

Except where indicated (#) the Risk Review is an integral part of the audited financial statements.

Risk Management Review

The credit environment in the majority of the Group's core markets remained generally benign throughout 2007, notwithstanding the turbulent market conditions in some western markets in the second half of the year triggered by the sub-prime mortgage crisis in the United States. The Group's strategy to pursue growth in Asia, Africa and the Middle East has resulted in no direct exposure to US sub-prime mortgages and extremely limited indirect exposure.

The Group's liquidity remains strong and is being used to strengthen relationships with key clients and to continue to support growth opportunities.

Market risk is tightly controlled using Value at Risk ('VaR') methodologies complemented by stress testing. VaR increased in 2007 as a consequence of increased volatility and growth in the financial markets business of the Wholesale Bank.

The Wholesale Banking portfolio remains robust with new provisions continuing at a low level. The absolute level of recoveries in 2007 was lower than in recent years due to a lower stock of problem accounts after several years of benign credit conditions, and good progress in management of these accounts. Forward credit portfolio quality indicators remain stable. The Wholesale Banking asset backed securities portfolio includes mortgage backed securities and collateralised debt obligations. This portfolio, representing around two per cent of assets, has been affected by the market dislocation but has had limited impact on the Group's performance. The asset backed securities portfolio continues to be closely monitored and proactively managed.

In 2007, the Consumer Banking credit portfolio performance continued to be driven primarily by country specific factors. Total net loan impairment as a percentage of loans and advances improved marginally year-on-year and gross non-performing loans were significantly lower than at last year end. There was a material improvement in Taiwan's loan impairment as compared to 2006 due to a more favourable consumer credit climate. The Consumer Banking portfolios in Singapore also performed particularly well in terms of delinquency and impairment. Economic conditions, in part resulting from political instability, led to a deterioration in credit quality in Pakistan and Thailand in 2007.

Good progress is being made on the integration of risk controls and processes into the two acquisitions, Union in Pakistan and Hsinchu in Taiwan.

The requirements of Basel II are broadly consistent with our established approaches to risk measurement: the Group strongly supports the principle of a more risk sensitive approach to capital adequacy, facilitated by the Basel II framework. Accordingly, we are pleased to have received from the Financial Services Authority ('FSA') in the United Kingdom approval to use the Advanced Internal Ratings Based approaches for the calculation of credit risk capital, covering the vast majority of our assets globally. We have also received a similar approval from the Hong Kong Monetary Authority in respect of our business there. Management is working closely with other regulators to ensure that the Group is well placed to benefit from the local rollout of Basel II.

Risk Governance

Through its risk management framework the Group seeks to efficiently manage credit, market, country and liquidity risk, which arise directly through the Group's commercial activities, as well as

operational, regulatory and reputational risks which arise as a normal consequence of any business undertaking.

As part of this framework, the Group uses a set of principles that describe the risk management culture the Group wishes to sustain. All risk decisions and risk management activity should be in line with, and in the spirit of, the risk principles of the Group. The principles of risk management followed by the Group include:

- **Balancing risk and reward:** risk is taken in support of the requirements of the Group's stakeholders, in line with the Group's strategy and within its risk appetite;
- **Responsibility:** given the Group is in the business of taking risk, it is everyone's responsibility to seek to ensure that risk taking is both disciplined and focused. The Group takes account of its social, environmental and ethical responsibilities 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:** the Group looks to anticipate future risks and seeks to ensure awareness of all risks; and
- **Competitive advantage:** the Group seeks competitive advantage through efficient and effective risk management and control.

Ultimate responsibility for the effective management of risk rests with the Board of Standard Chartered PLC. Acting within an authority delegated by the Board, the Audit and Risk Committee ('ARC'), whose members are all Non-Executive Directors of the Company, reviews specific risk areas and monitors the activities of the Group Risk Committee ('GRC') and the Group Asset and Liability Committee ('GALCO').

The Board's remit for management of credit risk, country risk, market risk, operational risk, regulatory risk and reputational risk is delegated to the GRC.

All the Group Executive Directors ('GEDs') of Standard Chartered PLC, members of the Standard Chartered Bank Court and the Group Chief Risk Officer are members of the GRC. This Committee is chaired by the Group Chief Risk Officer.

GALCO, through authority delegated by the Board, is responsible for the maintenance of capital ratios and the establishment of, and compliance with, policies relating to balance sheet management including management of the Group's liquidity, capital adequacy and structural foreign exchange rate risk.

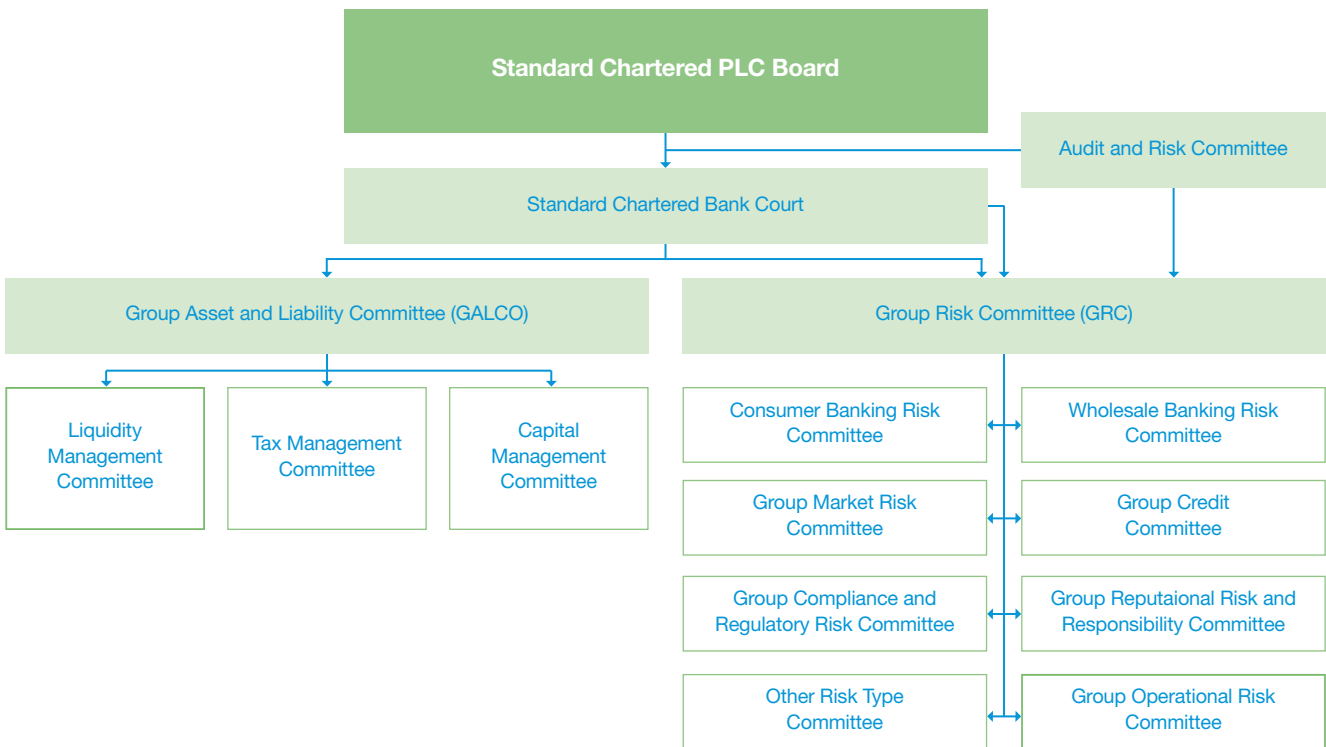
GALCO membership consists of all the GEDs of Standard Chartered PLC and members of Standard Chartered Bank Court. The committee is chaired by the Group Finance Director.

The committee governance structure seeks to ensure that risk management standards and policies are cascaded down through the organisation from the Board through the GRC and the GALCO to functional, regional and country level committees. Information is communicated through the country, regional and functional committees to the Group level committees, which seeks to ensure that key risk issues are addressed at the appropriate level and to provide assurance that standards and policies are being followed.

Risk Governance continued

The following diagram illustrates the high level committee structure.

Group risk committee structure



Individual GEDs and members of the Standard Chartered Bank Court are accountable for risk management in their businesses and support functions, and for countries where they have governance responsibilities. This includes:

- implementing the policies and standards as agreed by the GRC across all business activities;
- managing risk in line with appetite levels agreed by the GRC; and
- developing and maintaining appropriate risk management infrastructure and systems to facilitate compliance with risk policies.

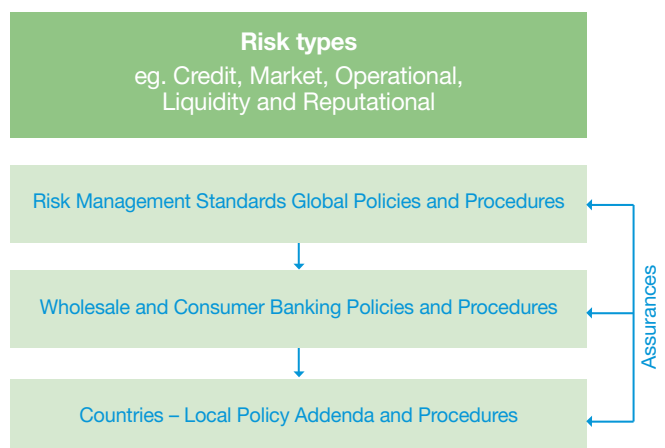
The Group Executive Director with responsibility for Risk ('GED Risk') and the Group Chief Risk Officer manage a Risk function which is independent of the origination and sales functions of the businesses. The Risk function performs the following core activities:

- informs and challenges business strategy, material discussions and processes to encourage rigour, quality, optimisation and transparency in relation to risk efficiency;
- independently controls the risk management processes which seeks to ensure discipline and consistency with risk standards, policy and risk appetite;
- advises on risk management frameworks, the structuring of products and transactions and on the assessment and measurement of risk;
- facilitates and manages risk processes which seeks to ensure operational efficiency, effectiveness and best practice; and
- communicates with stakeholders to demonstrate compliance with requirements in relation to risk management.

The Group's Risk Management Framework ('RMF') identifies the risk types, each of which is managed by a designated Risk Type Owner ('RTO'). The RTOs, who are all approved persons under the FSA regulatory framework, have responsibility for establishing minimum standards and governance and for implementing governance and assurance processes. The RTOs report up through specialist risk committees to the GRC or GALCO.

The GED Risk and the Group Chief Risk Officer, together with Director, People, Property and Assurance and Group Internal Audit, provide assurance, independent from the businesses, that risk is being measured and managed in accordance with the Group's standards and policies.

Risk management framework



Risk Appetite

Risk appetite is an expression of the amount of risk the Group is prepared to take to achieve its strategic objectives. The Group's risk appetite defines the acceptable level of earnings volatility. Recognising a range of outcomes as business plans are implemented, risk appetite reflects the Group's capacity to sustain potential losses at varying levels of probability, based on available capital resources.

The Group has defined its risk appetite in the context of three key criteria: the overall capacity to take risk; balancing the expectations of all key stakeholders; and support for the Group's credit rating.

The Group uses a range of quantitative risk indicators including capital ratios, profitability, return on equity, portfolio credit risk profile and market risk VaR, through which senior management monitor the Group's risk profile. In addition to financial measures of risk, the Group also controls risk through concentration caps and underwriting policies. Measures vary by country, business and product area.

The annual business planning and regular performance management processes aim to ensure the expression of risk appetite remains appropriate.

Stress Testing

Stress testing and scenario analysis are used to assess the financial and management capability of the Group to continue operating effectively under extreme but plausible trading conditions. Such conditions may arise from economic, legal, political, environmental, and social factors.

Stress testing and scenario analysis help to inform management with respect to:

- the identification of potential future risks;
- the setting of the Group's risk appetite;
- the nature and dynamics of the risk profile;
- the robustness of risk management systems and controls;
- the adequacy of contingency planning; and
- the effectiveness of risk mitigants.

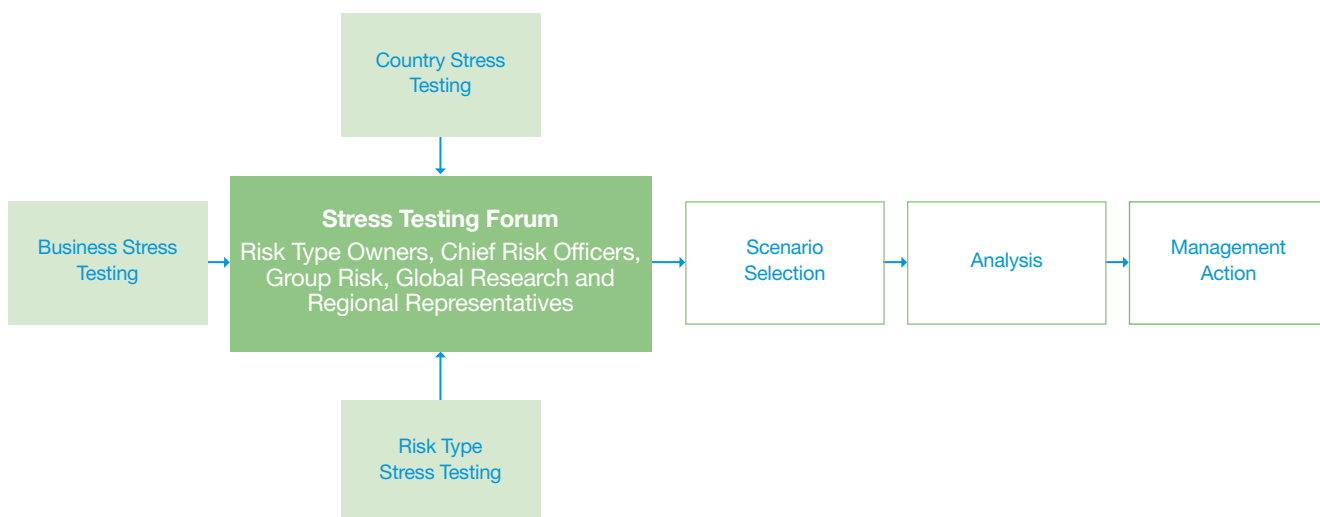
The diagram below illustrates the stress testing framework, which has been implemented to meet the following requirements:

- enable the Group to set and monitor its risk appetite;
- identify key risks to the Group's strategy, financial position, and reputation;
- assess the impact on the Group's profitability and business plans;
- seek to ensure effective governance, processes and systems are in place to co-ordinate and integrate stress testing;
- inform senior management; and
- satisfy regulatory requirements.

The stress testing forum is led by the Risk function with participation from the businesses, Finance and Group Treasury. Its primary objective is to seek to ensure the Group understands the earnings volatility and capital implications of given stress scenarios. A key responsibility of the stress testing forum is to generate and consider pertinent and plausible scenarios that have the potential to adversely affect the Group.

In view of recent market turbulence, stress testing activity has been intensified at country, business and Group levels, with specific focus on certain asset classes, client segments and the potential impact of macro economic factors. Stress tests have taken into consideration possible future scenarios that could arise as a result of prevailing market conditions. The stress tests provide the Group with an understanding of the way in which its portfolios may react to stress events and the management actions that would need to be taken if these scenarios unfold. The results confirm that the Group's geographic and business diversity reduce the impact at a Group level with no material vulnerabilities in the short-term in the Group's overall portfolio.

Stress testing framework



Credit Risk

Credit Risk Management

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation.

Credit exposures include both individual borrowers and groups of connected counterparties, and portfolios in the banking and trading books.

The Group Chief Credit Officer ('GCCO') is the RTO for credit risk. The standards and Group-wide credit policies recommended by the GCCO are considered and approved by the GRC, which also oversees the delegation of credit authorities.

Policies and procedures that are specific to each business are established by both Consumer and Wholesale Banking. These are consistent with the Group-wide credit policies, but are adapted to reflect the different risk environments and portfolio characteristics. There are Chief Risk Officers for both the Consumer and Wholesale Banking businesses, who have their primary reporting line into the Group Chief Risk Officer. This ensures the independence of the Risk function from the origination and sales functions.

Risk Mitigation

Collateral types which 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. The Group also enters into collateralised reverse repurchase agreements. Risk mitigation policies control the approval of collateral types.

Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back-tested at least annually.

Concentration Risk

Credit concentration risk in the Wholesale Banking portfolio is managed through the Credit Issues Forum, which is chaired by the Wholesale Bank Chief Risk Officer and comprises members of senior management from the Risk function and the business. Various concentration dimensions are assessed including industry sector, geographic spread, credit rating, customer segment and exposure to single counterparties or groups of related counterparties.

Credit concentration risk in Consumer Banking is managed within exposure limits set for each product segment in each country. These limits are reviewed at least annually and are approved by the responsible business and risk officer in accordance with their delegated authority level.

Derivatives

The credit risk arising from derivatives is managed as part of the overall lending limits to banks and customers. The amount of credit risk is the current positive fair value of the underlying contract together with potential exposures from future market movements. The Group further limits its exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are not presented net in the financial statements as in the ordinary course of business they are not intended to be settled net.

Where appropriate, derivatives are used to reduce credit risks in the portfolio. Due to their potential impact on income volatility,

derivatives are only used in a controlled manner and within a pre-defined volatility expectation.

Securities

Within Wholesale Banking, the Underwriting Committee approves the portfolio limits and parameters by business units for the underwriting and purchase of all pre-defined securities assets to be held for sale. 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. The Underwriting Committee approves underwriting applications. Day to day credit risk management activities are carried out by Markets & Institution Risk Management ('MIRM') whose activities include oversight and approval of temporary excesses within the levels as delegated by the Underwriting Committee.

Issuer risk monitoring is performed by Group Market Risk, whilst the counterparty pre-settlement and settlement risk arising on the sale and purchase of securities is monitored by MIRM. The price risk in respect of these assets is controlled by the Market Risk function.

Wholesale Banking Credit Risk

Credit risk is managed through a framework which sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators and the approvers in the Risk function.

An alphanumeric grading system is used for quantifying the risk associated with a counterparty. The grading is based on a probability of default measure, with customers analysed against a range of quantitative and qualitative measures. The numeric grades run from 1 to 14. Counterparties with lower credit grades are assessed as being less likely to default. An A to C scale is assigned to the original numeric rating scale, to enable more granular mapping of the probability of default, which results in more refined risk assessment, risk control and pricing. A counterparty with an A suffix has a lower probability of default than a counterparty with a C suffix. Credit grades 1A to credit grade 12C are assigned to performing customers while credit grades 13 and 14 are assigned to non-performing (or defaulted) customers.

There is no direct relationship between the Group's internal credit grades and those used by external rating agencies. The Group's credit grades are not intended to replicate external credit grades, although as the factors used to grade a borrower are often similar, a borrower rated poorly by an external rating agency is typically rated in the lower rank of the Group's internal credit grades.

In addition to nominal aggregate exposure, expected loss is used in the assessment of individual exposures and for portfolio analysis. Expected loss is the long-run average credit loss across a range of typical economic conditions. It is used in the delegation of credit approval authority and must be calculated for every transaction to determine the appropriate level of approval. Significant exposures are reviewed and approved centrally through a Group or regional level credit committee. These committees derive their authority from GRC.

To assist risk officers in monitoring the portfolio, various internal risk management reports are available on a regular basis, providing individual counterparty, counterparty group and portfolio exposure information, credit grade migration information, the status of accounts showing signs of weakness or financial deterioration and updates on credit markets. Internal Ratings Based ('IRB') portfolio metrics are widely used.

Credit Risk continued

Consumer Banking Credit Risk

Credit risk in Consumer Banking is also managed through a framework of policies and procedures. Credit origination uses standard application forms, which are processed in central units using largely automated approval processes. Where appropriate to the customer, the product or the market, a manual approval process is in place. As with Wholesale Banking, origination and approval roles are segregated.

To aid Credit Managers in portfolio management, regular internal risk management reports contain information on key environmental and economic trends across major portfolios and countries, portfolio delinquency and loan impairment performance, as well as IRB portfolio metrics including migration across credit grades and other trends.

Credit grades within Consumer Banking are based on a probability of default calculated using advanced IRB models.

For portfolios where such models have not yet been developed, the probability of default is calculated using portfolio delinquency flow rates. An alphanumeric grading system identical to that of the Wholesale Banking business is used as an index of portfolio quality.

Loan Portfolio

Loans and advances to customers have grown by \$16.5 billion to \$157.0 billion.

The total Consumer Banking portfolio has grown by \$3.6 billion since December 2006. The majority of the growth has been in the SME business, with nearly half of that growth coming from Korea. The Singapore mortgage portfolio also grew significantly, fuelled by a buoyant property market.

Growth in the Wholesale Banking customer portfolio was \$12.9 billion, or 21 per cent. Over 40 per cent of that growth was in Asia Pacific, widely spread across a number of countries in that region. The significant growth in Americas, UK & Europe primarily reflects the increased contribution from the Global Markets products.

Exposures to banks grew by 79 per cent. This reflects the Group's strong liquidity position, with much of that liquidity placed with high quality bank counterparties. The growth was well spread across geographies, with about two-thirds of it in Asia Pacific.

Single borrower concentration risk has been mitigated by active distribution of assets to banks and institutional investors. The Group has achieved additional risk distribution through credit default swaps and synthetic risk transfer structures.

The Wholesale Banking portfolio remains well diversified across both geography and industry, with no significant concentration within the industry classifications of Manufacturing; Financing, insurance and business services; Commerce; or Transport, storage and communication.

	2007									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Total \$million
Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million						
Loans to individuals										
Mortgages	11,845	4,615	2,441	22,634	6,333	1,638	493	254	120	50,373
Other	2,288	1,396	1,002	4,712	3,929	1,208	2,829	615	170	18,149
Small and medium enterprises	1,188	1,687	828	5,937	2,375	920	660	143	2	13,740
Consumer Banking	15,321	7,698	4,271	33,283	12,637	3,766	3,982	1,012	292	82,262
Agriculture, forestry and fishing	16	163	102	26	186	51	193	335	529	1,601
Construction	111	35	38	204	246	225	487	48	27	1,421
Commerce	1,865	2,094	369	434	2,510	722	2,430	703	1,758	12,885
Electricity, gas and water	550	76	45	176	352	9	411	277	883	2,779
Financing, insurance and business services	2,129	1,858	606	910	2,276	566	1,517	227	4,540	14,629
Governments	–	3,220	3,941	8	26	–	341	8	265	7,809
Mining and quarrying	–	31	8	93	159	65	238	138	2,722	3,454
Manufacturing	1,908	701	453	3,533	5,896	1,789	1,524	374	3,727	19,905
Commercial real estate	1,050	675	3	1,094	995	364	99	8	10	4,298
Transport, storage and communication	313	323	209	124	680	137	709	196	1,660	4,351
Other	148	338	7	424	268	18	796	22	102	2,123
Wholesale Banking	8,090	9,514	5,781	7,026	13,594	3,946	8,745	2,336	16,223	75,255
Portfolio impairment provision	(47)	(40)	(25)	(80)	(182)	(56)	(81)	(18)	(6)	(535)
Total loans and advances to customers	23,364	17,172	10,027	40,229	26,049	7,656	12,646	3,330	16,509	156,982
Total loans and advances to banks	15,156	2,531	928	1,504	4,866	552	1,406	371	10,365	37,679

Total loans and advances to customers include \$2,716 million held at fair value through profit or loss. Total loans and advances to banks include \$2,314 million held at fair value through profit or loss.

	2006									
	Asia Pacific					India \$million	*Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	*Total \$million
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	**Other Asia Pacific \$million					
Loans to individuals										
Mortgages	11,245	3,551	2,593	23,954	5,968	1,492	416	239	155	49,613
Other	2,235	1,028	771	4,612	4,523	928	2,650	483	537	17,767
Small and medium enterprises	919	1,548	883	4,907	2,023	567	323	133	–	11,303
Consumer Banking	14,399	6,127	4,247	33,473	12,514	2,987	3,389	855	692	78,683
Agriculture, forestry and fishing	53	13	53	20	108	25	65	159	297	793
Construction	57	29	26	262	181	198	332	78	2	1,165
Commerce	1,986	1,320	331	348	1,407	608	1,995	457	1,269	9,721
Electricity, gas and water	176	17	56	31	314	26	193	80	815	1,708
Financing, insurance and business services	1,817	1,664	724	1,176	1,901	479	1,245	182	3,264	12,452
Governments	–	3,328	3,397	13	20	–	4	–	235	6,997
Mining and quarrying	–	3	–	50	324	32	352	110	1,624	2,495
Manufacturing	2,282	701	228	3,208	4,756	1,435	1,848	406	2,504	17,368
Commercial real estate	819	708	5	849	720	231	27	7	–	3,366
Transport, storage and communication	277	338	149	189	495	249	810	173	1,647	4,327
Other	220	406	9	496	357	5	314	39	115	1,961
Wholesale Banking	7,687	8,527	4,978	6,642	10,583	3,288	7,185	1,691	11,772	62,353
Portfolio impairment provision	(49)	(28)	(26)	(86)	(246)	(33)	(58)	(10)	(6)	(542)
Total loans and advances to customers	22,037	14,626	9,199	40,029	22,851	6,242	10,516	2,536	12,458	140,494
Total loans and advances to banks	6,474	939	161	1,753	4,462	477	1,058	387	5,353	21,064

* Amounts have been restated as explained in note 51 on page 154.

** Amounts have been re-presented following a re-analysis of acquired loan portfolios.

Total loans and advances to customers include \$1,194 million held at fair value through profit or loss. Total loans and advances to banks include \$1,340 million held at fair value through profit or loss.

Maturity Analysis

Approximately 51 per cent of the Group's loans and advances to customers are short term having a contractual maturity of one year or less. The Wholesale Banking portfolio is predominantly short term, with 79 per cent of loans and advances having a contractual maturity of one year or less. In Consumer Banking, 61 per cent of the portfolio is in the mortgage book, traditionally longer term in nature and well secured. Whilst

the Other and SME loans in Consumer Banking have short contractual maturities, typically they may be renewed and repaid over longer terms in the normal course of business.

The following tables show the maturity of loans and advances to customers by each principal category of borrower's business or industry:

	2007			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Loans to individuals				
Mortgages	3,490	8,027	38,856	50,373
Other	8,941	7,325	1,883	18,149
Small and medium enterprises	8,028	3,494	2,218	13,740
Consumer Banking	20,459	18,846	42,957	82,262
Agriculture, forestry and fishing	1,332	227	42	1,601
Construction	1,128	249	44	1,421
Commerce	11,585	1,066	234	12,885
Electricity, gas and water	1,727	398	654	2,779
Financing, insurance and business services	12,073	2,054	502	14,629
Governments	7,618	86	105	7,809
Mining and quarrying	1,515	1,029	910	3,454
Manufacturing	15,603	3,128	1,174	19,905
Commercial real estate	2,761	1,510	27	4,298
Transport, storage and communication	2,373	980	998	4,351
Other	1,704	348	71	2,123
Wholesale Banking	59,419	11,075	4,761	75,255
Portfolio impairment provision				(535)
				156,982

	2006*			Total \$million
	One year or less \$million	One to five years \$million	Over five years \$million	
Loans to individuals				
Mortgages	4,378	8,729	36,506	49,613
Other	9,141	6,393	2,233	17,767
Small and medium enterprises	6,299	2,812	2,192	11,303
Consumer Banking	19,818	17,934	40,931	78,683
Agriculture, forestry and fishing	637	63	93	793
Construction	973	161	31	1,165
Commerce	9,015	630	76	9,721
Electricity, gas and water	762	334	612	1,708
Financing, insurance and business services	9,401	2,296	755	12,452
Governments	6,759	117	121	6,997
Mining and quarrying	1,836	231	428	2,495
Manufacturing	13,951	2,239	1,178	17,368
Commercial real estate	1,996	1,343	27	3,366
Transport, storage and communication	2,079	1,360	888	4,327
Other	1,177	431	353	1,961
Wholesale Banking	48,586	9,205	4,562	62,353
Portfolio impairment provision				(542)
				140,494

* Amounts have been restated as explained in note 51 on page 154.

Problem Credit Management and Provisioning

Consumer Banking

Within Consumer Banking, an account is considered to be delinquent when payment is not received on the due date. For delinquency reporting purposes, the Group follows industry standards, measuring delinquency as of 30, 60, 90, 120, and 150 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to specific collections processes.

The process used for raising provisions is dependent on the product. For mortgages, individual impairment provisions ('IIP') are generally raised at 150 days past due based on the difference between the outstanding amount of the loan, and the present value of the estimated future cash flows which includes the realisation of collateral. For other secured loans (where the collateral value is typically realised in less than 12 months), loan impairment is calculated using the forced sale value of the collateral without further discounting. For unsecured products, individual provisions are raised for the entire outstanding amount at 150 days past due. For all products there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

A portfolio impairment provision ('PIP') is held to cover the inherent risk of losses which, although not identified, are known through experience to be present in the loan portfolio. PIP covers

both loans for which payments are current and loans overdue for less than 150 days.

The PIP is set with reference to past experience using a flow rate methodology, as well as taking account of judgemental factors such as the economic and business environment in core markets, and the trends in a range of portfolio indicators. These include flow rates across all delinquency buckets, portfolio loss severity, collections and recovery performance trends.

Non-performing loans are loans past due by more than 90 days or have an individual impairment provision raised against them. The cover ratio reflects the extent to which the gross non-performing loans are covered by the individual and portfolio impairment provisions.

The table below sets out the total non-performing loans in Consumer Banking, which includes \$517 million (2006: \$909 million) of net individually impaired loans (note 21). The significant decrease in non-performing loans is a result of improved conditions in Taiwan, strong performance in Singapore, and improvements in SME portfolio quality in Korea.

The following table sets out the total non-performing portfolio in Consumer Banking:

	2007									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Total \$million
Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million						
Loans and advances										
Gross non-performing	65	61	166	336	475	56	126	38	1	1,324
Individual impairment provision	(24)	(26)	(38)	(125)	(329)	(19)	(75)	(18)	(1)	(655)
Non-performing loans net of individual impairment provision	41	35	128	211	146	37	51	20	-	669
Portfolio impairment provision										(412)
Net non-performing loans and advances										257
Cover ratio										81%

	2006									
	Asia Pacific					India \$million	*Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	*Total \$million
Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	*Other Asia Pacific \$million						
Loans and advances										
Gross non-performing	80	100	202	531	821	48	98	24	5	1,909
Individual impairment provision	(29)	(38)	(67)	(239)	(387)	(17)	(62)	(10)	(3)	(852)
Non-performing loans net of individual impairment provision	51	62	135	292	434	31	36	14	2	1,057
Portfolio impairment provision										(448)
Net non-performing loans and advances										609
Cover ratio*										68%

* Individual impairment provisions relating to the finalisation of acquisition fair values have been restated as explained in note 51 on page 154. Gross non-performing loans within 'Other Asia Pacific' have been increased by \$153 million to reflect additional non-performing loans identified as part of these fair values.

Wholesale Banking

In Wholesale Banking, accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is a rapid decline in the client's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management.

Such accounts and portfolios are subject to a dedicated process with oversight involving senior officers from the Risk function and Group Special Asset Management ('GSAM'), the specialist recovery unit. Account plans are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account or immediate movement of the account into the control of GSAM.

Loans are classified as impaired and considered non-performing 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 GSAM which is independent of the main businesses of the Group. Where any amount is considered uncollectable, an individual impairment provision is raised, being the difference between the loan carrying amount and the present value of estimated future cash flows.

Future cash flows are estimated by taking into account the individual circumstances of each customer and can arise from

operations, sales of assets or subsidiaries, realisation of collateral or payments under guarantees. Cash flows from all available sources are considered. In any decision relating to the raising of provisions, the Group attempts 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 an element of an exposure against which an impairment provision has been raised, then that amount will be written off.

As with Consumer Banking, a PIP is held to cover the inherent risk of losses which, although not identified, are known through experience to be present in any loan portfolio. In Wholesale Banking, the PIP is set with reference to past experience using loss rates, and judgemental factors such as the economic environment and the trends in key portfolio indicators.

The cover ratio reflects the extent to which gross non-performing loans are covered by individual and portfolio impairment provisions. At 75 per cent, the Wholesale Banking non-performing portfolio is well covered. The balance uncovered by individual impairment provision represents the value of collateral held and/or the Group's estimate of the net value of any work-out strategy.

The following table sets out the total non-performing portfolio in Wholesale Banking, which includes net individually impaired loans of \$372 million (2006: \$538 million) (note 21):

	2007									
	Asia Pacific						Middle East & Other S Asia	Africa	Americas UK & Europe	Total
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million	India \$million	\$million	\$million	\$million	\$million
Loans and advances										
Gross non-performing	92	26	23	47	358	27	147	79	193	992
Individual impairment provision	(50)	(18)	(21)	(12)	(235)	(25)	(122)	(48)	(87)	(618)
Non-performing loans and advances net of individual impairment provision	42	8	2	35	123	2	25	31	106	374
Portfolio impairment provision										(124)
Net non-performing loans and advances										250
Cover ratio										75%

Wholesale Banking continued

	2006									
	Asia Pacific					India \$million	*Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	*Total \$million
Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	*Other Asia Pacific \$million						
Loans and advances										
Gross non-performing	167	69	29	110	626	24	121	100	152	1,398
Individual impairment provision	(130)	(46)	(25)	(46)	(238)	(22)	(114)	(58)	(151)	(830)
Non-performing loans and advances net of individual impairment provision	37	23	4	64	388	2	7	42	1	568
Portfolio impairment provision										(95)
Net non-performing loans and advances										473
Cover ratio*										66%

* Individual impairment provisions relating to the finalisation of acquisition fair values have been restated as explained in note 51 on page 154. Gross non-performing loans within 'Other Asia Pacific' have been increased by \$375 million to reflect additional non-performing loans identified as part of these fair values.

	2007									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Total \$million
Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million						
Gross impairment charge	22	7	1	5	11	13	18	15	2	94
Recoveries/provisions no longer required	(25)	(9)	(4)	(3)	(5)	(7)	(11)	(14)	(17)	(95)
Net individual impairment (credit)/charge	(3)	(2)	(3)	2	6	6	7	1	(15)	(1)
Portfolio impairment provision										26
Net impairment charge										25

	2006									
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	Total \$million
Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million						
Gross impairment charge	14	9	2	7	3	9	10	19	7	80
Recoveries/provisions no longer required	(50)	(6)	(8)	(3)	(11)	(19)	(18)	(6)	(49)	(170)
Net individual impairment (credit)/charge	(36)	3	(6)	4	(8)	(10)	(8)	13	(42)	(90)
Portfolio impairment provision										(2)
Net impairment credit										(92)

Movement in Group Individual Impairment Provision

The following tables set out the movements in the Group's total individual impairment provision against loans and advances:

	2007									Total \$million
	Asia Pacific					India \$million	Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	Other Asia Pacific \$million					
Provisions held at 1 January 2007	159	84	92	285	625	39	176	68	154	1,682
Exchange translation differences	–	2	5	(1)	6	5	(3)	5	1	20
Amounts written off	(161)	(62)	(92)	(128)	(468)	(84)	(115)	(19)	(54)	(1,183)
Recoveries of acquisition fair values	–	–	–	(98)	–	–	–	–	–	(98)
Recoveries of amounts previously written off	34	12	16	–	42	19	12	1	3	139
Discount unwind	(4)	(4)	(4)	(21)	(28)	(1)	(1)	(2)	(1)	(66)
Other	–	–	–	–	2	1	7	–	–	10
New provisions	113	52	109	119	484	98	170	35	2	1,182
Recoveries/provisions no longer required	(67)	(40)	(67)	(19)	(99)	(33)	(49)	(22)	(17)	(413)
Net charge against/(credit to) profit	46	12	42	100	385	65	121	13	(15)	769
Provisions held at 31 December 2007	74	44	59	137	564	44	197	66	88	1,273

	2006									*Total \$million
	Asia Pacific					India \$million	*Middle East & Other S Asia \$million	Africa \$million	Americas UK & Europe \$million	
	Hong Kong \$million	Singapore \$million	Malaysia \$million	Korea \$million	*Other Asia Pacific \$million					
Provisions held at 1 January 2006	279	140	96	361	179	40	64	60	167	1,386
Exchange translation differences	–	7	6	29	8	1	(2)	(1)	9	57
Amounts written off	(119)	(108)	(51)	(64)	(403)	(64)	(88)	(17)	(48)	(962)
Recoveries of acquisition fair values	–	–	–	(106)	–	–	–	–	–	(106)
Recoveries of amounts previously written off	49	8	11	8	18	17	12	2	3	128
Acquisitions	–	–	–	–	463	–	144	–	–	607
Discount unwind	(2)	(2)	(4)	(32)	(7)	(1)	–	(2)	(2)	(52)
Other	(63)	–	–	14	1	1	–	–	67	20
New provisions	126	71	94	131	403	76	79	44	9	1,033
Recoveries/provisions no longer required	(111)	(32)	(60)	(56)	(37)	(31)	(33)	(18)	(51)	(429)
Net charge against/(credit to) profit	15	39	34	75	366	45	46	26	(42)	604
Provisions held at 31 December 2006	159	84	92	285	625	39	176	68	154	1,682

* Amounts have been restated as explained in note 51 on page 154.

Asset Backed Securities#

Total exposures to Asset Backed Securities#

At 31 December 2007, the Group had the following exposures to asset backed securities prior to writedowns noted below:

	Asset Securitisation Group \$million	Purchased from Whistlejacket \$million	Total \$million	Percentage of Portfolio %
Residential Mortgage Backed Securities ('RMBS')	607	1,316	1,923	33
Collateralised Debt Obligations ('CDO')	219	491	710	12
Commercial Mortgage Backed Securities ('CMBS')	830	308	1,138	19
Other Asset Backed Securities ('Other ABS')	970	1,115	2,085	36
	2,626	3,230	5,856	100

Writedowns of Asset Backed Securities#

	Asset Securitisation Group			Total \$million
	Trading \$million	Available -for-sale \$million	**Purchased from Whistlejacket \$million	
2007				
Charge to available-for-sale reserves	–	(38)	(45)	(83)
Charge to the profit and loss account	(44)	(122)	† (116)	(282)
2008*				
Charge to available-for-sale reserves	–	(21)	(15)	(36)
Charge to the profit and loss account	(13)	–	–	(13)

* Movements from 1 January 2008 to 31 January 2008.

** All classified as available-for-sale.

† This relates to the loss incurred on the exchange of capital notes held in Whistlejacket.

The credit quality of the asset backed securities remains strong. With the exception of those securities which have been subject to an impairment charge, 98 per cent of the overall portfolio is rated A, or better, and 86 per cent of the overall portfolio rated at AAA. The portfolio is broadly diversified across asset classes and geographies and there is no direct exposure to the US sub-prime market.

33 per cent of the overall portfolio is invested in RMBS, with a weighted average credit rating of AAA. Over 60 per cent of the underlying residential mortgage exposures were originated in 2005 or earlier years.

12 per cent of the overall portfolio is in CDOs. This includes \$291 million exposures to Mezzanine and High Grade CDOs, of which \$122 million have been fully provided for in the profit and loss account. The remainder of the CDOs have a weighted average credit rating of AAA.

19 per cent of the overall portfolio is in CMBS, of which \$159 million is in respect of US CMBS. The weighted average credit rating of the CMBS is AA.

36 per cent of the overall portfolio is in Other ABS, which includes securities backed by credit card receivables, bank collateralised loan obligations and student loans, with a weighted average credit rating of AAA.

Country Risk

Country Risk is the risk that the Group will be unable to obtain payment from its 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 the Group's country risk limits and delegates the setting and management of the country limits to the Deputy Group Chief Risk Officer and Group Country Risk department.

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, certificates of deposit and other negotiable paper and investment securities where the counterparty is resident in a country other than that 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 to countries in which the Group does not have a significant presence predominantly relates to money market and global corporate activity. This business is originated in the Group's key markets, but is conducted with counterparties domiciled in the country against which the exposure is reported.

Cross border exposures to USA, Korea and Hong Kong have increased by more than \$3 billion each since 2006. Growth in the US was due to a steady increase in non-US dollar funded lending to US corporates and banks. General business growth in Korea, and in particular an increase in business with Korean counterparties in the Group's key markets outside of Korea, has led to an increase in Korea's cross border exposure. The increase in cross border exposure to Hong Kong was driven by business growth, including some large Corporate Finance transactions, and increased lending to Chinese subsidiaries of Hong Kong domiciled customers.

The following table, based on the Group's internal country risk reporting requirements, shows cross border outstandings where they exceed one per cent of the Group's total assets.

	2007			2006		
	One year or less \$million	Over one year \$million	Total \$million	One year or less \$million	Over one year \$million	Total \$million
USA	8,622	5,835	14,457	6,900	3,329	10,229
Korea	6,617	4,299	10,916	5,591	2,274	7,865
Hong Kong	7,681	3,043	10,724	5,414	1,783	7,197
India	6,228	3,667	9,895	5,508	1,774	7,282
United Arab Emirates	4,600	3,004	7,604	3,963	1,371	5,334
Singapore	5,490	1,700	7,190	5,786	1,108	6,894
China	3,634	2,041	5,675	2,739	1,292	4,031
Australia	2,680	1,086	3,766	3,425	569	3,994
Switzerland	2,628	1,136	3,764	1,926	519	2,445

Market Risk

The Group recognises market risk as the exposure created by potential changes in market prices and rates. The Group is exposed to market risk arising principally from customer driven transactions. The objective of the Group's market risk policies and processes is to obtain the best balance of risk and return while meeting our customers' requirements.

Market risk is governed by the GRC, which agrees policies and levels of risk appetite in terms of VaR. The Group Market Risk Committee ('GMRC') provides market risk oversight and guidance on policy setting. Policies cover both trading and non-trading books of the Group. The trading book is defined as per the FSA handbook, Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). This is more restrictive than the broader IAS 39 definition, as the FSA only permits certain types of financial instruments or arrangements to be included within the trading book. Limits by location and portfolio are proposed by the businesses within the terms of agreed policy.

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 options' value.

Value at Risk

The Group measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology.

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.

The Group uses historic simulation as its VaR methodology with an observation period of one year. Historic simulation involves the revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio.

The Group recognises that there are limitations to the VaR methodology including the possibility that the historical data may not be the best proxy for future price movements.

VaR models are back tested against actual results to ensure pre-determined levels of statistical accuracy are maintained.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations.

GMR, therefore, complements the VaR measurement by regularly stress testing market risk exposures to highlight 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. Ad hoc scenarios are also prepared reflecting specific market conditions. A consistent stress testing methodology is applied to trading and non-trading books.

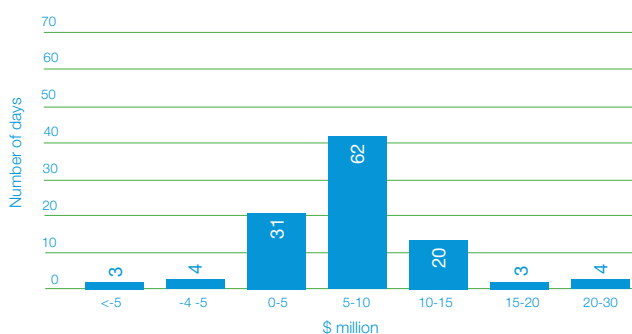
Stress scenarios are regularly updated to reflect changes in risk profile and economic events. GMRC has responsibility for reviewing stress exposures and, where necessary, enforcing reductions in overall market risk exposure. GRC considers stress testing results as part of its supervision of risk appetite.

The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in liquidity that often occurs.

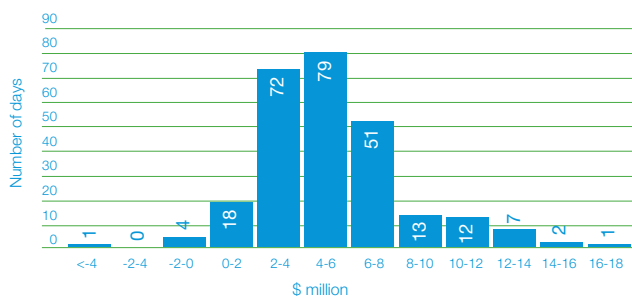
VaR is calculated as the Group's exposure as at the close of business, London time. Intra-day risk levels may vary from those reported at the end of the day.

Trading, non-trading and total VaR have increased in 2007 compared to 2006 due to increased market volatility following the sub-prime credit crisis in August 2007. This surfaced in the US sub-prime mortgage market and spilled over into wider global markets. Trading VaR has also increased due to the expansion of the Commodities and Equities trading businesses throughout 2007, and further due to the inclusion of credit spread risk in interest rate risk VaR from August 2007.

2007 Revenue Distribution



2006 Revenue Distribution



Trading and Non-trading (VaR at 97.5%, 1 day)

Daily value at risk	2007				2006			
	Average \$million	High \$million	Low \$million	Actual [^] \$million	Average \$million	High \$million	Low \$million	Actual [^] \$million
Interest rate risk	12.2	19.6	7.0	17.1	10.5	13.9	7.6	9.3
Foreign exchange risk	3.2	7.2	1.7	4.4	2.6	4.8	1.1	1.5
Commodity risk	0.6	3.5	0.2	0.6	–	–	–	–
Equity risk	0.6	1.9	–	1.4	–	–	–	–
Total*	12.9	20.0	7.5	18.6	10.6	14.0	8.0	10.3

Trading (VaR at 97.5%, 1 day)

Daily value at risk	2007				2006			
	Average \$million	High \$million	Low \$million	Actual [^] \$million	Average \$million	High \$million	Low \$million	Actual [^] \$million
Interest rate risk*	6.2	11.9	2.8	11.0	3.5	5.3	2.5	3.9
Foreign exchange risk	3.2	7.2	1.7	4.4	2.6	4.1	1.4	1.5
Commodity risk	0.6	3.5	0.2	0.6	–	–	–	–
Equity risk	0.6	1.9	–	1.4	–	–	–	–
Total**	7.0	12.5	3.5	12.5	4.3	5.6	3.1	4.0

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

** Interest rate risk VaR includes credit spread risk.

[^] This represents the actual one day VaR as at 31 December.

The highest and lowest VaR are independent and could have occurred on different days.

The average daily income earned from market risk related activities is as follows:

	2007 \$million	2006 \$million
Interest rate risk	2.3	1.8
Foreign exchange risk	3.0	2.0
Commodity risk	0.1	–
Equity risk	–	–
Total	5.4	3.8

Non-trading (VaR at 97.5%, 1 day)

Daily value at risk	2007				2006			
	Average \$million	High \$million	Low \$million	Actual [^] \$million	Average \$million	High \$million	Low \$million	Actual [^] \$million
Interest rate risk	9.5	16.8	6.5	14.7	9.0	10.7	7.0	8.0

[^] This represents the actual one day VaR as at 31 December.

The average daily income earned from non-trading market risk related activities is as follows:

	2007 \$million	2006 \$million
Interest rate risk	1.7	1.3

Interest rate risk from across the non-trading book portfolios is transferred to Global Markets where it is managed by local ALM desks under the supervision of local Asset and Liability Committees. The ALM desks deal 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 applied to non-trading book interest rate exposure in the same way as for the trading book.

Foreign exchange risk on the non-trading book portfolios is minimised by match funding assets and liabilities in the same currency.

Structural foreign exchange risks are not included within the VaR and arise from net investments in non-US dollar currency entities. These are managed separately under the Group Capital

Management Committee by Group Treasury. Further analysis of structural risks can be found in note 48 on page 149.

Equity risk relating to private holdings is not included within the VaR and is separately managed through delegated limits for both investment and divestment, and is also subject to regular review by an investment committee.

Derivatives

Derivatives are contracts whose characteristics and value derive 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 all products, including derivatives, is managed in essentially the same way as described above.

Derivatives continued

The Group's derivative transactions are principally in instruments where the mark-to-market values are readily determinable by reference to independent prices and valuation quotes or by using standard industry pricing models.

The Group enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own 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 Group applies a future exposure methodology to manage counterparty credit exposure associated with derivative transactions.

Hedging

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 Group uses futures, forwards, swaps and options transactions in the foreign exchange and interest rate markets to hedge risk.

The Group occasionally hedges the value of its foreign currency denominated investments in subsidiaries and branches. Hedges may be taken where there is a risk of a significant exchange rate movement but, in general, management believes that the Group's reserves are sufficient to absorb any foreseeable adverse currency depreciation.

The effect of exchange rate movements on the capital risk asset ratio is mitigated by the fact that both the underlying net asset value of these investments and the risk weighted value of assets and contingent liabilities follow substantially the same exchange rate movements.

The Group may also, under certain individually approved circumstances, enter into economic hedges which do not qualify for IAS 39 hedge accounting treatment, and which are accordingly marked to market through the profit and loss account creating an accounting asymmetry. These are entered into primarily to ensure that residual interest rate and foreign exchange risks are being effectively managed.

Liquidity Risk

Liquidity risk is the risk that the Group either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at excessive cost.

It is the policy of the Group to maintain adequate liquidity at all times, in all geographic locations and for all currencies, and hence to be in a position to meet all obligations as they fall due. The Group manages liquidity risk both on a short term and medium term basis. In the short term, the focus is on ensuring that the cash flow demands can be met through asset maturities, supported by customer deposits and wholesale raisings where required.

GALCO is the responsible governing body that approves the Group's liquidity management policies. The Liquidity Management Committee ('LMC') receives authority from GALCO and is

responsible for setting liquidity limits, proposing liquidity risk policies and practices, assisting in cross-business and cross-geography liquidity discussions and helping establish country balance sheet targets. Liquidity in each country is managed by the Country ALCO within the pre-defined liquidity limits set by the LMC and in compliance with Group liquidity policies and local regulatory requirements.

Policies and procedures

Due to the diversified nature of the Group's business, the Group's policy is that liquidity is more effectively managed locally, in-country. Each ALCO is responsible for ensuring that the country is self-sufficient and is able to meet all its obligations to make payments as they fall due by operating within the liquidity limits set for the country.

The Group liquidity risk management framework requires limits to be set for prudent liquidity management. There are limits on:

- the mismatch in local and foreign currency behavioural cash flows;
- the level of wholesale borrowing to ensure that the size of this funding is proportional to the local market and the Group's local operations;
- commitments, both on and off balance sheet, to ensure there are sufficient funds available in the event of drawdown on these commitments;
- the advances to deposits ratio to ensure that commercial advances are funded by stable sources;
- the amount of medium term funding to support the asset portfolio; and
- the amount of local currency funding sourced from foreign currency sources.

In addition, the Group prescribes a liquidity stress scenario that assumes accelerated withdrawal of deposits over a period of time. Each country has to ensure that cash inflows exceed outflows under such a scenario.

All limits are reviewed at least annually, and more frequently if required, to ensure that they are relevant given market conditions and business strategy. Compliance with limits is monitored independently on a regular basis by Group Market Risk. Limit excesses are escalated and approved under a delegated authority structure and reviewed by ALCO. Excesses are also reported monthly to LMC and GALCO which provide further oversight.

In addition, regular reports to the ALCO include the following:

- information on the concentration and profile of debt maturities; and
- depositor concentration report to monitor reliance on large individual depositors.

The Group has significant levels of marketable securities, principally government securities and bank paper, which can be realised in the event that there is a need for liquidity in a crisis. In addition, each country and the Group maintain a liquidity crisis management plan which is reviewed and approved annually. The liquidity crisis management plan lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by senior management in case of such an event.

Primary sources of funding

A substantial portion of the Group's assets are funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are widely

diversified by type and maturity, represent a stable source of funds. Country ALCO monitors trends in the balance sheet and ensures that any concerns that might impact the stability of these deposits are addressed effectively. ALCO also reviews balance sheet plans to ensure that asset growth plans are matched by growth in the stable funding base.

The Group maintains access to the inter-bank wholesale funding markets in all major financial centres and countries in which it operates. This seeks to ensure that the Group has flexibility around maturity transformation, has market intelligence, maintains stable funding lines and is a price maker when it performs its interest rate risk management activities.

Liquid assets to total assets ratio

The holdings of liquid assets in the balance sheet reflect the prudent approach that is inherent in the Group's liquidity policies and practices. Whilst liquidity is managed in-country, compliance with these policies and practices results in substantial holdings of liquid assets as a Group. The following shows the ratio of the liquid assets to total assets:

	2007 %	2006 %
Liquid assets* to total assets ratio	23.9	21.7

* Liquid assets is the total of Cash (less restricted balances), net interbank, Treasury bills and Debt securities less the asset backed securities portfolio.

Operational Risk[#]

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems, or from external events. The Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The Group Operational Risk Committee ('GORC') supervises and directs the management of operational risks across the Group. GORC is also responsible for ensuring adequate and appropriate policies and procedures are in place for the identification, assessment, monitoring, control and reporting of operational risks.

Group Operational Risk is responsible for setting the Operational Risk policy, defining standards for measurement and for Operational Risk capital calculation. A Group Operational Risk Assurance function, independent from the businesses, is responsible for deploying and assuring the operational risk management framework, and for monitoring the Group's key operational risk exposures. This unit is supported by units within the Wholesale Banking and Consumer Banking businesses which have responsibility for ensuring compliance with policies and procedures in the business, monitoring key operational risk exposures, and the provision of guidance to the respective business areas on operational risk.

Regulatory Risk[#]

Regulatory risk includes the risk of non-compliance with regulatory requirements in a country in which the Group operates. The Group Compliance and Regulatory Risk function is responsible for establishing and maintaining an appropriate framework of Group compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

Reputational Risk[#]

Reputational risk is the risk of failure to meet the standards of performance or behaviours, expected by stakeholders in the way in which business is conducted. It is Group policy that, at all times, the protection of the Group's reputation should take priority over all other activities, including revenue generation.

Reputational risk will arise from the failure to effectively mitigate one or more of country, credit, liquidity, market, regulatory and operational risk. It may also arise from the failure to comply with Social, Environmental and Ethical standards. All staff are responsible for day to day identification and management of reputational risk.

From an organisational perspective the Group manages reputational risk through the Group Reputational Risk and Responsibility Committee ('GRRRC') and Country Management Committees. Wholesale Banking has a specialised Responsibility and Reputational Risk Committee which reviews individual transactions. In Consumer Banking, potential reputational risks resulting from transactions or products are reviewed by the Product and Reputational Risk Committee. Issues are then escalated to the GRRRC.

A critical element of the role of the GRRRC is to alert the Group to emerging or thematic risks. The GRRRC also seeks to ensure that effective risk monitoring is in place for Reputational Risk and reviews mitigation plans for significant risks.

At a country level, the Country CEO is responsible for the Group's reputation in their market. The Country CEO and their Management Committee must actively:

- promote awareness and application of the Group's policy and procedures regarding reputational risk;
- encourage business and functions to take account of the Group's 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; and
- promote effective, proactive stakeholder management.

Monitoring[#]

Group Internal Audit is a separate Group function that reports to the Group Chief Executive and the ARC. Group Internal Audit provides independent confirmation that Group and business standards, policies and procedures are being complied with. Where necessary, corrective action is recommended.