent shape, and we therefore enter the second half with confidence.

Our resilient performance is a credit to our staff. I would like to thank the people of Standard Chartered for their commitment, professionalism and teamwork.

Peter Sands
Group Chief Executive
6 August 2013

The following financial review reflects the restatement of prior period amounts to equity account rather than proportionately consolidate PT Permata Bank Tbk, our joint venture business in Indonesia, following the adoption by the Group of IFRS 11 from 1 January 2013 (see page 146 for further details).

Group summary

The Group has delivered a resilient performance for the six months ended 30 June 2013 (H1 2013) against a backdrop of ongoing turbulence in the global economy.

Income continues to be well diversified across businesses, markets and products. 17 markets generated double digit income growth compared to the first half of 2012 and Hong Kong became the first market to deliver over $1 billion of profit before tax in a six-month period.

Operating income, excluding $237 million of fair value gains relating to an own credit adjustment (OCA) following the adoption by the Group of IFRS 13 (see page 98 for further details), increased by $380 million, or 4 per cent, to $9,751 million.

Profit before taxation, excluding OCA and the impact of a $1 billion impairment charge relating to our Korea business (see page 139 for further details), was up 4 per cent compared to the six months ended 30 June 2012 (H1 2012) at $4,088 million.

Profit before taxation on a reported basis fell 16 per cent to $3,325 million.

The commentary below and thereafter in this financial review excludes the impact of OCA to better reflect the underlying performance of the Group.

Consumer Banking (CB) income increased 7 per cent to $3,683 million and operating profit fell 6 per cent to $858 million.

Wholesale Banking (WB) income increased 2 per cent to $6,068 million and operating profit rose 7 per cent to $3,230 million.

The normalised cost to income ratio was lower at 51.4 per cent compared to 52.1 per cent in H1 2012. Costs remain tightly controlled and grew broadly in line with income as we phased investment spend across both businesses.

Normalised earnings per share grew 5 per cent to 121.9 cents. While normalised return on shareholders' equity of 13.3 per cent was lower than the prior year period, it was higher than that for the six months ended 31 December 2012 (H2 2012). Further details of basic and diluted earnings per share are provided in note 11 on pages 110 and 111.

In accordance with accounting requirements, the cost of the UK bank levy is charged in the second half of the year. Note 5 on page 108 provides further details of the UK bank levy together with the impact, on a pro-forma basis, if the levy had been recognised in these financial statements.

Asset quality in both businesses remains resilient, albeit with a few areas of localised pressure in CB. 72 per cent of the CB loan book is fully secured and 65 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, lower levels of debt sales and increased levels of provisioning in Korea relating to the Personal Debt Rehabilitation Scheme (PDRS).

The Group's balance sheet remains very strong and resilient - well diversified, conservative and with limited exposure to problem asset classes – and we continue to focus on the basics of banking. We have no direct sovereign exposure to Cyprus, Greece, Ireland, Italy, Portugal or Spain and our direct sovereign exposure to the remainder of the eurozone is immaterial. Further details of our exposure to the eurozone is set out on pages 64 to 70.

The Group remains highly liquid and our advances-to-deposits ratio remained strong at 76.6 per cent, and up from 73.9 per cent at the year end. Following strong growth in H2 2012, deposit balances are moderated slightly during the period as good growth in Americas, UK & Europe and Hong Kong was offset by lower balances in Korea and in the Other Asia Pacific Region (Other APR). 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 strongly capitalised and generated good levels of organic equity during the period. The Core Tier 1 ratio at 30 June 2013 was 11.4 per cent, slightly down from 11.6 per cent at the year end primarily due to the timing of dividend payments and growth in risk-weighted assets.

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

Operating income and profit

	6 months ended 30.06.13 $million	OCA/ Goodwill impairment $million	Excluding OCA/ Goodwill impairment $million	6 months ended 30.06.12 $million	6 months ended 31.12.12 $million	H1 2013 vs H1 2012 Better / (worse) %	H1 2013 vs H2 2012 Better / (worse) %
Net interest income	**5,598**	**-**	**5,598**	5,374	5,407	4	4
Fees and commissions income, net	**2,095**	**-**	**2,095**	1,953	2,126	7	(1)
Net trading income	**1,685**	**237**	**1,448**	1,560	1,179	(7)	23
Other operating income	**610**	**-**	**610**	484	700	26	(13)
Non-interest income	**4,390**	**237**	**4,153**	3,997	4,005	4	4
Operating income	**9,988**	**237**	**9,751**	9,371	9,412	4	4
Operating expenses	**(5,034)**	**-**	**(5,034)**	(4,879)	(5,843)	(3)	14
Operating profit before impairment losses and taxation	**4,954**	**237**	**4,717**	4,492	3,569	5	32
Impairment losses on loans and advances and other credit risk provisions	**(730)**	**-**	**(730)**	(575)	(621)	(27)	(18)
Goodwill impairment	**(1,000)**	**(1,000)**	**-**	-	-	-	-
Other impairment	**(11)**	**-**	**(11)**	(74)	(122)	85	91
Profit from associates and joint ventures	**112**	**-**	**112**	93	89	20	26
Profit before taxation	**3,325**	**(763)**	**4,088**	3,936	2,915	4	40

Group performance

Operating income grew $380 million to $9,751 million, up 4 per cent over H1 2012. On a normalised basis, operating income grew 5 per cent over H1 2012 (note 11 on page 111). The Group's income streams continued to be well diversified, by product and geography.

CB income was 7 per cent higher at $3,683 million. The benefit from good volume growth in H2 2012 in Credit Cards and Personal Loans (CCPL), Current and Savings Accounts (CASA) and in the SME customer segment, together with improved mortgage margins and fees and a higher contribution from Wealth Management, was partly offset by margin compression in unsecured products and in CASA and Time Deposits.

WB income was 2 per cent higher than H1 2012 at $6,068 million and client income was up 6 per cent. High levels of client activity drove strong volume growth across our businesses. This was partially offset by market-wide margin and spread compression which particularly impacted our Commercial Banking business. Own account income fell 15 per cent, with lower valuation gains in Principal Finance and Asset and Liability Management (ALM) impacted by lower reinvestment yields

Net interest income grew by $224 million, or 4 per cent, to $5,598 million. The Group net interest margin declined to 2.2 per cent against H1 2012, but was flat compared to H2 2012. In CB, unsecured balances were lower against H2 2012 with muted growth in H1 2013 as we selectively tightened underwriting criteria in some markets. However on a year-on-year basis, higher volumes more than compensated for the fall in margins on unsecured assets. WB interest income benefitted from higher levels of client activity across most products, offsetting margin compression in Transaction Banking driven by excess market-wide liquidity and increased competition.

Non-interest income was up by $156 million, or 4 per cent, to $4,153 million and comprises net fees and commissions, trading and other operating income.

Net fees and commissions income rose by $142 million, or 7 per cent, to $2,095 million. Fees in CB benefitted from income earned on higher volumes of Wealth Management products sold together with fees earned in respect of the Korea Mortgage Purchase Program (MPP). In WB fees were down reflecting fewer large value transactions.

Net trading income fell by 7 per cent to $1,448 million as strong growth in FX and Rates was offset by lower valuations in Principal Finance.

Other operating income grew by $126 million, or 26 per cent, to $610 million, on the back of: higher gains from realisations out of the available-for-sale investment securities portfolio, up $40 million; increased dividend income, up $28 million; and increased income from aircraft and shipping operating lease assets, up $73 million. This was partly offset by lower levels of property disposals, down $58 million.

Operating expenses increased $155 million, or 3 per cent, to $5,034 million. Expenses for H1 2013 benefitted from $36 million of provision recoveries while H2 2012 included $667 million relating to the settlements with the US authorities, $86 million in respect of a legacy commercial legal provision and $174 million in respect of the UK bank levy. Excluding these items, operating expenses were 4 per cent higher than H1 2012 and 3 per cent higher than H2 2012. During H1 2013 we continued to make targeted investments in both businesses, with investments in branches and mobile technology in CB and capability enhancements in WB. Reflecting continued investment, depreciation from our transport leasing business increased $34 million against H1 2012. Expenses were also impacted by higher regulatory and compliance costs. Staff costs rose by 3 per cent, as the impact of inflationary pressures was partly offset by lower levels of variable compensation.

Pre-provision profit improved $225 million, or 5 per cent, to $4,717 million.

Loan impairment increased by $155 million, or 27 per cent, at $730 million. CB loan impairment increased by $216 million, or 74 per cent, reflecting the seasoning impact of growth in unsecured lending, together with higher provisioning in Korea relating to PDRS and lower levels of portfolio sales.

WB impairment fell by $61 million, as H1 2012 was impacted by provisions taken on a very small number of large exposures in India and the UAE. Although asset quality across both businesses remains good, we continue to closely monitor our portfolios for stress, reflecting our proactive approach to risk.

Other impairment increased by $937 million to $1,011 million, $1 billion of which relates to a goodwill impairment charge against our Korean business. Excluding this, other impairment fell 85 per cent reflecting lower write-downs within Private Equity.

Profit from associates and joint ventures grew $19 million to $112 million as China Bohai Bank continues to perform strongly.

Profit before taxation excluding goodwill impairment rose $152 million, or 4 per cent, to $4,088 million. WB increased operating profit by 7 per cent while CB operating profit fell 6 per cent.

The Group's effective tax rate (ETR) at 32.8 per cent is higher compared to H1 2012 as a result of the impact of goodwill impairment, partially offset by a decrease in non-deductible expenses.